U.S. TRADE POLICY OBJECTIVES AND INITIATIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

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U.S. TRADE POLICY OBJECTIVES AND INITIATIVES

TUESDAY, MARCH 18, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:03 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
February 25, 1997
No. TR–3

Crane Announces Hearing to Review U.S. Trade Policy Objectives and Initiatives

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S. trade policy objectives and initiatives. The 21st century starts January 1, 2001. That's four years away. The hearing will take place on Tuesday, March 18, 1997, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony will be heard from both invited and public witnesses. Invited witnesses will include United States Trade Representative-Designate Charlene Barshefsky, who will discuss the President's trade policy agenda for his second term. Any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

With U.S. exports and imports of goods and service accounting for over 30 percent of the Gross Domestic Product, the international character of the United States economy is more pronounced than ever. Trade barriers facing U.S. exporters have a direct negative impact on the ability of the United States to generate economic growth and create new jobs. At the same time, many countries with formerly closed economies in Asia, Latin America, and Eastern Europe are replacing long-standing policies of State control with free market reforms and liberalized trade regimes. Developing countries, many of which are entering periods of high economic growth, will create new demand for American products and services, if the markets of these countries are opened to foreign imports, and the United States more actively promotes its exports.

Possessing only four percent of the world's population and a relatively mature economy, the United States must have a trade policy which aims to capitalize on its strengths: a skilled workforce, high levels of innovation and productivity growth, a vigorous service sector, and a superior educational system. However, maintaining the competitiveness of U.S. firms in world markets will be achieved only if the United States is well-positioned to react quickly to a continually changing global environment. As the importance of removing a new generation of sophisticated trade barriers, including prohibitions on providing financial services, opaque procurement practices, unfair subsidies, arbitrary sanitary and phytosanitary standards, and investment restrictions grows, so does the need to exercise U.S. trade policy leadership where the gains for U.S. firms and workers are judged to be the most substantial.

The 103rd Congress approved legislation implementing the results of two major trade negotiations, the North American Free Trade Agreement (NAFTA) and the Uruguay Round Trade Agreements, which established the World Trade Organiza-

tion. Implementation of both agreements should be monitored to ensure that the intended benefits are fully realized. Several trade initiatives, including those aimed at establishing a Free Trade Agreement of the Americas and the Asia Pacific Economic Cooperation Group, are ongoing but have shown recent signs of stalling. Other important undertakings, such as bringing Chile and Caribbean Basin countries into NAFTA and the Transatlantic Agenda announced by President Clinton and European leaders at the December 1995 Madrid Summit, offer the possibility of further eliminating barriers to trade and investment in these important markets.

FOCUS OF THE HEARING:

The Subcommittee requests that witnesses address: (1) appropriate trade negotiating objectives in a post-Uruguay Round environment and priorities for future trade liberalization initiatives; (2) the potential economic impact of new trade agreements; (3) consequences for the U.S. economy if trade liberalization in the world economy wanes; (4) implications for the U.S. economy of expanded trade arrangements, especially in the Western Hemisphere, to which the United States is not a party; and (5) whether the United States is ceding economic opportunities and world leadership to other nations if it were not to pursue additional market opportunities for U.S. firms and workers though various multilateral, regional, and sectoral negotiations.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225–1721 no later than the close of business, Tuesday, March 11, 1997. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and a 3.5-inch diskette in WordPerfect or ASCII format, for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than close of business, Friday, March 14, 1997. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement and a 3.5-inch diskette in WordPerfect or ASCII format, with their address and date of hearing noted, by the close of business on Tuesday, April 1, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the

Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on a 3.5-inch diskette in WordPerfect or ASCII format.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS__MEANS'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–225–1904 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. Good morning. This is a meeting of the Ways and Means Trade Subcommittee to consider the broad issue of U.S. trade policy goals and initiatives. My hope is that Members and witnesses will discuss the role that the United States intends to play in the international economy into the next century.

One course is for the United States to maintain an agenda of active engagement with the rest of the world, accepting the responsibility of our traditional leadership role and preserving our position as the world's greatest exporter. The other option is to sit hesitantly on the sidelines in the next century, letting our competitors shape the rules under which U.S. firms and workers do business in international markets.

In considering the variety of trade initiatives in which the United States is a participant, I am struck by the fact that chances for success, in many instances, will be markedly improved if Congress approves new trade agreement negotiating authority. But regardless of the outcome of the fast track debate, the United States must

continue to remain aggressively engaged in trade talks in Asia, among countries in the European Union, and in our own hemisphere. There is much that can be achieved while fast track legislation is pending.

I now recognize our distinguished Ranking Member, Mr. Matsui, for an opening statement.

Mr. MATSUI. Thank you, Mr. Chairman. This hearing today to review U.S. trade policy objectives and initiatives is important and timely, as Congress and the country begin to engage in a debate over the future direction of U.S. trade policy and trade negotiations as we prepare to enter the 21st century.

The President has stated his intention to seek renewal of fast track authority to implement trade agreements. To conduct a successful U.S. trade policy, it is essential to rebuild a bipartisan domestic consensus within the private sector, as well as the administration and Congress, on our future trade negotiating priorities and objectives.

International trade—that is, imports and exports of goods and services—now account for over 30 percent of our gross national product. Increased exports are a leading engine for our economic strength and growth and have created many new and higher paying jobs.

The United States must maintain its leadership in seeking further trade liberalization around the world in order to maintain a strong competitive economy. At the same time, we must be cognizant of and address the fact that not all industries, companies, or workers share in the benefits of trade, and recognize that there are costs as well as benefits to increased trade.

Globalization is a fact of life today and for the future and cannot be reversed. The challenge is to find better ways for all of our companies and workers to compete, to adjust to, and benefit from the global economy.

With respect to fast track, Mr. Chairman and Members of this Subcommittee, the fact is that foreign countries are unwilling to negotiate trade agreements with us that require congressional approval unless they have some assurance the agreement they negotiate is not subject to renegotiations by the Congress. It would appear that until we renew fast track, the President's ability to manage our trade relations to open markets abroad will be severely restricted.

Democratic and Republican Presidents alike have had fast track authority for the past 20 years and have used it successfully in negotiating and implementing major bilateral, multilateral, regional trade agreements through a process that involved thorough consultation with and input of the congressional leaders and the private sector.

The challenge now before us is to build a broad domestic consensus with the United States, involving government, business, labor, consumers, and other private interests to support future market-opening trade initiatives, to achieve agreement on appropriate negotiating objectives and priorities for our country, and to provide the tools to the President necessary to accomplish these goals.

Mr. Chairman, this hearing is a worthwhile first step in this direction. I look forward with great interest to the testimony today

from the administration, private sector, academic witnesses, and others. In particular, I welcome Ambassador Barshefsky and congratulate her on passage last week of the legislation that enabled her to be confirmed as the U.S. Trade Representative.

[The opening statements of Mr. Matsui and Mr. Ramstad follow:]

OPENING STATEMENT OF CONGRESSMAN MATSUI
SUBCOMMITTEE ON TRADE HEARING TO REVIEW
U.S. TRADE POLICY OBJECTIVES AND INITIATIVES
MARCH 18, 1997

10/16

- Thank you, Mr. Chairman. This hearing today to review U.S. trade policy objectives and initiatives is important and timely as Congress and the country begin to engage in a debate over the future direction of U.S. trade policy and trade negotiations as we prepare to enter the 21st century. The President has stated his intention to seek a renewal of fast track authority to implement trade agreements. To conduct a successful U.S. trade policy, it is essential to rebuild a bipartisan domestic consensus within the private sector as well as the Administration and the Congress on our future trade negotiating priorities and objectives.

- International trade, that is, imports and exports of goods and services, now accounts for over 30 percent of our gross national product. Increased exports are a leading engine for our economic strength and growth and have created many new and higher-paying jobs. The United States must maintain its leadership in seeking further trade liberalization around the world in order to maintain a strong, competitive economy. At the same time we must be cognizant of, and address the fact that, not all industries, companies, or workers share in the benefits of trade, and recognize that there are costs as well as benefits to increased trade.

- Globalization is a fact of life today and for the future and cannot be reversed. Rather, the challenge is to find better

ways for all of our companies and workers to compete in, adjust to, and benefit from the global economy. While trade agreements to remove barriers and restrictions benefit our economy overall, we must also ensure that the social and environmental consequences of trade liberalization are adequately addressed.

- With regard to fast track, the fact is that foreign countries are unwilling to negotiate trade agreements with us that require Congressional approval unless they have some assurance that the agreement they negotiate is not subject to renegotiation by the Congress. It would appear that, until we renew fast track, the President's ability to manage our trade relations and to open markets abroad will be severely restricted. Democrat and Republican Presidents alike have had fast track authority for the past 20 years, and have used it successfully to negotiate and implement major multilateral, regional, and bilateral trade agreements through a process that involves thorough consultation with, and input of, the Congress and the private sector. The challenge now before us is to build a broad domestic consensus within the United States -- involving government, business, labor, consumers, and other private interests -- to support future market-opening trade initiatives; to achieve agreement on the appropriate trade negotiating objectives and priorities for our country; and to provide the tools to the President necessary to accomplish these goals.
- This hearing is a worthwhile first step in this direction. I look forward with great interest to the testimony today from the Administration, private sector, and academic witnesses. In particular, I welcome Ambassador Barshefsky and congratulate her on passage last week of the legislation that enabled her confirmation as the U.S. Trade Representative. Thank you, Mr. Chairman.

STATEMENT OF REP. JIM RAMSTAD
WAYS AND MEANS SUBCOMMITTEE ON TRADE
HEARING ON U.S. TRADE POLICY GOALS
AND INITIATIVES
MARCH 18, 1997

Mr. Chairman, thank you for calling this hearing today to discuss U.S. trade policy goals and initiatives.

Many of the people testifying today will be critical of Members of Congress, as well as the Administration, for what one person will describe as "[retreating] from free trade," and I think they have a pretty good argument. In the past few years, anti-free trade forces have dominated the debate, and we need to reverse this trend.

As you know, Mr. Chairman, the Subcommittee on Trade has a strong, bipartisan tradition of supporting free trade initiatives. As Members who understand that with some 4% of the world's population, our continued economic prosperity and growth depends on reaching the over 95% of the world's population living outside our borders, we must do a better job of explaining this to our colleagues.

Most importantly, we must remind them that increased international trade increases the quantity, and improves the quality, of U.S. jobs. We all know that over 11 million American jobs are supported by jobs in export-oriented companies -- and these jobs pay an average of 13% more than U.S. jobs overall.

A strong, progressive trade agenda is essential to a healthy, growing economy. In order to aggressively open markets for U.S. products and services, the Administration must have fast-track authority. Without this ability to broker agreements, other nations will not take us seriously during the debates.

That's why I am anxious for the Administration to come forward with their proposal for fast-track authority -- and I am hopeful that Ambassador Barshefsky will submit it to us at this hearing today!

Mr. Chairman, thanks again for calling this hearing. I look forward to listening to the testimony of today's witnesses and learning more about our trade policy goals and ways to attain them.

Mr. MATSUI. Thank you, Mr. Chairman.

Chairman CRANE. Today we will hear from a number of distinguished witnesses. Our first witness will be Congressman Pete Visclosky, who represents the First District of Indiana. Please proceed, Pete.

STATEMENT OF HON. PETER J. VISCLOSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. VISCLOSKY. Thank you, Mr. Chairman. And as I understand, my entire statement will be entered into the record.

Chairman CRANE. Without objection.

Mr. VISCLOSKY. Mr. Chairman, I would like to thank you and the other Members of the Trade Subcommittee for allowing me to testify regarding U.S. trade policy objectives and initiatives. I would like to briefly focus my testimony on the importance of linking respect for internationally recognized worker rights to the conduct of international trade.

Linking respect for worker rights to trade is not a new or radical concept in U.S. or international law. Nearly a century ago, the United States first banned the importation of white phosphorus matches because of the hideous occupational poisoning inflicted on workers involved in their production. Since 1974 the Congress has included worker rights provisions in at least eight trade laws with broad applicability.

In March 1994 I joined in a bipartisan group of 67 House Members in sending a letter to President Clinton urging him to marshall international support to establish a standing Committee on worker rights and labor standards within the WTO and, on an interim basis, a GATT working party on this issue.

Unfortunately, the Marrakesh Ministerial Declaration, signed in 1994, did not provide for the establishment of a GATT working party or WTO standing Committee on this issue because of strong foreign opposition to just talking about the relationship between the trading system and internationally recognized labor standards.

Since the Marrakesh Declaration did not provide for the establishment of a GATT working party or a WTO standing Committee on worker rights, I introduced legislation in the 103d Congress directing the President to do so. I was pleased that the implementing legislation for the Uruguay round of the GATT, which was signed into law in 1994, included a worker rights provision based on my legislation. This provision requires the President to seek the establishment of a working party within the WTO to explore ways in which to link the conduct of international trade with respect for fundamental worker rights.

In December 1996 I was joined by 49 of my House colleagues in sending another letter to the President, urging him to establish a working party on worker rights and labor standards during the WTO's ministerial conference in Singapore. The President identified worker rights as a high priority and then-Acting U.S. Trade Representative Charlene Barshefsky worked to address worker rights at the conference. Although signatories to the Singapore Declaration pledged a commitment to observe internationally recognized core labor standards, the United States was unable to convince our trading partners to establish a working party on worker rights within the WTO.

While this small step forward is better than nothing, it falls far short of what is necessary to convince some of our trading partners that this is an issue that will not go away by sticking their heads in the sand.

Ambassador Barshefsky has worked hard to promote worker rights and labor standards as part of the U.S. trade policy. I applaud her initiative and remain hopeful that she and the Clinton administration will continue their efforts to generate support for these issues in the international community.

However, to date, what has been lacking is the political will and the resolve on the part of some of the WTO member nations to develop binding trade rules that advance the interests of workers, not just those of financiers, corporate managers, and consumers.

For example, the United States and the global trading community must not tolerate the export of products that were produced by children in bondage or by adult workers who are denied their basic freedom to form and join an independent trade union.

While the United States has repeatedly failed to convince our trading partners to include worker rights and labor standards in trade agreements, I believe there are several ways in which the 105th Congress can influence the process. In reauthorizing fast track negotiating authority, which lapsed in 1994, the Congress should include language requiring that any trade agreement negotiated under the fast track procedure address the issue of worker rights and internationally recognized labor standards. If we fail to include such a provision in fast track reauthorization, we run the risk that worker rights and labor standards will continue to be perceived as issues of secondary importance in the formulation of U.S. trade policy.

Now, more than ever, it is up to our country to take a decisive leadership role and insist that this long-neglected issue be addressed forcefully with our trading partners.

Mr. Chairman, I hope to work with you and the other Members of the Subcommittee as you continue to grapple with finding ways in which to improve our global trading system. I thank you very much for providing me with this opportunity today.

[The prepared statement follows:]

Statement of Hon. Peter J. Visclosky, a Representative in Congress from the State of Indiana

Mr. Chairman, I would like to thank you and the other members of the Trade Subcommittee for allowing me to testify regarding U.S. trade policy objectives and initiatives. Today, I would like to briefly focus my testimony on the importance of linking respect for internationally-recognized worker rights to the conduct of international trade, and would ask that my entire written statement be made a part of the hearing record.

Linking respect for worker rights to trade is not a new or radical concept in U.S. or international law and policy discussions. Nearly a century ago, the U.S. first banned the importation of white phosphorus matches because of the hideous occupational poisoning inflicted on workers involved in their production. When the Treaty of Versailles was signed in 1919, it committed the ratifying nations "to endeavor to secure and maintain fair and humane conditions to which their commercial and industrial relations extend." Furthermore, when the Atlantic Charter was announced in 1941, President Franklin Roosevelt committed our nation to "the fullest collaboration between all nations in the economic field with the object of securing for all, improved labor standards, economic advancement, and social security."

Since 1974, the Congress has included worker rights provisions in at least eight trade laws with broad applicability. Among other things, these provisions: (1) authorized suspension of benefits to trading partners, where persistent patterns of conduct deny internationally-recognized worker rights (as defined in Section 301 of the Trade Act of 1974, as amended); (2) prohibited preferential tariffs to trading partners not taking steps to afford workers internationally-recognized worker rights (Generalized System of Preferences, Title V of the Trade Act of 1974, as amended);

(3) required the President to seek the establishment of a working party in the World Trade Organization (WTO) to examine the relationship between internationally-recognized worker rights and trade (Section 131 of the Uruguay Round Agreements Act); and (4) specified the promotion of worker rights as "principal negotiating objectives" of the United States in trade agreements (Section 1101 of the Omnibus Trade Act of 1988).

Mr. Chairman, as you and other members of this subcommittee may know, this is an issue that I have been involved with for some time. In March 1994, I was joined by a bi-partisan group of 67 House Members in sending a letter to President Clinton urging him to marshal international support to establish a standing committee on worker rights and labor standards within the WTO, and, on an interim basis, a General Agreement on Tariffs and Trade (GATT) working party on this issue. The objectives of the proposed working party were to explore ways in which to link the conduct of international trade to respect for fundamental worker rights—including the freedom of association, the right to organize and bargain collectively, and the prohibition of forced or compulsory labor. The imposition of uniform labor standards, such as wages and hours, was not an objective.

Unfortunately, the Marrakesh Ministerial Declaration signed in 1994 did not provide for the establishment of a GATT working party or WTO standing committee on this issue because of strong foreign opposition to even talking about the relationship between the trading system and internationally-recognized labor standards. Instead, an eleventh-hour agreement was reached whereby countries were able to raise new issues, including labor standards, in the Preparatory Committee, which was charged with establishing the agenda for the WTO.

Since the Marrakesh Declaration did not provide for the establishment of a GATT working party or a WTO standing committee on worker rights, I introduced legislation in the 103rd Congress, H.R. 4271, directing the President to do so. I was pleased that the implementing legislation for the Uruguay Round of the GATT, which was signed into law in 1994, included a worker rights provision based on my bill. This provision, which was referenced above, requires the President to seek the establishment of a working party within the WTO to explore ways in which to link the conduct of international trade with respect for fundamental worker rights.

In December 1996, I was joined by 49 of my House colleagues in sending a letter to the President, urging him to establish a working party on worker rights and labor standards during the WTO's Ministerial Conference in Singapore. The President identified worker rights as a high priority, and then-Acting U.S. Trade Representative Charlene Barshefsky worked to address worker rights at the conference. Although signatories to the Singapore Declaration pledged a "commitment" to observe "internationally-recognized core labor standards," the U.S. was unable to convince our trading partners to establish a working party on worker rights within the WTO. While this small step forward is better than nothing, it falls far short of what is necessary to convince some of our trading partners that this is an issue that will not go away by sticking their heads in the sand.

It is my pleasure to be appearing before the subcommittee today with newly confirmed U.S. Trade Representative Charlene Barshefsky. Ambassador Barshefsky has worked hard to promote worker rights and labor standards as part of U.S. trade policy. I was pleased that, in her overview of the President's 1997 Trade Policy Agenda, she mentioned the importance of advancing several "new" issues, including labor rights. The 1997 agenda explicitly states that the Clinton Administration will continue its strong advocacy of the need to include worker rights and core labor standards as part of the World Trade Organization as it evolves, as well as to address the issues in the context of bilateral and regional trading agreements.

I applaud Ambassador Barshefsky's initiative, and remain hopeful that she and the Clinton Administration will continue their efforts to generate support for these issues in the international community. However, to date, what has been lacking is the political will and the resolve on the part of some of the WTO member nations to develop binding trade rules that advance the interests of workers, not just those of financiers, corporate managers, and consumers. For example, the U.S. and the global trading community must not tolerate the export of products that were produced by children in bondage or by adult workers, who are denied their basic freedom to form and join an independent trade union. The time has come for the international trade community to come to grips with these insidious problems and correct this glaring shortcoming.

Starting immediately, there are some constructive actions that can be taken by the U.S. to build more international support and persuade WTO member nations to act collectively against brutal systematic labor repression. First, the President should make a clear and unequivocal commitment and corresponding public pronouncement that the establishment of a WTO working party on worker rights and

trade should be added to the on-going work program of the WTO. In keeping with this goal, the USTR must elevate worker rights to a top-tier priority for all future trade negotiations. As long as they remain one of many negotiating objectives, they will continue to be bargained away in favor of commercial and sectoral interests.

Another suggestion I would make is that we need to persuade our trading partners, who have shown reluctance to even talk about the relationship of internationally-recognized labor standards to trade, to discuss their concerns. Until there is a working party within the WTO to deal specifically with these concerns, it will be difficult to get beyond the rhetoric and hyperbole. However, as an intermediate step, I would welcome a White House-convened international summit this year to help break the ice. The U.S. could lead in this area by inviting the labor and trade ministers from a group of, perhaps, 10 to 15 developed and developing countries to a conference on worker rights and trade. At a minimum, a summit devoted exclusively to discussing the relationship of internationally-recognized worker rights to the conduct of international trade would illuminate the specific arguments—pro and con—that need to be carefully examined. Hopefully, an international consensus could be galvanized among a core group of countries from which a broader WTO working group could be built.

As trade barriers continue to fall, and the U.S. plays a crucial role in negotiating trade agreements, such as the Uruguay Round, I feel that it is incumbent upon the U.S. government to persuade our trading partners to demonstrate respect for basic worker rights and labor standards. We should look for effective bilateral leverage to use in persuading opposing countries that it would be preferable, and in their self-interest, for all trading nations to agree upon ways to strengthen and better enforce the rules of fair and open trade so as to discourage systematic labor repression. Enhanced worker rights will empower workers everywhere to help themselves and to share more fully in the benefits of trade within countries, as well as among them. It will also help ensure that U.S. workers and companies are not put at a competitive disadvantage simply because a trading partner does not have the same respect for worker rights and labor standards that we do.

While the U.S. has repeatedly failed to convince our trading partners to include worker rights and labor standards in trade agreements, there are several ways in which the 105th Congress can influence this process. In reauthorizing fast-track negotiating authority, which lapsed in 1994, the Congress should include language requiring that any trade agreement negotiated under the fast-track procedure address the issue of worker rights and internationally-recognized labor standards. If we fail to include such a provision in fast-track reauthorization, we run the risk that worker rights and labor standards will continue to be perceived as issues of secondary importance in the formulation of U.S. trade policy. Any one or a combination of these options would be a significant step forward from where we stand coming out of Singapore. Now, more than ever, it is up to the United States to take a decisive leadership role and insist that this long-neglected issue be addressed forcefully with our trading partners.

Mr. Chairman, although we may have different views on this important subject, I hope to work with you and other members of the subcommittee as you continue to grapple with finding ways in which to improve our global trading system. Thank you, again, for allowing me this opportunity to share my views with you. I would be happy to answer any questions you, or other members of the subcommittee, might have.

Chairman CRANE. Thank you, Mr. Visclosky.

Are there any questions for our witness?

Mr. RANGEL. Thank you.

Most all of us agree with the general theme of what you are talking about. I participated in the WTO ministerial in Singapore, and when you start talking with the Chinese about these things, they look at you with glazed eyes because they are saying, absolutely, that they have tens of millions of people on welfare working in these state plants, and they are not thinking about having them compete in the world market. You want to talk transition, they will talk transition, but these people are not productive; nor can their security afford for them to be left out there.

Then when you go to Chile, of course, they do not have any problems with anything you want to put in an agreement because they say these are the things they would be doing without a treaty, so it is no problem.

How do we specifically state what we believe are the minimum standards that workers should have and what their environmental conditions should be when we enter into a trade agreement with a country?

Mr. VISCLOSKY. Mr. Rangel, I think we have to do two things. One is to suggest to countries such as Chile that we do expect them to abide by the statutes they have on the books. In many of these instances, the countries who are very flagrant violators of international labor standards actually do have those legal policies in existence; they do not abide by them.

I think the other important thing we have to stress to them is that we are not looking to gain ourselves an unfair trade advantage. If a country, for example, has a lower wage rate that is culturally and historically a fact of life, I am not looking. I do not think any of us are looking to raise that in an unfair fashion. That is fine.

But again, I think just common decency and humanity would indicate that there is something wrong with small children stitching soccer balls and carrying bricks and working in hard labor.

And the other point I want to make is, all I am suggesting and asking for is that we establish a working group to have meaningful conversations about this.

Mr. RANGEL. Well, let's talk fast track. What language is acceptable to you? Would you accept a working group to pass fast track?

Mr. VISCLOSKY. Mr. Rangel, I would like more than a working group. As a practical matter, I think that would be about as far as we could push the situation politically.

Mr. RANGEL. What language would you like to see in the fast track?

Mr. VISCLOSKY. Mr. Rangel, I introduced legislation two Congresses ago, and I would recommend that to the Subcommittee's attention.

Mr. RANGEL. Was that similar to the language that was in the NAFTA Agreement?

Mr. VISCLOSKY. It is not, not to the NAFTA Agreement. This was incorporated as far as implementing the bill for Uruguay round of the GATT. It was essentially suggested to the administration that we talk about this issue. I would like something more compulsory as far as a commitment from WTO member countries that they will abide by universally recognized core labor standards. That would be my ultimate goal.

And again, as a practical matter, could we force that issue in the next year or two? Again, I would be doubtful that we could.

In the end, I would like to see some binding conditions as far as, again, just basically accepted international labor standards. As a practical matter, I was born 47 years ago; I do not think that is going to happen tomorrow morning. But I think as a bare minimum, we ought to demand that there be a working group established and serious negotiations, with the long-term view that there be requirements on international labor standards. But again, to

proceed in a deliberate fashion, recognizing that there is very strong committed international opposition to our position.

Mr. RANGEL. You are talking about an American working group or an international working group?

Mr. VISCLOSKY. We have asked that there be a working group under the WTO. If we enter into bilateral agreements, it ought to be between the countries involved in that bilateral agreement.

What I would be looking for, to be honest with you, is to have as many lines in the water as possible. We are still trying to force the issue with the WTO. For example, if you enter into a bilateral agreement with Chile then again, in the best-case scenario, I think we ought to have some definitive standards as far as labor rights. Barring that, we ought to have a specific working group that is serious about establishing those compulsory standards.

Mr. RANGEL. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Matsui.

Mr. MATSUI. Thank you, Peter. I think I understood what you said in response to a question by Mr. Rangel, that you could not support an extension of current law? Is that my understanding, or you could support an extension of current law?

Mr. VISCLOSKY. Mr. Matsui, I am becoming a doubter about fast track authority, to be honest with you. I voted against NAFTA. I voted for GATT, but I am increasingly concerned about the effect it is having on people who are employed or want to be employed in my congressional district. I have some general concern.

On the other hand, if you see fast track reauthorized, I do think we ought to use that as a vehicle to press some of these very important issues.

Mr. MATSUI. Let me say this. I think all of us share your concerns. What we are doing now is dealing with less developed countries that obviously do not have the standards of the European countries, the United States or even some of the Asian countries, such as Japan. And at the same time, we need to get into these countries and have their markets because if we do not, the developed countries of Europe, Japan, and others will go in there and we will be left in the cold.

We have somewhat of a dilemma. I share your concerns, but one of the reasons the WTO was so critical in 1994 when we passed it was because that is the body, the organization that we want to take many of these issues in the future, to try to get an international consensus on some of these issues pertaining to labor, the environment, and some of these other matters.

I think what we need to do is give this process some time. The WTO has only been in existence for some 2 years now, and I think over time we will find that if we allow it to grow, it will become a strengthened organization that could begin to debate some of these very issues.

But the concern I have is that if we try to impose what we believe to be strong standards that we have on some of these less developed countries, they will not negotiate with us and then other countries will go in there and take these markets over.

And, as you know, the export opportunities in the United States now are about 30 percent of the GDP of this country and it will

undoubtedly take a larger share, given the fact that the economy is pretty internationalized now. The economies of Latin America, and obviously Asia, are the young, growing economies of the world. Somehow, we have to make sure that we get into those and compete in them.

I think if we are allowed to do that, we can compete against any country or any company in the world.

Mr. VISCLOSKY. Mr. Matsui, I guess I would have a couple of comments on that. I appreciate your observation that we are only 2 years down the road. The administration last December was very aggressive in Singapore about again, simply establishing a working group to talk about this. We did not enjoy success in that endeavor.

We have an international labor organization. I had representatives from the organization in my office late last year. They have no enforcement authority. They have talked and they have negotiated for years on this issue to, from my observation, no avail at all.

I want to open up free trade and the possibility of exports to these countries. I also am very concerned about imports from those countries. And I think there are two values here: One, the moral value, and I think the values we hold in our democracy to make sure everyone who labors is treated fairly. From a selfish standpoint, I must tell you I think to the extent we can encourage people to raise their standards, we help ourselves become more competitive.

And again, getting back to Mr. Rangel's point, I was born 47 years ago. I have no false expectations that something mandatory could be forced on individuals. But to the extent every time we enter into one of these agreements we make it clear to that prospective trading partner that we are deadly serious about labor rights and we want to have serious talks with them about this, I think we help move that negotiation process along with the WTO.

Mr. MATSUI. Well, I appreciate your comments. I would only point out what you pointed out, that Ambassador Barshefsky was very effective in Singapore, and I think we finally got this on the map, on the radar screen, and it became an international issue, something that we had not seen in the past. This was obviously a very first step in a long process.

But thank you for your testimony. I really appreciate this opportunity.

Mr. VISCLOSKY. Thank you.

[The following was subsequently received:]

PETER J. VISCLOSKY
1ST DISTRICT, INDIANA

COMMITTEE ON APPROPRIATIONS
CONGRESSIONAL STEEL CAUCUS
EXECUTIVE COMMITTEE CHAIRMAN
NORTHEAST-MIDWEST
CONGRESSIONAL COALITION
MIDWEST VICE-CHAIR
WHIP-AT-LARGE

Congress of the United States
House of Representatives
Washington, DC 20515–1401

2464 RAYBURN BUILDING
WASHINGTON, DC 20515–1401
(202) 225–2461

215 WEST 35TH AVENUE
GARY, IN 46408
TTY-TDD SERVICE AVAILABLE
(219) 884–1177

PORTAGE CITY HALL
6070 CENTRAL AVENUE
PORTAGE, IN 46368
(219) 763–2904

VALPARAISO CITY HALL
166 LINCOLNWAY
VALPARAISO, IN 46383
(219) 464–0315

March 21, 1997

The Honorable Philip M. Crane
Chairman
Subcommittee on Trade
1104 Longworth
Washington, D.C. 20515

Dear Mr. Chairman:

I would like to clarify my response to questions raised by Mr. Matsui during Tuesday's Trade Subcommittee hearing with respect to establishing a working party or a standing committee within the World Trade Organization (WTO) to address worker rights and international labor standards. In his questioning, Mr. Matsui asserted that, since the WTO has been in existence for only two years, the organization should not be pressured to take up the issues of worker rights and labor standards at this time.

I would like to point out that even though it has been in existence for only two years, the WTO has already established several working parties and standing committees to deal with a myriad of issues. The WTO currently has 20 standing committees, ranging from Committee on Trade and Environment to the Committee on Rules of Origin. Further, during the Singapore Ministerial Conference in December 1996, three new working parties were established to deal with issues not addressed by the standing committees.

This country's request for a working party on worker rights and labor standards is the only time since the GATT was established that a U.S. request for a working party has been denied. The fact that the WTO has been in existence for only two years does not fully explain why a working party, or standing committee, on worker right and labor standards has not been established. What has been lacking is the political will of some of our trading partners to even *talk* about these difficult issues. I firmly believe the U.S. must continue to exert leadership in this area to ensure that they are addressed in the appropriate manner.

Once again, I deeply appreciated the opportunity appear before your subcommittee, and I would ask that this letter be made part of the official hearing record. I look forward to continuing to work with you and the other members of the subcommittee on these important issues.

Sincerely,

Pete

Peter J. Visclosky
Member of Congress

PJV:gcg

cc: The Honorable Robert Matsui

Chairman CRANE. I thank you, too, Congressman.

Mr. VISCLOSKY. Mr. Chairman, thank you very much.

Chairman CRANE. We appreciate your presentation.

Our next witness will be Hon. Charlene Barshefsky, U.S. Trade Representative-Designate.

Ambassador Barshefsky, it is with great pleasure that I welcome you here today to discuss the President's trade agenda for his second term. I must say it will be heartening to finally erase that word "designate" from your title.

Speaking on behalf of many of my colleagues on the Subcommittee, you serve as our envoy, and we want you to have the tools and stature that you need to conclude the best deals possible for U.S. workers and firms.

Looking through your written testimony reminds me of the fact that as deputy, you were present when many of the trade initiatives facing the United States were set in motion. In the Free Trade Agreement of the Americas negotiations and in the APEC talks, the United States committed to the target dates of 2005 and 2010, respectively, for achieving free trade.

During the next 4 years, your task is to set the course that will achieve these two key bipartisan goals.

I look forward to your testimony and that of our other distinguished witnesses on how we can best move the trade agenda forward.

And now we look forward to hearing from you, Madam Ambassador.

STATEMENT OF HON. CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you, Mr. Crane. I am pleased to report that the President signed the joint resolution last night. So, in fact, the word "designate" is gone.

Chairman CRANE. Oh, I am very pleased to hear that because we have all been waiting here with expectation. Congratulations.

Ms. BARSHEFSKY. Thank you very much. If I might, on a personal note, thank you and all of the Members of the Subcommittee and the Full Committee for your encouragement and support.

It is a pleasure to appear before you today to set forth the administration's views on the direction of trade policy. Of course, no discussion of that policy should begin without reaffirming our commitment to a bipartisan partnership with Congress. That has been a cornerstone of our past success. Only bipartisanship will lead to future success. I pledge to work closely with all Members of the Subcommittee and the Full Committee to advance U.S. trade interest, to expand exports, to create more and better jobs and opportunities for Americans today and tomorrow.

We should begin by recognizing that our economy is the strongest in the world, that expanded trade has played an important role in building that strength, and that no country in the world is better positioned than we to take advantage of the enormous opportunities presented by a global economy. We are at a unique moment and we need to seize it now. Our competitors cannot beat us, but we can lose if we put ourselves on the sidelines.

As we look toward the next 4 years, consider our situation. Our economy is the envy of the world. We are in the sixth year of current economic expansion. Over the past 4 years we have created nearly 12 million new jobs. The G–7 combined barely created 600,000.

We have seen a resurgence in U.S. competitiveness. We are once again the world's largest exporter, setting historic records: Manufactured exports up 42 percent; high-tech exports, 45 percent; services, 26 percent; agriculture up 40 percent. We are the world's largest producer of semiconductors and we are the world's largest pro-

ducer of automobiles. We are the most competitive major economy in the world.

Our economic expansion has been investment led, building a foundation for even greater economic success in the future. In 1995 total business investment in the United States was more than $800 billion. Our industrial production in the last 4 years is up nearly 18 percent. In Japan it is up 5; in Germany it is a negative 2.

The growth of our industrial capacity is at its highest level since the seventies. We have more manufacturing jobs than we had 4 years ago, and the industrial Midwest has gone through a virtual renaissance of manufacturing and productivity.

Trade policy has contributed significantly to the economic strength of our country today. From the early weeks of the administration, the President made it clear that we would compete and not retreat behind walls. We would not accept the status quo, whereby too often trading partners took advantage of our open market while maintaining closed markets at home.

We have relentlessly pursued an agenda of opening foreign markets and breaking down barriers—multilaterally, regionally and bilaterally. We have negotiated, as you know, over 200 trade agreements, all designed to advance our economic and trade interests. In the past 4 years we completed the Uruguay round. We completed the NAFTA which increased our exports to Mexico and kept Mexican markets open despite the worst economic crisis in Mexican modern history. We have worked tirelessly to break down market access barriers in Japan, reaching 24 agreements and increasing our exports 43 percent in 4 years.

We have led the world in setting tougher standards for trade with China. We breathed new life into APEC. We have led multilateral effort in this hemisphere to build the Free Trade Area of the Americas. We initiated the effort regarding the creation of a United States-European Union transatlantic marketplace. We took the lead in combating bribery and corruption in government procurement, in respecting core labor standards, and in pursuing an agenda to make trade and environmental policies mutually supportive.

We have vigorously enforced our trade laws and agreements, filing 46 enforcement actions and 23 WTO cases. And, over the last 3 months, we have completed an information technology agreement and an agreement on basic telecommunications, two far-reaching multilateral agreements reducing trade barriers around the world for our most competitive industries.

We pursued these initiatives because we recognize that trade is increasingly important to the future of our Nation. It is nearly 30 percent of GDP, up from 13 percent in 1970. Exports over the last 4 years have generated roughly one quarter of our economic growth, and these are good jobs. They pay better than nontrade-related jobs. Exports support about 11.3 million jobs in the United States, 1.4 percent of which were created in the last 4 years.

None of this is to suggest that we do not face challenges and continuing problems. Many markets around the world remain closed to our exports. And to the extent our trade deficit is a result of these barriers, particularly on a bilateral basis, they must be reduced. Too many Americans are left behind in the current economic

expansion without the skills or education to benefit from the increased opportunities. Neither government nor the private sector should rest while that is the case. And I recognize that for those Americans who have lost jobs because of trade or technological change or corporate downsizing, it is cold comfort that the overall picture is positive.

But, Mr. Chairman, in considering the direction of future trade policy, we need to start by recognizing that our economy is stronger than it was 4 years ago and far stronger than it was 10 years ago. None of us should be complacent, but our economic success is no accident. We put our government's market-opening efforts behind our companies, workers, and farmers at precisely the time they were at their most competitive.

After years of doubt and soul searching about our country's ability to compete, we have successfully, together, defined a distinctively American partnership to win in a tough global economy. But this is hardly the time to rest on our laurels.

As we contemplate the next 4 years in trade, we face a very clear choice and the choice is this. We can recognize that the American economy is the model for the world and continue to open foreign markets and seize the initiative when it comes to international competition. We can recognize the extraordinary opportunities that are presented in which developing nations want and need the full range of our goods, our services, and agriculture. We would face up to problems as we identify them, working to put in place education, training and adjustment policies needed to help those who are not benefiting from the new economy, advancing core labor standards, and protecting the environment, being vigilant to the consequences and potential threat of forced technology transfer.

But we would be starting from the proposition that we have been basically on the right track and that we should stay fully engaged, using all our tools to take advantage of the opportunities that present themselves, as we did when we forged the ITA.

Or, on the other hand, we can convince ourselves, against the evidence, that we are on the wrong track. We can choose our course guided by a picture of economic decline and disinvestment, that there is no resemblance to what is happening in our country. We can ignore our trading interests and opportunities around the world. We, instead, can let ourselves bog down in an endless debate over NAFTA and primarily our relations with Mexico. We can, in short, lose our momentum, abdicate our position of strength, either permit markets to stay closed or let others seize the initiative from us and gain preferential treatment. The choice is that clear.

With all we have accomplished in the last 4 years, the world has continued to change in ways critically important to understand. We must recognize the dangers of an action, and I want to turn to this for a moment.

In every region of the world, but particularly Asia and Latin America, the two fastest growing regions, governments are pursuing strategic trade policies and preferential arrangements, forming relations around us rather than with us.

In this post-cold war economy, countries are creating new, exclusive trade alliances, to the potential detriment of U.S. prosperity and U.S. leadership.

Examples abound. MERCOSUR is a customs union, as you know, with ambitions to expand its scope to all of South America. Argentina, Brazil, Paraguay, and Uruguay, which form MERCOSUR, are the largest economy in Latin America, with a GDP of about $1 trillion. MERCOSUR has struck agreements now with Chile and Bolivia. They are discussing agreements with the Andean countries, such as Colombia and Venezuela. They are discussing agreements with the Caribbean Basin.

The MERCOSUR ambition is driven, in part, by decades-old visions of a Latin America united by free trade, by also has a clear strategic objective regarding commercial expansion and a stronger position in world affairs.

The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR. They have concluded a framework agreement with Chile to that end. The President of France, who was just in the region, said, "Latin America's essential economic interests lie not with the United States but with Europe."

China has targeted Mexico, Argentina, Brazil, Chile, and Venezuela as strategic priorities in Latin America. That is to ensure that key Latin countries are receptive to its broader agenda and to itself as a rising power.

Japan has undertaken high-level efforts throughout Asia and Latin America in country after country.

ASEAN is forming a Southeast Asian trade area that will include 400 million people and some of the fastest growing economies of the world. It is a region where China, Japan, Korea, and the EU are focusing competitive energy.

Argentina's President Menem recently suggested a MERCOSUR–ASEAN Free Trade Agreement. Mexico wants to be the commercial hub between North and South America and serve as a venue in which to enter North, Central, and South America from Asia and Europe. It is jointly pursuing free trade with Europe and is reaching out to Asia. It has concluded agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua and now has initiated talks with MERCOSUR.

Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela, Ecuador. It intends to start negotiations with Central America and Asia. Japan is its largest export market. Chile sees itself as a bridge from MERCOSUR to Asia and back and is positioning itself in that way.

In the Asia-Pacific region, competition comes from many sources and is the most intense in the world. Japan has been well ahead of the United States in East Asia in terms of corporate presence. And in more recent years, Korean chaebols, their conglomerates, have likewise pursued an aggressive strategy.

The countries of Southeast Asia, some of the most dynamic economies of the world, are integrating into ASEAN. That will give those countries advantages over the United States, particularly in agriculture.

The point, Members of the Subcommittee, is that 95 percent of the world's consumers live outside our boundaries and 85 percent of them reside in the developing world. Our ability to create jobs, to sustain our standard of living, will depend in no small part on

how successful we are relative to our competitors in embracing trade opportunities offered by these markets.

We should not be indifferent to currents that can be identified even by a casual read of the newspapers. In my view, we have all the talents needed to compete successfully, but our competitors are determined, they are sophisticated, they are strategic, and they are focused. Many U.S. firms are already seeing evidence of this, to their disadvantage.

I believe our trade policy must be driven by two factors: First, an emphasis on building prosperity at home through the expansion of our exports, built on a strong foundation of reciprocity as we proceed; and second, ensuring that we are strategically well positioned in the world to advance our economic, trade, and broader interests, including regional stability, through a growing number of enduring trade relationships, particularly where those arrangements put us at the center of activity.

The principle underlying our trade policy must be to support U.S. prosperity, U.S. jobs, and the health of U.S. companies. The outgrowth of that policy must be continued U.S. leadership as the world's indispensable nation, transmitting values of democracy, market economics, human rights, and the rule of law to our partners.

Given the evidence of concerted efforts by our competitors to improve their position and the potential erosion of U.S. leadership, we need to respond with our most effective and strategically powerful trade policy. We need to position ourselves as the most important player in the global constellation of trade activity now and into the future. We need to be positioned to play a catalytic role in all key regions of the world. We must utilize the full range of our tools of leverage on the trade front while, of course, we continue to enforce our trade agreements.

There are some who believe that simply opening markets on a global scale is the be-all and end-all, no matter how it is done and no matter who benefits. I take a little different view. It is imperative we open markets in a manner consistent with the rules of the WTO, but we must make sure Americans benefit directly from this process. And to do that, Americans must drive the rules of the global landscape and the opening of markets. There is no other way to protect our jobs, our vital trading interests, or our global leadership.

In the next 4 years the administration believes we must keep on opening foreign markets and breaking down barriers. We cannot fully confront the competitive challenges we face without an aggressive reciprocity-based push on the multilateral, bilateral, and regional fronts, and I will highlight just a few initiatives.

On the multilateral front, within 4 years WTO negotiations will occur in key areas: Agriculture, services, intellectual property, government procurement, financial services. We will also pursue various sectoral arrangements along the lines of the ITA and the Telecom Agreement.

The built-in agenda from the Uruguay round provides further opportunities to advance our agenda. We will be reviewing technical barriers to trade, sanitary and phytosanitary rules, customs valuation, import licensing procedures, the rules of origin and a number

of other areas, including State trading activities in the agricultural sector.

Indeed, even within the OECD, we are already in active negotiations on an investment agreement to ensure equitable and fair treatment for U.S. investors, as well as negotiations on bribery and corruption, competition policy, and transparency in government procurement.

On the regional side, Latin America and the Caribbean are the fastest growing export markets for the United States. If trends continue, it will exceed the EU as a destination for U.S. exports by 2000 and exceed Japan and the EU combined by 2010. It is also the fastest growing region in the world. With regard to the regional agenda, the United States is committed not only to concluding the FTAA by 2005 but also to make concrete progress by 2000.

We are at a key juncture. Chile should be the first step in the process. The region views what we do with Chile as a litmus test for future plans. Chile is both symbolic of the opportunities in the region and the region's rising significance to our longer term economic and strategic interests. At the same time, of course, we remain committed to the Caribbean Basin Trade Enhancement Act.

The Asia-Pacific region is enormous in scope and has major implications for the future of the United States. It contains the fastest growing economies of the world. It has a total population of nearly 3 billion. We estimate that reaching the goal of open markets in APEC would increase U.S. exports in goods alone by 27 percent or $50 billion annually. A step toward the ultimate APEC goal would be market-opening agreements with key economies or key sectors, to provide our exporters with strategic advantage.

With Europe, our focus will be on nontariff barriers, which continue to impede transatlantic trade.

Africa is a region rich in resources and potential. We must engage that region with determination, to help ensure its effective and sustainable development and democratic governance.

On the bilateral side, we recognize that certain problems can only be addressed effectively with the degree of specificity on a bilateral basis. We will continue to be engaged in a very aggressive bilateral push with respect to Japan and China, Argentina and Korea, Canada, and many other countries. Now, as in the past, market access in many cases will occur only through intensive bilateral efforts. This also includes intense scrutiny under our enforcement capacity.

We can pursue portions of this agenda and of our vision with existing trade tools, like section 301 or section 1377 on Telecom or title VII, which we will renew by executive order. But to seize the opportunities in the global economy, to fully meet competition, to provide us with strategic positioning that will determine our future in the next century, the President needs a new granting of trade agreement implementing authority or fast track.

Fast track is a key component of our trade arsenal and it is the one component that is missing. For this reason, the President has emphasized the importance of renewing fast track and has asked me to work with Members of Congress of both parties to forge a strong and workable consensus.

Clearly, this should not be a matter of party or politics. Every President since President Ford has had fast track authority for key periods. For over 60 years, reacting to the lessons of the Smoot-Hawley tariff, America has led the effort to open foreign markets and increase U.S. and global prosperity.

Persistent market opening has led to a period of increased global commerce unprecedented in world history. It has created enormous opportunities for our companies and workers, provided a seedbed for democracy abroad, and helped further greater stability in a still uncertain world. We should not turn our back on that pattern of leadership, which continues today.

There is no substitute for our ability to implement comprehensive trade agreements. The absence of procedural authority is the single most important factor limiting our capacity at this time to open markets and expand American exports and trade opportunities.

Mr. Chairman, let me spend a moment to discuss fast track and NAFTA in context. There is no question that many important issues characterize our relationship with Mexico: Trade, drugs, immigration, worker welfare, the environment, and others. Those issues existed before we negotiated the NAFTA; they will exist in the future.

Mexico is a developing country with which we share an enormous border. It is inescapable that issues of this type will be part of our bilateral agenda for years to come. NAFTA is not and cannot be the full long-term solution to the problems that we may encounter, but by keeping Mexico on the path to prosperity through market reform, it can be part of the solution.

The fast track debate is something entirely different. The fast track debate is and should be about our ability to conduct a global trade policy, to advance our global trade interests, and to remain the global leader in this world.

Many of the issues in the Mexico debate relate to our shared and unique border. They do not address the need to seize trillions of dollars in global infrastructure opportunities in Asia. They do not give us the tools to continue cutting European agricultural subsidies. They do not help us respond to preferential trading relationships or exclusionary practices to which the United States is subject. We must keep our focus, and the focus is the challenge of tomorrow.

Our competitors would like nothing better than for the United States to sideline itself, debating NAFTA and, in particular, our relationship with Mexico, for years to come while they moved ahead. It would be a great, serious, self-inflicted wound. America is poised to seize great opportunities. Our competitors cannot beat us; we can only lose by removing ourselves.

Similarly, we can no longer allow our disagreements over the relationship between trade, labor standards, and environmental protection to prevent us from granting the President fast track authority. We simply have to forge a consensus on this subject, which eluded us in 1994 and 1995. I have been consulting broadly with Members of Congress, business, labor, environmental groups, and others, and we will continue to do so. I do not intend to put forward

a specific formulation today, but I wanted to share several thoughts.

It is important to recognize that a commitment to the protection of core labor standards and their relationship to trade is not new and is not unique to the United States. The international commitment to address the issue goes as far back as the Havana Charter, which was the effort to establish the International Trade Organization after World War II. We were gratified that at the WTO ministerial in Singapore, the world acknowledged, for the first time, the importance of core labor standards in a ministerial declaration, but we did fight for stronger steps. Advancing worker rights and labor standards is in our national interest and it is consistent with our deepest national values.

Making environmental and trade policy mutually supportive, although a somewhat newer public policy phenomenon on a global scale, similarly enjoys strong support in our country and internationally. The 1992 Rio Sustainable Development Summit, the 1994 Summit of the Americas, and ongoing work in the WTO all reflect an international commitment to the importance of making these policy areas mutually supportive.

In my view, the challenge is how to maximize progress in three areas which are of importance to us: Expanded market access and global leadership, advancing worker rights and core labor standards, and promoting environmental protection and sustainable development.

We are committed to a strategy of pursuing our goals, but also maintaining flexibility, rather than pretending that one prescription fits all countries or all cases. Based on my experience over these past 4 years, I think there is no substitute to building a consensus at home behind a strategy to advance our objectives on core labor standards and environmental protection.

I am also certain that we will not convince other nations to improve their labor standards, to improve environmental protection, or to adhere to a rule of law by denying the President the ability to negotiate trade agreements with them. We will, however, cripple our own export performance and lose jobs at home.

Mr. Chairman, let me conclude by saying that President Kennedy once described himself as an idealist without illusions. I think that description captures very well President Clinton's approach to trade. He and those of us who serve in the administration genuinely believe that expanded trade can contribute to our prosperity and to global growth, particularly in the developing world, where poverty is still widespread.

But we have no illusions as to the challenges ahead. Every trade barrier that is there is there for a reason: Economic, political, bureaucratic, cultural. Some countries only want to export and not import.

The competition around the world will continue to be intense. We have reasons to be confident, but only if we forge a domestic consensus that allows us to move ahead. We need to get down to business. The hard work of the past 4 years only gives us the opportunity to do the hard work of the next 4 years.

Mr. Chairman and Members of the Subcommittee, thank you.

[The prepared statement follows:]

Statement of Hon. Charlene Barshefsky, U.S. Trade Representative

Thank you, Mr. Chairman and Members of the Committee. I am pleased to appear before you today.

I appreciate this opportunity to set forth the Administration's views on the direction of trade policy. When I entered the field of international trade twenty two years ago, trade was really the province of a relatively few academics, trade technicians, and a relative handful of interested members of Congress. Those days are long past. As trade has become more central to our economic health, it has understandably become a matter of great importance to virtually all members of Congress and to people in all walks of life across our country. This Administration, and any future Administration, bears the responsibility of explaining our trade policy clearly and building broad political support for it. To advance that goal, I pledge today to engage—as much as possible—in what President Truman once called "plain speaking."

No discussion of our trade policy should begin without reaffirming our commitment to a bipartisan partnership with Congress. No trade policy can ultimately succeed without the support of the Members. Bipartisanship has been a cornerstone of our past success and will continue to be in the future. I pledge to work closely with all members of this Subcommittee—and the full Ways and Means Committee—to advance the cause of opening foreign markets and thereby expanding exports and creating more and better jobs and opportunities for Americans in the workforce today, and their children who will be joining it in the coming years.

TRADE AND THE STRENGTH OF THE U.S. ECONOMY

We should begin by recognizing that our economy is the strongest in the world; that expanded trade has played an important role in building that strength; and that no country in the world is better positioned to take advantage of the enormous opportunities presented by a growing global economy. In fact, we are at a unique moment and we need to seize it now. Our competitors cannot beat us, but we can lose if we put ourselves on the sidelines.

As we look toward the next four years, consider our situation:

• Our economy is the envy of the world. We are in the sixth year of the current economic expansion. Over the past four years, we have created nearly 12 million new jobs, while the G–7 created roughly 600,000. We have the lowest budget deficit as a percent of GDP of all the G–7 nations. Our combined unemployment and inflation—the so-called misery index—are at the lowest level since 1963. Countries around the world seek to emulate the "American model."

• We have seen a resurgence in U.S. competitiveness. We are once again the world's largest exporter setting historic records in manufactured goods, high technology goods, services, and agriculture. Over the last four years, our manufactured exports are up 42%, high technology exports jumped 45%, service exports climbed 26% and farm exports rose 40%. We are the world's largest producer of semiconductors and the largest producer of automobiles. The World Economic Forum has found America to be the most competitive major economy in the world for three years running.

• Our economic expansion has been investment-led, building the foundation for even greater economic strength. In 1995, total business investment in the U.S. was more than $800 billion. Our industrial production is up nearly 18% in real terms over the last four years. Japan's production is up 5 percent and Germany's has declined by 2 percent over this period. Growth of our industrial capacity growth is at its highest level since the 1970's. We have more manufacturing jobs than we had four years ago. The industrial Midwest has gone through a virtual renaissance of manufacturing and productivity.

Trade policy has contributed significantly to the economic strength of our country today. From the early weeks of the Administration, the President made it clear that we would compete, not retreat behind walls. We would not accept the status quo whereby too often our trading partners took advantage of our open market while maintaining closed markets at home. We have relentlessly pursued an agenda of opening foreign markets, and breaking down foreign market barriers—multilaterally, regionally and bilaterally.

We committed to work for a system where all trade nations, developed and developing, would adhere to the same set of basic rules, and we have made important strides in that regard with the creation of the WTO and elsewhere. We have not yet fully leveled the playing field for U.S. companies, workers and farmers, but we have clearly made progress. The world is generally more open to U.S. exports than it was when the President took office, and far more open than when Congress, on a bipartisan basis, passed the landmark 1988 Trade Act which gave us and our predecessors the clear direction and the tools to open markets around the world.

This Administration has negotiated over 200 trade agreements, all designed to advance our economic and trade interests. In the past four years:

• We completed the Uruguay Round, the largest trade agreement in world history, which will add $100–200 billion to GDP annually when fully implemented.

• We completed the NAFTA, which increased our exports to Mexico, and kept Mexican markets open despite the worst economic crisis in Mexican modern history.

• We worked tirelessly to break down market access barriers in Japan, which have presented one of the central trade challenges for the past twenty years, reaching 24 agreements and increasing our exports 43% in four years (with exports covered by these agreements growing roughly twice as fast).

• We led the world in setting tougher standards for trade with China: battling to open a highly protected market, negotiating landmark agreements in intellectual property and textiles, and insisting that China's accession to the WTO occur only on commercially meaningful terms.

• We breathed new life into APEC, starting with the President's leadership in 1993, spelling out a long term vision for free and fair trade, making progress more concrete year by year, culminating with the key role played by APEC in completing the Information Technology Agreement (ITA), and anchoring our country more firmly in the fastest growing region of the world.

• We have led the multilateral effort in this hemisphere to build the Free Trade Area of the Americas (FTAA) by 2005, with concrete progress by 2000, deepening our commitment to our own hemisphere, recognizing the extraordinary progress of open markets and democracy throughout the region.

• We initiated the effort regarding the creation of the U.S.–EU Transatlantic Marketplace. We have been working closely with the private sector to improve market access.

• We took the lead in combating bribery and corruption in government procurement, in respecting core labor standards, and in pursuing the agenda to make trade and environmental policies mutually supportive.

• We have vigorously enforced our trade laws and agreements using every tool possible and making it clear that agreements, if not implemented by our trading partners, will be enforced. In the past four years we have brought 48 trade enforcement actions. We have filed 23 cases to enforce U.S. rights under the new dispute settlement procedures of the WTO, having filed 15 complaints last year alone.

• Over the last three months, we have completed the Information Technology Agreement (ITA) and the Agreement on Basic Telecommunications—two far-reaching multilateral agreements reducing trade barriers around the world for our high technology industries. The ITA will benefit producers of such products as semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of $5 billion. The telecommunications accord is expected to generate approximately 1 million U.S. jobs over the next 10 years and save billions of dollars for the American consumer. We estimate the average cost of international phone calls will drop by 80 percent—from $1 per minute on average to 20 cents per minute over several years. The cost of U.S. domestic calls should also fall as the agreement helps raise investment in the U.S. in competitive telecommunications networks.

We pursued these initiatives because we recognized that trade is increasingly important to the future of our nation. Trade is now equivalent to nearly 30 percent of GDP, up from 13 percent in 1970. Exports over the last four years have generated roughly one quarter of our economic growth. And these are good jobs; they pay 13–16% more than non trade-related jobs. That's one reason why over 68% of the jobs created in the U.S. between 1994–96 paid above the median wage. Exports support an estimated 11.3 million U.S. jobs, and over 1.4 million of these jobs were generated by increased exports over the last four years.

None of this is to suggest that we don't face challenges and continuing problems. Many markets around the world remain closed to our exports and, to the extent our trade deficit is the result of these barriers, particularly on a bilateral basis, they must be reduced. Far too many Americans are left behind in the current economic expansion, without the skills or education to benefit from the increased opportunities. Neither government nor the private sector should rest while that is the case. And I recognize that for those Americans who have lost jobs because of trade or technological change or corporate downsizing, it is cold comfort that the overall picture is positive.

In considering the direction of future trade policy, however, we need to start by recognizing that our economy is stronger than it was four years ago, and far stronger than it was ten years ago. None of us should be complacent, but our country's economic success is no accident. We put our government's market opening efforts

behind our companies, workers and farmers at precisely the time when they were at their most competitive. After years of doubt and soul-searching about our country's ability to compete, we have together succeeded in defining a distinctively American partnership to succeed in a tough global economy. As we consider what comes next, we can take pride, for a moment, in what we, together, have accomplished.

A Moment of Choice; The Dangers of Inaction

But only for a moment. This is not the time for resting on our laurels. As we contemplate the next four years in trade, we face a very clear choice.

We can recognize that the American economy is the model for the world, and continue to open foreign markets and seize the initiative when it comes to international competition. We can recognize the extraordinary opportunities presented by the growing global economy, in which developing nations, which want and need the full range of our manufactured goods, services and agricultural products, are poised to fuel continued global growth. We would face up to problems as we identify them together: working to put in place education, training and adjustment policies needed to help those who are not benefitting from the new economy; advancing core labor standards and protecting the environment; being vigilant to the consequences and potential threat of forced technology transfers. But we would be starting from the proposition that we have been basically on the right track, and we should stay fully engaged, using all our tools, taking advantage of opportunities that present themselves as we did when we saw the chance to reach an ITA.

Or we can convince ourselves, against the evidence, that we are on the wrong track. We can choose our course guided by a picture of economic decline and disinvestment that bears no resemblance to what is happening in our country. We can ignore our trading interests and opportunities around the world, and let ourselves instead bog down in an endless debate over NAFTA, but primarily our relations with Mexico. We can, in short, lose our momentum, abdicate our position of strength, either permit markets to stay closed, or let others seize the initiative from us and gain preferential treatment. The choice is that clear.

With all we have accomplished in the past four years, the world has continued to change in ways that are critically important to understand. We must recognize the dangers of inaction. In every region of the world, but particularly Asia and Latin America, the two fastest growing regions of the world, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements, forming relations around us, rather than with us, and creating new exclusive trade alliances to the potential detriment of U.S. prosperity and leadership. Example abound:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with ambitions to expand its association agreements to all of South America. MERCOSUR is the largest economy in Latin America and has a GDP of roughly $1 trillion and a population of 200 million. It has struck agreements with Chile and Bolivia, is discussing agreements with a number of Andean countries (Colombia, Venezuela, etc.) as well as countries within the Caribbean Basin. The MERCOSUR ambition is in part driven by the decades old vision of a Latin American free trade area, but also has a clear strategic objective regarding commercial expansion and a stronger position in world affairs.
- The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR, the largest market in Latin America, comprised of Argentina, Brazil, Paraguay, and Uruguay, with a GDP of over $1 trillion. They have also concluded a framework agreement with Chile that is set up to lead to a free trade agreement. The President of France, just in the region, said we "will have to set the foundations for a new and ambitious partnership," with Latin America, adding that Latin America's "essential economic interests... lie not with the United States but with Europe." President Chirac was traveling with four Cabinet officials and 20 leading French businessman.
- China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities" in Latin America. China wants to enhance commercial ties and ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora. The Chinese leadership has undertaken an unprecedented number of trips to Latin America in that last two years, and Latin America is its second fastest growing export market.
- Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. The Prime Minister of Japan recently visited Latin America seeking closer commercial ties and a greater Japanese commercial presence in all respects.

• ASEAN is forming a free Southeast Asian trade area that will include 400 million people and some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. In a bold initiative indicative of the new dynamic in the global economy, Argentina's President Menem recently suggested a MERCOSUR–ASEAN free trade area—an agreement that would encompass over 600 million people.

• Countries within this hemisphere are equally aggressive. Mexico wants to be the commercial hub between North and South America, but also serve as a venue in which to enter North, Central and South America from Asia and Europe. It is jointly pursuing a free trade area with Europe and is reaching out to Asia. President Zedillo and his Cabinet have undertaken numerous missions to Asia and have been well received. It has reached trade agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua. It has initiated talks with MERCOSUR.

• Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela and Ecuador. It intends to start similar negotiations with Central America and has an eye toward agreements with Asia. Japan is its largest export market, but Chile sees itself as a bridge from MERCOSUR to Asia and back, and is positioning itself with its MERCOSUR neighbors for that purpose. It has also struck an agreement with Canada that includes a range of market opening elements.

• In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region. Competition within Asia is the most intense. Japan has been ahead of the U.S. in East Asia in terms of corporate presence, and especially in the past decade, in terms of the amount of overseas development assistance (ODA) it is willing to spend to advance its commercial interests. In more recent years, Korean chaebols have likewise pursued an aggressive strategy to both invest and attain market share in dynamic East Asian economies, ranging from textiles to steel to autos.

• The countries of Southeast Asia, some of the most dynamic economies in the world, are integrating through its ASEAN Free Trade Area. The integration gives other ASEAN countries access in some key areas where U.S. exporters would otherwise have an advantage, such as in agricultural products, particularly processed food products.

Ninety five percent of the world's consumers live outside our boundaries, and 85 percent of them reside in developing countries. These are the large growth regions. Last year, the developing world imported over $1 trillion in manufactured goods from the industrialized countries, and this is the tip of the iceberg. The infrastructure needs alone of the developing world are estimated to be enormous. For example, in just 8 of the large developing countries, traditional infrastructure needs (telecommunications, power, transportation and petroleum infrastructure) are estimated to be over $1.6 trillion.

Our ability to create jobs and sustain our living standard in the next century will depend, in no small part, on how successful we are, relative to our competitors, in embracing the trade opportunities offered by these emerging markets. We should not be indifferent to currents that can be identified simply by reading the newspapers. In my view, we have all the talents needed to compete successfully, but our competitors are determined, sophisticated, strategic and focussed. Many U.S. firms are already seeing evidence that their competitors are engaged in an intensive effort to rework the rules of these dynamic marketplaces to their advantage.

A recent example illustrates the dangers. In November 1996 Canada reached a comprehensive trade agreement with Chile that will eliminate Chile's 11% across-the-board tariff starting this year. Northern Telecom recently won a nearly $200 million telecommunications equipment contract over U.S. companies in part because to buy from a U.S. producer meant an additional $20 million in costs (duties) relative to purchasing from Canada.

We have done much to level the playing field in the past four years, but in this case, we are sitting on the sidelines, spotting Canadian competitors an 11% price advantage every time we compete in the Chilean market. We will suffer that handicap again and again, in country after country, if we do not stay in the game of opening markets for our companies and workers. Looking at this sobering pattern, we need to reaffirm the commitment of the President in 1993, to "compete, not retreat."

OUR GLOBAL TRADING AGENDA

Our trade policy must be driven by two factors: our emphasis on building prosperity at home through the expansion of our export and trade opportunities built on a strong foundation of reciprocity as we proceed; and ensuring we are strategically

well positioned in the world to advance our economic, trade and broader interests, including regional stability, through a growing number of enduring trade arrangements, particularly where those arrangements put us at the center of activity. The principle underlying our trade policy must be to support U.S. prosperity, U.S. jobs and the health of U.S. companies. The outgrowth of that policy is continued U.S. leadership as the world's indispensable nation transmitting the values of democracy, market economics, human rights and the rule of law.

Given the evidence of concerted efforts by our competitors to improve their position around the world, and the potential erosion of U.S. leadership, we need to respond with our most effective and strategically powerful trade policy. We need to position ourselves as the most important player in the global constellation of trade activity now and into the future. We need to be positioned to play a catalytic role in all key regions of the world. We must utilize the full range of our tools of leverage on the trade front while at the same time continue to enforce our trade laws and agreements vigorously.

There are some who believe that simply opening markets on a global scale is the be-all-and-end-all, no matter how it is done or no matter who benefits. I subscribe to a different view. It is imperative that we open markets in a manner consistent with the rules of the WTO, but we must make sure Americans benefit directly from this process, and to do that Americans must drive the rules of the new global landscape and the opening of markets. There is simply no other way to protect our jobs, our vital trading interests or our global leadership on trade.

In the next four years, the Administration believes we should keep on opening foreign markets, and breaking down foreign trade barriers. We believe in this for our own export performance, for our own jobs and for own prosperity at home. The ITA and the telecommunications agreement provide vivid evidence of how our country can benefit from important sectoral agreements. We will continue to use the multilateral system, and have provided recent evidence of just how much can be accomplished multilaterally. At the same time, we cannot fully confront the competitive challenges we face or open the major emerging markets around the world without an aggressive, reciprocity-based push on the regional and bilateral fronts.

Multilateral Efforts

Within four years, major WTO negotiations will occur in several areas where the United States is a top global competitor: agriculture, services, and the rules for intellectual property rights. This year we will be resuming WTO negotiations on financial services, a sector where U.S. companies excel. At the same time, the Administration will work with industry and workers to search out ever more opportunities in key sectors. We will continue to look for sectoral opportunities to benefit U.S. exporters to build on the successes we have had in recent months.

Building on the positive outcome of the negotiations on the ITA and telecommunications, we are turning our attention to the WTO financial services negotiations which resume in April. We are committed to achieving a meaningful and comprehensive agreement by the end of the year. Earlier efforts to reach agreement were not successful due to inadequate offers by key countries. To successfully conclude these negotiations this year, our trading partners must signficantly improve their commitments based on the GATS principles of market access, national treatment and MFN. However, with the precedent that has now been established in the telecommunications agreement, we hope to see improved offers in the financial services talks.

Negotiations to further open the $526 billion global agriculture market are to be initiated in 1999. While the Uruguay Round reduced some of the most difficult barriers to agricultural trade, helping us to attain a record level of agricultural exports in 1996, our work is far from done. Removing agricultural barriers wherever they exist is one of our highest priorities of the next four years, so follow-on negotiations in the WTO are extremely important. We will work hard with our allies on this issue to move ahead.

Services negotiations to expand this $1.2 trillion global market—where U.S. firms exported more than $220 billion in 1996 (est.) with a surplus of $74 billion—are to start in January 2000. The trade related intellectual property rights (TRIPs) agreement which protects, for example, the interests of fast-growing U.S. copyright industries exporting over $400 billion a year, is to be reviewed, with key elements examined beginning before then. We must do everything possible to expand opportunities for such vibrant industries.

The "built-in agenda" from the Uruguay Round provides other opportunities to open foreign markets. In a world trading environment increasingly less characterized by traditional tariff barriers, the built-in agenda is in many respects aimed at

clearing away the impediments left by non-tariff barriers—be they deliberate or the unintended consequence of bureaucracy and inefficiency.

• For example, the rules governing technical barriers to trade (covering product standards, technical regulations and associated procedures such as testing and certification) are scheduled to be reviewed by December of this year, just as sanitary and phytosanitary rules affecting trade in agricultural goods will be reviewed by January of next year. These reviews will play an important role in our broader efforts to ensure that the development and application of product standards and environmental, health and safety regulations are technically justified and do not serve as disguised protectionist measures.

• Similarly, bringing about the full implementation of the customs valuation agreement by 2000, particularly by WTO members in key emerging markets, will help to ensure that our exports to those markets are not impeded by improper or incorrect customs valuation methods which might artificially distort the price of our products and erode the benefits of Uruguay Round market access gains.

• Likewise, the upcoming reviews of pre-shipment inspection and import licensing procedures can make a big difference in opening up access to the growing markets of low-and middle-income countries, where governmental reliance on pre-shipment inspection and import licensing to compensate for underdeveloped domestic customs administrations can sometimes result in unjustified trade barriers through commercial uncertainty and corruption.

• Negotiations for harmonizing the rules for determining the origin of internationally traded products are also due to be completed by July 1998. A harmonization agreement will significantly enhance commercial predictability and will reduce the ability of governments to manipulate origin rules as a means of "reclassifying" products under a higher tariff. For those U.S. industries which source their parts and components from around the world for production in various countries, these rules are critical to their ability to predict costs and conduct business.

• The launch this year of new negotiations to improve and expand the coverage of WTO rules on government procurement can facilitate U.S. efforts to improve our access to the lucrative infrastructure projects now planned or under way in the rapidly growing regions of the world. We estimate that Asia alone will provide opportunities for up to $1 trillion in business for such projects over the next decade.

• The U.S. will push for broader and clearer reporting of state trading activities which will lead to a better understanding of the relationships between state trading enterprises (STEs) and governments and of the types of activities in which STEs engage. Due to our concerns about the state trading activities of other countries, especially in agricultural products, there is heightened scrutiny of STEs in the WTO.

We also have a full agenda of accession negotiations regarding the WTO. As always, we are setting high standards for accession in terms of adherence to the rules and market access. Accessions offer an opportunity to help ground new economies in the rules-based trading system. As I indicated earlier, the Administration believes that it is in our interest that China become a member of the WTO; however, we have been steadfast in leading the effort to assure that China's accession to the WTO would occur only on commercial, rather than political, grounds. The pace of China's accession negotiations depends very much on Beijing's willingness to improve its offers.

While China's accession has attracted far more attention, the United States takes every opportunity to pursue American interests with the 28 applicants that are now seeking WTO membership, and to give leadership to the process. Russia's WTO accession could play a crucial part in confirming and assuring Russia's transition to a market economy, governed by the rules of law and international trade. Discussions so far on Russia's accession, while still at an early stage, have been quite positive and we look for more progress. We are excited about the prospects of the accession of many of the former Soviet Republics, and the Baltic States. Others, like Saudi Arabia and Vietnam, are also becoming more active.

Within the Organization for Economic Cooperation and Development, we are in active negotiations over the Multilateral Agreement on Investment to ensure equitable and fair treatment for U.S. investors. In both this forum and the WTO, we are also actively engaged in negotiations on bribery and corruption, competition policy and transparency in government procurement.

Regional Efforts

Latin America and the Caribbean were the fastest growing market for U.S. exports in 1996. If trends continue, it will exceed the EU as a destination for U.S. exports by the year 2000, and exceed Japan and the EU combined by the year 2010. It is also the second fastest growing region in the world, having transformed itself over the last decade in a manner unnoticed by some, but with profound positive im-

plications for the United States. The Administration recognizes the enormous opportunity to build on this historic transformation.

With regards the regional agenda, the United States is committed not only to concluding the FTAA by 2005, but also to concrete progress by 2000. A May 1997 hemispheric trade Ministerial meeting is to determine how and when these critical negotiations will be launched, and a second Summit of the Americas will take place in Chile in early 1998. We are at a key juncture in this process. The President will be visiting the region in April and May of this year. We are now turning to the negotiating phase of the FTAA and believe that the second Summit of the Americas set for March 1998 in Santiago is the venue to launch the hemispheric negotiations.

Chile is our first step in the FTAA process. The region views what we do with Chile as a litmus test for our plans for the region. Chile is symbolic of the opportunities in the region and the region's rising strategic significance to our longer term economic interests. U.S. exports to Chile area up 148 percent since 1990. Chile is a leading reformer in Latin America and its kind of reform is in the economic interests of the U.S. to ensure a growing export market well into the next century.

At the same time, and with building the FTAA very much in mind, the Administration remains committed to Caribbean Basin Trade Enhancement and will be working with the Congress on legislation to accomplish this objective. We believe it is important to provide the countries of this vital region with the right kinds of incentives to be full participants in the FTAA effort while at the same time provide the most effective tools possible to assist them in this effort.

The Asia Pacific region is enormous in its scope and has major implications for the future of the United States in many ways. It contains the fastest growing economies in the world, largely emerging economies with a total population nearing 3 billion people. Within the Asia Pacific Economic Cooperation (APEC) forum, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 27 percent annually, or almost $50 billion a year. More specifically, APEC is embarked on a program of early liberalization in key sectors. Sectoral initiatives, such as the ITA, will be critical to further anchor the United States in Asia through growing U.S. exports in key technologies. In addition, as a step towards the ultimate APEC goal, market-opening agreements with key economies (or key sectors) of the Asian Pacific rim would provide U.S. exporters with a strategic advantage over U.S. competitors in the region. It would also provide the United States with a strong economic anchor in Asia, a key step in this region bursting with vitality and opportunity.

With Europe, our focus will be on non-tariff barriers which continue to impede transatlantic commerce, most particularly regulatory barriers and a variety of agricultural impediments. Approximately half of our $126 billion of merchandise exports to the EU require some form of EU certification in addition to U.S. requirements. Redundant testing and certification procedures increase the base cost of exports. Our business community strongly supports our current negotiations to complete Mutual Recognition Agreements (MRAs) to eliminate redundant testing between the United States and the EU. The areas under discussion include telecommunications, electronics, medical devices, pharmaceuticals and recreational craft. At the same time, we will be steadfast in our bilateral discussions and in the WTO to convince the EU to honor its commitments to U.S. agriculture. We recognize this is a major priority of the agricultural sector and it is a major priority of this Administration.

Africa is a region rich in resources and potential, which we should engage with determination to ensure its effective and sustainable development and democratic governance. We recently completed preparation of a report to Congress on the Administration's trade and development policies for Sub-Saharan Africa. There is an urgent need to integrate Sub-Saharan Africa into the international trading system. We also believe the achievement of this goal lies in African countries reforming their own economies and in our encouraging this process.

Bilateral agreements

We recognize that certain problems can only be addressed effectively, and with a degree of specificity necessary, on a bilateral basis. Thus, we will continue to be engaged in bilateral market opening efforts with virtually every country in which we have a trading relationship: from Japan on telecommunications, photographic film, paper and other issues, to Canada on copyright protection, to Argentina on patents, to Korea on autos—the list is lengthy and significant. There should be no misunderstanding. Now, as in the past, market access in many cases will only occur through intense bilateral efforts. This includes the intense scrutiny necessary under our enforcement capacity.

THE IMPORTANCE OF FAST TRACK AUTHORITY

We can pursue portions of our agenda with our existing tools. But, to seize the opportunities in the global economy and to fully meet the competition, the President needs a new grant of trade agreement implementing authority, or fast track. Fast track is a key component of our trade arsenal. For that reason, the President has emphasized the importance of renewing trade agreement implementation authority and has instructed me to work with members of both Houses and both parties to forge a strong and workable grant of fast track authority.

Clearly, this should not be a matter of party or politics. Every President since President Ford has had fast track authority for key periods. For over 60 years, reacting to the lessons of the Smoot-Hawley tariff, America has led the effort to open foreign markets and increase U.S. and global prosperity. When the GATT was first formed in 1947, global tariffs averaged 40 percent among industrial nations. Today—after decades of bipartisan American leadership—global tariffs are closer to 5 percent and still declining with the Uruguay Round phase-in, and we have set the rules for bringing down many nontariff barriers. That persistent market opening has led to a period of increased global commerce unprecedented in world history. It has created enormous opportunities for our companies and workers, provided a seedbed for democracy abroad and helped further greater stability in a still uncertain world. We should not turn our back on that pattern of leadership, which continues as recently as the completion of the ITA and the telecommunications pact.

There is no substitute for our ability to implement comprehensive trade agreements. The absence of agreed procedural authority to do so is the single most important factor limiting our capacity at this time to open markets and expand American exports and trade opportunities in the new global economy. Such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts.

FAST TRACK AND NAFTA IN CONTEXT

Mr. Chairman, let me spend a moment discussing NAFTA because I think it is very important to put it in the right context as we move forward.

There is no question that many important issues characterize our relationship with Mexico: trade, drugs, immigration, worker welfare and the environment, to name a few. Those issues existed before we negotiated NAFTA and they will exist in the future. Mexico is a developing country with which we share a huge border. It is inescapable that issues of this type will be part of our bilateral agenda for some time. NAFTA is not—and cannot be—the full, long-term solution to problems we may encounter, but by keeping Mexico on the path to prosperity through market reforms, it can be a part of the solution.

Mr. Chairman, the *fast track* debate is and should be about our ability to conduct a *global* trade policy—and to advance our *global* trade interests. Many of the issues in the Mexico debate relate to our shared and unique border. They do not address the need to seize the trillions of dollars in global infrastructure opportunities in Asia to be created in the next decade. They do not give us the tools to continue cutting European agricultural subsidies. They do not help us respond to preferential trading relationships, or exclusionary practices that limit the United States. We must focus on the challenges of tomorrow.

Our competitors would like nothing better than for us to sideline ourselves, debating NAFTA and our relationship with Mexico for several more years while they move ahead. It would be a serious, self-inflicted wound. America is poised to seize great opportunities. Our competitors cannot beat us; we can only lose by removing ourselves.

TRADE, LABOR AND ENVIRONMENT

Similarly, we can no longer allow our disagreements over the relationship between trade, labor standards and environmental protection to prevent us from granting the President fast track authority. We simply have to forge a consensus of this subject which eluded us in 1994 and 1995. I have been consulting broadly with members of Congress, business, labor and environmental groups, and will continue to do so. I do not intend to put forward a specific formulation today, but wanted to share several thoughts in this area.

It is important to recognize that a commitment to protection of core labor standards and their relationship to trade, is not new, nor is it unique to the United States. The international commitment to address this issue goes back as far as the Havana Charter, which was the effort to establish the International Trade Organization after World War II. We were gratified that at the WTO Ministerial in Singapore, the trading of the nations of the world acknowledged, for the first time in a

Ministerial declaration, the importance of core labor standards to trade, although we fought for stronger steps. Advancing worker rights and labor standards is in our national interest and it is consistent with our deepest national values.

Making environmental and trade policy mutually supportive, although a somewhat newer public policy phenomenon on a global scale, similarly enjoys strong support in our country, and internationally. The 1992 Rio Sustainable Development Summit, the 1994 Summit of the Americas, and ongoing work in the WTO all reflect an international commitment to the importance of making these policy areas mutually supportive.

In my view, the challenge is how to maximize progress in three areas which are of major importance to us: expanded market access, advancing worker rights and core labor standards, and promoting environmental protection and sustainable development. We are committed to a strong strategy of pursuing our goals, and maintaining flexibility rather than pretending that one prescription would fit all countries or all cases. Based on my experience over these past four years, I think there is no substitute for building a consensus at home behind a strategy to advance our objectives on core labor standards and environmental protection. I am also certain that we will not convince other nations to improve their labor standards or environmental protection by denying the President the ability to negotiate trade agreements with them. We will, however, cripple our own export performance and lose jobs at home.

CONCLUSION

President Kennedy once described himself as "an idealist without illusions." I think that description captures well President Clinton's approach to trade. He, and those who work for him, genuinely believe that expanded trade can contribute to our prosperity, and to those around the world, particularly in the developing world where poverty is still widespread. But we have no illusions about the challenges ahead. Every trade barrier facing us is there for a reason: economic, political, bureaucratic, cultural. Some only want to export and not import. The competition around the world will continue to be intense. We have reasons to be confident, but only if we forge a domestic consensus that allows us to move ahead. We need to get down to business. The hard work of the past four years gives us only the opportunity to do the hard work of the next four.

Chairman CRANE. We want to express our appreciation to you for your commitment and your hard work as we witnessed in Singapore, and I like your emphasis on a global trade strategy, supported by fast track negotiating authority. We look forward to getting our compromises negotiated with one another on that issue.

Most observers would agree that the APEC process of reducing trade barriers has been slow. Would you consider the possibility of bilateral trade agreements with specific member countries of APEC in order to reinvigorate the progress toward free trade in Asia? And what are the advantages of bilateral trade agreements over regional ones?

Ms. BARSHEFSKY. Mr. Chairman, I think that progress in APEC, while perhaps slow, nonetheless is actually fairly persistent and continuing. I think we have made important strides.

I do not think anyone in this room, even 5 years ago, would ever have thought that the region, the Asia-Pacific region, would agree to the concept of free and open trade by a date certain. I think that was simply beyond the purview of most of our collective imagination. Nonetheless, that commitment has been made and steps are being taken toward the realization of that goal.

In terms of catalyzing the APEC process, there is no question that perhaps a targeted bilateral trade agreement or two would act to move that process along very much in a direction important to U.S. interests. Of course, as you know, the region is very diverse

economically, culturally. It is divided by a differing history, and it is separate from us in ways quite different from our own hemisphere in terms of culture and oftentimes overall outlook. Providing leadership in APEC through the ability to negotiate trade agreements would be very important for our longer term objectives.

The advantages over bilateral agreements versus regional agreements are, in part, ones of timing and, in part, ones of substance. I think it is true to say that the fewer number of countries one negotiates with, typically the less compromise one needs to make. The greater number of countries and the greater their range of interests, the harder it is oftentimes to forge consensus, and sometimes that requires more compromise.

Of course, as we demonstrated last April in the telecommunications talks, there are points beyond which the United States will not compromise and we will simply walk away. That strategy proved valuable when we forged a much more important agreement just several weeks ago.

But we do think that bilateral agreements do have their own advantages relative to regional, and regional arrangements may have certain advantages relative to multilateral.

Chairman CRANE. The proliferation of free trade agreements that you outline in your testimony, especially in Latin America, is resulting in a tangled web of conflicting rules governing United States businesses operating in the region. Will the Free Trade Agreement of the Americas negotiation help to build some commonality and order into the process of trade liberalization in our hemisphere?

Ms. BARSHEFSKY. That is precisely one of the reasons to do the FTAA. There are a series of conflicting rules in our own hemisphere, not merely with respect to, for example, customs procedures or business operations but with respect, for example, to intellectual property rights, differences in tariff treatment, still even some differences in the classification of products. These are, in their own way, barriers that hamper the free flow of goods and hamper our ability to maximize our exports, particularly our export performance relative to other countries.

The idea behind the FTAA is to forge a more common set of rules, particularly on the commercial side, to avoid these kinds of impediments.

Chairman CRANE. And finally, President Clinton and EU President Santor agreed in December 1996 to conclude negotiations by January 31 of this year on a package of mutual recognition agreements. MRAs permit products tested and certified as meeting required technical regulations or standards in one country to be sold without further approval in another country. What is the status of this negotiation, and when do you expect a successful result?

Ms. BARSHEFSKY. The negotiations have proceeded apace. We are further along still in some areas than in others. A particular point of dispute between the United States and the EU has been on pharmaceuticals and the extent to which testing requirements can be harmonized. That is a difficult area, impacting as it does, of course, on public health and safety.

We are continuing to pursue these discussions with the EU. We believe we already have in hand an acceptable MRA package. The

EU would like to see more, and that is the conflict we are going to have to resolve in the coming weeks.

Chairman CRANE. Thank you very much.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Again, congratulations, Ambassador. I am very happy to see you finally confirmed and now our official U.S. Trade Representative.

Ms. BARSHEFSKY. Thank you.

Mr. MATSUI. I appreciate your testimony in the sense that many of my colleagues are trying to make the whole issue of the reauthorization of fast track linked to NAFTA. You know, one could make the same argument that you need fast track because of the United States-Israell Free Trade Agreement, the Caribbean Basin Initiative, or the Free Trade Agreement with Canada.

Fast track really is not about NAFTA. As you stated in your testimony, the problems with Mexico are varied, in the sense that there are a lot of issues involved in this.

I hope that my colleagues and those that are going to debate this issue will follow your example and talk about the need for fast track in terms of the whole issue of our strategic relationship with many of the countries we deal with and not make this a debate on NAFTA or Mexico or the drug problems or immigration or any other issue pertaining to Mexico.

Perhaps you can, and you have, but perhaps in some detail you can tell me what your thought would be if we do not give you the authorization on fast track. What will happen over the next 4 years? I think we have a very limited window, perhaps this year and perhaps early next year. What would be the consequences of that, if fast track authority were not granted to you and the President?

Ms. BARSHEFSKY. I think, Mr. Matsui, I prefer to think positively on the subject because I do believe that there is an understanding of the important role that our ability to export, our ability to remain the world's most competitive nation plays with respect to our domestic prosperity and our ability to lead the world.

We are in an extraordinary position. We are the world's most competitive economy. Our industries are at their most competitive time. We are operating at a time when our major trading partners are in a less advantageous position. The European economies remain weak relative to ours. The Japanese economy remains weak relative to ours.

We are in a position to advance our interests at this point in time as in no other point in time in recent history. We must take advantage of that positioning, and we must use it to create for ourselves a situation in which our leadership remains paramount in the global community.

We ought to be at the center of a constellation of trading relationships around the world. It is that positioning that creates not only our economic prosperity, but also creates the kinds of strategic alliances that must be built in the face of a world that is no longer either divided or together because of cold war alliances. We need a new tool for alliance building.

We can, in effect, kill two birds with one stone. We can use trade to forge our own domestic prosperity while, at the same time, build

longer term strategic alliances to enhance our own global positioning and ensure our leadership.

Ultimately, trade policy should be about that. It should be about our ability to remain exactly what the United States is. That is our focus. Fast track is one of the important tools in maintaining that goal.

Mr. MATSUI. Thank you. I have no further questions at this time.

Chairman CRANE. Thank you.

Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman. Madam Ambassador, it is nice to see you here. Thanks very much for coming.

Ms. BARSHEFSKY. Thank you.

Mr. HOUGHTON. I really have two questions. The first is about fast track. I totally agree with you that we have to do this and we have to do it soon. One of the things I think we forget is that the U.S. Congress is not sitting on a pinnacle of its own. It is in competition with the Diet, the Bundestag, and a variety of other countries and economies around this world. Therefore, as you know in business, timing is everything and this is important timing.

However, let's just assume for the moment that the forces of evil are at work against you and many of us who believe in fast track and it does not happen. Are you not able, with your arsenal of tools, to do a variety of other things which, in effect, almost produce the same economic benefits for this country in this area, competing against what will be a large bloc which is the MERCOSUR bloc? That is number one.

Number two is, Is there any element of timing which is important in terms of the ASEAN Free Trade Agreement? We talk about this but when we do, we always think about China. It looms over the horizon as something so important. But what are those things which we need to do now because of the same competitive forces we have in South America with the ASEAN nations?

Ms. BARSHEFSKY. Certainly, as I indicated in my testimony, there are a variety of things on the trade agenda that can be accomplished without fast track and indeed for which we do not require fast track authority. But you are asking me whether, through strictly bilateral tools, which is what we have now, we can accomplish, for example, a catalyzing of the FTAA process or a catalyzing of the APEC process, whether we can go beyond simple mutual recognition agreements with Europe and move into other areas. You are asking me whether, using only bilateral tools, we could expand the ITA or the Telecommunications Agreement just entered into or financial services.

If that is the question, the answer is that the United States needs the authority to negotiate and enter into comprehensive arrangements. And let me use the ITA as an example. But for the fact that we had residual negotiating authority in the Uruguay Round Implementing Act, there would be no ITA. I am in the position that a number of the companies in the ITA have come to us to say, "Can you expand the product coverage?" And the answer is, No, I cannot. I do not have the tariff proclamation authority to do it.

We, in the ITA, further negotiated for the right to raise nontariff barriers in information technology products. I cannot negotiate

those nontariff barriers on a pluralateral basis in the ITA without fast track authority.

Now, I could do it bilaterally, country by country, product by product, which is like taking an ice pick to Everest.

The short answer is fast track authority has always been, for every President since President Ford, an important part of the trade arsenal, and it remains an important part of the trade arsenal today.

With respect to ASEAN, we have a variety of initiatives with the ASEAN countries to expand exports and to enhance the trade relationship between the United States and ASEAN. That relationship could be strengthened by additional initiatives, which we are looking at. And, of course, the extent to which we can pursue closer economic ties with one or another ASEAN nation, the relationship would be further enhanced.

Mr. HOUGHTON. Thank you, Mr. Chairman.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Thank you.

Again, let me join the Subcommittee not only in congratulating you but in sharing how proud you made us feel as a congressional delegation at the World Trade Organization Ministerial. The respect that our trading partners have for you raised our level of pride for our country.

Of course, our Helms-Burton Act causes us quite a bit of embarrassment and there is no sense discussing this with you, since you do not create our trade policy but you enforce it, and you do it well. But whomever you talk with, I hope you share with them that there is no need for a great nation like ours to resort to just immoral, illegal, unconstitutional, and sensitive trade policies against the smallest country in the world when we are setting these lofty standards that are being respected by countries. We have to stand by our own rules.

Now, on the bipartisanship of fast track, it is true we have enjoyed that for decades. But it seems now that the question as to what would be the minimum standards we would expect that people would treat their workers or just how much damage a trading partner can do to the environment, I think whether Republican or Democrat, there is a minimum standard.

The question is, Do we get in and micromanage it or do we encourage labor leaders to negotiate contracts? And it would seem to me that we have reached the point where there is a great division that exists in the Congress.

I would strongly suggest, since it is more than just a bipartisan difference, that the President might speak to some of the people who feel so strongly about this and raise the question of national security as it relates to trade because it is more than just language; it is how it is perceived.

And when we start to agree with each other, we have to be saying the same things, even though it took a long time to get there. And it seems to me that it is very, very important that we not allow ourselves to hold back the fast track for political reasons. I think only the President can put some of his political clout on the line to let both Democrats and Republicans know that what we are

talking about is in our national interest, and if anything is going to be worked out, he is going to have to play a role in that.

Last, I am glad you included education in your opening remarks. I do hope the State Department, as well as your agency, realizes that when we talk about the hopes and dreams of America, we are not just talking about corporate stockholders.

A lot of people do not have access to that bridge that the President refers to. With low-income jobs becoming ever more scarce as they go overseas, we have to build that bridge for every American.

Again, it is just something that you do not have to comment on now. I refuse to believe that we can enter these multinational trade agreements and we cannot talk about drugs.

Ms. BARSHEFSKY. What was that?

Mr. RANGEL. Drugs, narcotics, illicit drugs coming into this country.

Ms. BARSHEFSKY. I did not hear you.

Mr. RANGEL. As we tear down the barriers for a freer trade, we know that we are opening up the opportunity for drug dealers and, unfortunately, in many cases leaders of countries.

I do not want to take away from the sophistication of what you do. Nor do I want to dramatically change the rules of how you do business with these so-called diplomats. But you should be able to share with them that there are some steamrollers coming down that are not that sophisticated and they had better put narcotics on the table when we are talking about anything, because the question is not how much corporations and government benefit from free trade but how much people benefit from free trade.

We could not have anyone stronger than you. I intend to be supportive of you, but I do hope that you make it clear that I will be raising those items whenever I get a chance. And congratulations again.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Mr. Rangel.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Good morning. Welcome.

Ms. BARSHEFSKY. Good morning.

Mr. MCDERMOTT. As I was reading your testimony last night, sort of in anticipation of coming here, I could not help but be struck by the fact that although Mr. Crane and Mr. Rangel and I and others have been working on an African trade initiative, I find only one short paragraph in your testimony. And I was puzzled by the implications of one of the sentences. It says, "We believe that the achievement of this goal"—that is, trade with Africa—"lies in African countries reforming their own economies and in our encouraging this process."

It seems to me that African countries have been subjected to World Bank and IMF strictures for a considerable period of time, but the thing that has been missing over the course of time has been the U.S. Government stepping in. And once the stick has been used, the carrot has been missing.

I wonder if you could talk just a little bit about what your feelings are because you do not develop that at all. You spend a lot of time talking about fast track and other things, which obviously

are important, but if the title of one of your subparts of this was the dangers of inaction, it seems to me the dangers of inaction for the United States in Africa are that we turn that population of 600 or 700 or 800 million people over to everyone else in the world and we sort of cede it to the Europeans and to the Japanese. It does not seem like a good policy for the United States to cede that large a market.

Ms. BARSHEFSKY. I agree with you entirely. Europe holds about 30 percent of the share in Africa; the United States holds 7 percent. Part of that has to do with historic relationships between the former European colonies and Europe. Part of that has to do with our own almost inexcusable ignoring of an entire continent.

There is no question that United States leadership will be critical to the success of reform in Africa. By that I mean of course African nations and their leadership have to make the right decisions, have to pursue paths of reform, have to reduce corruption, have to be even more concerned about levels of poverty, health, and so on. But if the United States is not leading the way in many of those areas—providing technical assistance, providing expertise, providing trade and trade benefits—I think it is going to be very difficult for those countries to move forward and to regain their former stature.

I will tell you a statistic which I find astonishing. Thirty years ago Africa was far wealthier than Asia. Thirty years ago. What has happened? This is a question of profound importance to the United States.

We, as you know, have an Africa initiative in the administration. It is one that I think some would feel does not go far enough, but we are trying to create at least a baseline and common understanding, first off, of the extent of the problem and then second, of the existing programs that we have now, those that are good and those that are not any good; and third, what the future direction ought to be.

And, as you know from this report we just released, there are three areas in particular that the United States believes it can be particularly helpful on with respect to Africa. Trade is one and in that regard, one of the things that we would like to look at with the Subcommittee is the reorientation of our GSP Program to benefit the least developed of the developing countries. And that is in particular Subsaharan African, and this is something we would like to work on with the Subcommittee. That is one small piece but trade, including working with the bank, the fund, the other international financial institutions.

Second, the whole process of regulatory reform. Africa is bogged down—many countries are bogged down in a bureaucratic morass. Infrastructure, even of a business nature, is not there, but there are rules and regulations that abound. The question is how does one rationalize this system so that business can take place in a productive way?

And then the third area, of course, is to strengthen democracy and democratic reform, hoping to undergird stability in the region. These are all areas where the United States has to begin leading. I think as a country, we have been remiss in the obligations we

have, not only as a superpower, but also because we are ceding extraordinary advantage to other countries.

Let me give you one example that may not be so obvious. China has courted Africa, courted Africa assiduously. The trade minister in China, my direct counterpart, has been to Africa about eight or nine times in 1996 alone. If I am not meeting with her, she seems to be in Africa.

Why is that? Two reasons. First of all, the tremendous economic potential that is in Africa. But second, and for the United States this is perhaps even more interesting and fundamental, China wishes to bring Africa within its orbit so that in multilateral institutions—the WTO or the U.N.—it has a base of power to challenge that of the United States.

Why on Earth would we let that happen unchecked and unregarded? We need to, as we are doing now, think through again our policies with respect to Africa and make sure we are also a global player on that continent.

Mr. MCDERMOTT. I would just say one thing. I hope we do not require Africa to improve everything in democracy building before we make the moves with the 14 or so countries that we could make relationships with. We certainly did not require the Asians to do that. And I think there is certainly room for us to move at least in a dozen or so countries in Africa now, rather than wait for some perfection of their democratic processes.

I appreciate your thoughts and we will talk with you further about it.

Thank you.

Chairman CRANE. Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

Madam Ambassador, I would like to emphasize my strong opinion that it is essential that the administration place as much emphasis on enforcing international trade agreements as it places on negotiating them. Fully implementing, closely monitoring, and strictly enforcing our trade agreements are pivotal to our national interest. Absent such strict monitoring and enforcement, I fear, our agreements will become simply U.S. concessions for benefits that never fully materialize.

I am concerned, for example, about strict monitoring and enforcement without exception of the 1996 United States-Canadian lumber agreement; yet this is a generic problem applying to all our trade agreements.

Madam Ambassador, will you ensure that agreement implementation, monitoring, and enforcement receive the highest attention at USTR and, in particular, will you ensure that USTR does whatever is necessary to maximize enforcement efforts throughout the interagency process?

Ms. BARSHEFSKY. I think the points you have made are very well taken, that USTR will continue, as we have over the past number of years, to enforce vigorously the trade agreements that we enter into.

If we have trade agreements with countries, we have two choices. Either they implement or we have to enforce. If we do not enforce, there is no credibility in the process and no credibility to the agreements negotiated.

In the last 4 years, we have brought 46 enforcement actions. We have also brought 23 WTO cases, 15 in the last year alone. All of that, I think, demonstrates the importance to this administration of strict enforcement.

In addition, we created a separate monitoring and enforcement unit at USTR to better concentrate our resources on that important task, and Commerce has set up a parallel organization. We tend to do more of the litigation; they tend to do more of the strict monitoring of trade agreements compliance, but together, we cover the waterfront.

Mr. HERGER. Thank you. Another example, Madam Ambassador, is my concern about recent tariff increases on shelled and in-shell almonds imposed by the Indian Government. As you know, the U.S. exports nearly 50 million dollars' worth of almonds to India annually. Many of these almonds are grown in and around my district in northern California.

I understand the Department of Agriculture has sent correspondence to India on this matter and plans to follow up with a telephone call to the Indian embassy tomorrow. Both occasions will be used to inform the government of India that it has breached its agreement on almonds with the United States.

I would hope you would use your position to take this issue on personally and see that it is appropriately resolved. And will you work with the President to reopen this market for the United States in accordance with the Indian agreement negotiated by Ambassador Kantor?

Ms. BARSHEFSKY. Congressman, we are already involved in this with USDA. We have already spoken to the Indian Ambassador about this issue. This tariff change occurred—we learned of it at the end of last month. It was a change that appeared in the Indian budget. Obviously, this is unacceptable and we will be working very, very hard to rectify the situation one way or another.

Mr. HERGER. Thank you very much, Madam Ambassador, and I join in congratulating you on your recent Senate confirmation.

Ms. BARSHEFSKY. Thank you very much.

Mr. HERGER. You are welcome.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Madam Ambassador, I have supported fast track every time, NAFTA and MFN for China, but I am disturbed, somewhat disturbed, anyhow, by some of your responses to Mr. Rangel and to Mr. McDermott about two different questions.

Our Government has taken the position that with respect to trade with China, we delink considerations of human rights and political restructuring from the economic issues of trade and investment, and we proceed down two different tracks. Now, whether that is right or wrong, that is what we do.

We can do no less, it would seem to me, when it comes to the Africa question. I do not know the commitment of every country in Africa to democratization, but I certainly know the commitment that China does not have in that area. And it is not to be overlooked as we talk about how to get after this whole issue of trade investment.

I hope that when we discuss these questions in the future, we will talk about them in the same way we talk about delinking these issues with China. That is the first thing.

The second thing, because I know this time runs very quickly, is on Mexico. I am from Louisiana and we are overrun by drugs in our State because of the traffic from Mexico. Seven years ago, eight years ago, we did not have the problem. Now crime is rampant because drugs are driving crime.

I have not required, in my experience, any votes connected to any of the concerns. We have talked about how important environmental considerations were and labor considerations were, but we have tried to give the administration a great deal of freedom in this area.

Now drugs have become a very prominent question. This has to be on the table with Mexico. It has to be discussed. It has to be addressed and it has to be dealt with because it is not much of a neighbor who throws garbage into your back yard, and that is what is happening here.

I hope that we will take these two issues very seriously, deal with Africa as we deal with China, as Mr. McDermott says, with Asia, have the two-track policy proceed hard. It does not mean we ignore the democratic problems but we proceed very strenuously on those on the diplomatic side, and we work hard on the State Department side to get that done.

But on the trade and investment side, we treat Africa as a good venue for trade and investment, and we encourage it with everything we have to do it with.

You asked the question why Asia is doing better than Africa 30 years later. It is obvious to me: Western investment. It is not because Asian Governments are less corrupt or because they are more industrious. They simply became investment venues that we had an interest in. And in the last 15 years we have raised the per capita income there because we have brought jobs and investment there. And if we take jobs and investment to Africa, you will see the economic turnaround there, as well.

That is my comment.

Ms. BARSHEFSKY. Thank you. If I may, Congressman, in identifying the ways in which we believe the United States can assist African nations—that is, trade and investment, issues of regulatory reform and rule of law and democracy—I was not intending to indicate that somehow these are linked or one could not proceed with one if one did not proceed with the others simultaneously or as preconditions. I was merely identifying the areas where we believe the United States has particular expertise or can be of assistance.

There is no question that standing on its own, trade and investment is key, is key to the recovery of many African nations and will also be key to their stability. And so as a principal objective, obviously it is to see if we cannot enhance the trade and investment areas, if you will, to start the ball rolling.

The issue of GSP is one such possibility. Working with the bank, the fund, and so on presents another series of possibilities. Perhaps agreeing with Congress on some new initiatives could be yet a third possibility. But I do think it is vitally important that we work in Africa to help create in Africa not only development but sustain-

able economic development while, at the same time, we do work on other areas, such as democratic governance, rule of law, commercial policy—the full range of issues one might expect if one were attempting genuinely to assist these countries to economic recovery. So in that, I am agreeing with you.

I think, on the question of drugs and Mexico, of course there has been quite a debate in this chamber about that. The administration's position on recertification is, I think, well known, and that is a genuine feeling on the part of the administration that the Mexican Government has been a cooperative partner in the fight against drugs. And evidence presented included the fact that the Mexican Government now has very strong criminal laws, enforcement activity is way up, criminal prosecution has increased, the eradication of drugs fields and so on has increased in Mexico, so on and so forth. But there is no question that this is an issue of critical concern.

You know this, I know: We are 4 percent of the world's population; we consume 50 percent of the world's illegal drugs. We obviously, therefore, also have some significant domestic business to attend to.

But I take the point. I understand the significance of the drug issue and its ramifications and implications for U.S. policy, and we would like to work with you.

Chairman CRANE. The gentleman's time has expired.

Mr. Camp.

Mr. CAMP. Thank you, Mr. Chairman and thank you, Ambassador, for being here.

Given that U.S. agriculture is one of the shining examples of how good trade is for America, I was pleased to see your office reported that you will be focusing more on agricultural issues. As we all know, trade is one of the big stars of American exports—$30 billion in trade surplus in agriculture and a total of $60 billion in agricultural exports.

My question is that reports have indicated that you will be elevating agricultural issues at the trade office, and I wondered if you could provide me with some details of what resources, in terms of time and personnel, will be devoted to agriculture and what differences might we see as a result of your efforts and maybe some of the long- and short-term changes.

Ms. BARSHEFSKY. The administration is committed and I am committed to elevating the profile of agricultural trade issues. Agriculture is our largest good export. We hit record agricultural exports in 1995. In 1996 we broke that record and hit a new record. I think USDA forecasts for 1997 are a little bit of a downturn in exports, still at very high levels, but they have made some weather-related projections which indicate a little bit of a downturn from 1996 but probably still above the 1995 level.

In terms of USTR, USTR has a very, very excellent agriculture shop but in my view, we need to expand that shop, buildup a little more expertise in that shop, and elevate the profile and the rank of our negotiators in that shop so that they are dealing with the appropriate counterparts in foreign countries.

In addition, Dan Glickman and I have spent a fair amount of time talking about ways that USTR and USDA can be better co-

ordinated than we are. Of course, USDA sets agricultural policy. On any agricultural trade issues, they are on our delegation, and vice versa. But oftentimes even with that, we are not quite as well coordinated as we should be. And, of course, trading partners love to see a less than perfectly coordinated U.S. Government response. We will be working on that aspect as well.

Mr. CAMP. The United States-European Union trade and investment relationship is usually described as a very strong one and a balanced one and that is perhaps because of the size of it, but we do seem to have an unusually large number of disputes in the agricultural sector.

I wonder if you could just share why you think we face so many problems with the EU in the farm sector and how we might resolve some of those difficult issues.

Ms. BARSHEFSKY. The words "dispute" and "EU agriculture" seem to go hand in hand. If you look at the range of agricultural trade disputes around the world, and the list is long and the number of countries is many, relations with the EU still stand out as being particularly nettlesome.

I think the reason for that has to do, in part, with EU internal politics, the domestic politics of the individual member states, the fact that in some areas, the United States is far more competitive and more aggressive than the EU, and the EU view oftentimes in industrial sectors of containment.

If you look at the way the EU treated Japan policy for many, many years, it was not a market access-driven policy, as the United States policy was. It was, instead, a policy of containment—shutting their own market, keeping Japan out. The result was a diminution in competitiveness of the EU's own industries.

There are some similarities between that kind of containment policy and EU agriculture policy, which seeks to shut out competitors from the EU market. The result has been a decline in competitiveness in many EU agricultural sectors, particularly in sectors like bioengineered agricultural products, which rely on very high technology.

We have identified a range of problems, bilateral problems, in the agriculture sector with the EU and our intent would be basically to go down the list one by one, doing our best to resolve them.

I should also add that agriculture negotiations begin again in the WTO in 1999, and we would like to be somewhat better positioned than we are right now before those negotiations begin.

Mr. CAMP. Thank you.

Chairman CRANE. Mr. Nussle.

Mr. NUSSLE. Thank you, Mr. Chairman.

I would like to, first of all, associate myself with the comments of Mr. Camp and his questions and also add my interest obviously in the agricultural sector.

In your testimony, and it is not numbered but it is under the title of "Fast Track and NAFTA in Context," Madam Ambassador, you state that "Fast track debate is and should be about our ability to conduct a global trade policy and to advance our global trade interests. They do not address the need to seize trillions of dollars in global infrastructure opportunities in Asia. They do not give us the tools to continue cutting European agricultural subsidies. They

do not help us respond to preferential trading relationships or exclusionary practices that limit the United States."

I guess my first question is in the area of—when do we get to deal with those issues, and how? Because really, for us, fast track, from our constituents' standpoint, gives away our ability in many instances to deal with some of that minutia, so to speak. How do we deal with those issues outside of the context of fast track?

Ms. BARSHEFSKY. Let me first, I think, correct a misimpression. That is the extent to which fast track would impinge on a member's ability to get involved in the minutia, to use your word.

Of course, if you look at the history of fast track, you see that accompanied with it are a series of consultative prerequisites and member contact, without which, actually, fast track can be denied.

The result is that if you look at agreements like the Uruguay round agreements or NAFTA, the level of congressional consultation was unprecedented because fast track itself depended on the adequacy of consultation with Congress.

Our view, continuing in that tradition, is that if anything, fast track tends to increase the consultations between the administration and individual members on the full range of issues that are of concern to them.

Now, I do not see that any member's ability to influence policy is particularly different with fast track or without. The key is that administration and members must work together to fashion the appropriate policy on the particular issues or range of issues of concern.

I made the comment earlier that without fast track, on some of the issues that you addressed, for example, agricultural subsidies in Europe, we are relegated to using bilateral tools. If we are going to tackle agricultural subsidies in Europe, bilateral tools will not work. Europe will not move bilaterally. We have been through 30 years of this with Europe, and I think that is an uncontestable proposition. They will only move in the context of multilateral or broader talks, and for us to implement the outcome of those talks, fast track authority is needed or neither Europe nor our trading partners will enter into the discussion.

Mr. NUSSLE. And that is my confusion because you say in your statement that fast track is not about that and now what you are saying——

Ms. BARSHEFSKY. Oh, I am sorry. Then perhaps the statement was inartfully drafted. What we are saying is that the question of Mexico is not related to how we pursue infrastructure in Asia or agricultural subsidies in Europe or other issues. The question of Mexico, which may raise concerns for members, certainly is one that should be addressed, but not one that resolves the rest of our global trade agenda and not one that serves to do anything other than put our competitors in a more advantageous position and let Europe rest with the agricultural subsidies it still employs.

Mr. NUSSLE. Well then, let me ask, because I just had a town meeting in Waukon, Iowa, and Allamakee, Iowa, and John Simmons and Ollie Emerson grilled me—they are two residents from that corner of the woods, and they grilled me quite a bit on the whole issue of how many jobs we have lost to Mexico, how easy it is for companies to move to Mexico, how difficult and bad the

NAFTA Agreement has been, and why we should, as a result, pull in the reins in many instances.

There have been too many sets of figures out about all of this different information. Could you maybe put some of this to rest today? What have we lost or gained in terms of jobs? How many companies have moved or expanded, either in Mexico or here? We need that information in order to, in some instances, battle misperceived information or misunderstood information.

Ms. BARSHEFSKY. As you know, the administration believes that NAFTA has been a very, very good agreement for the United States. Our exports to Mexico now are at record levels, a historic high, despite the worst Mexican recession in recent history. Our export recovery in this recession was very, very short with Mexico. That is to say that our exports dipped in 1995, rebounded very, very strongly in 1996.

During the last recessionary downturn in Mexico, caused by peso devaluation, which was in 1982, our exports fell by one-half and they took 7 years to recover.

The reason we have done so much better in the Mexico economy now is that NAFTA has undergirded Mexican market-opening reform. Mexico has had no choice but to stay on the NAFTA schedule. That means continually opening its market to U.S. exports, despite its recessionary downturn. We feel that NAFTA has been a very good agreement.

On the questions that you raise, rather than perhaps misspeak and give you yet a different set of figures or slightly different, I would be happy to provide you with quite detailed information.

Thank you.

Chairman CRANE. And I might add a footnote to what Ambassador Barshefsky said and that is we are enjoying the equivalent of full employment right now in this country. But beyond that, we had an incident in Chicago that Mayor Daley told us about. They could not find tool and dye workers. They had to import legal immigrants, import legal immigrants for $20 an hour jobs.

There is a lot of distortion and misrepresentation on that question of job loss.

Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman. I welcome the chance to participate.

Ambassador, congratulations on your confirmation. I am glad you are here, very glad.

Ms. BARSHEFSKY. Thank you.

Mr. LEVIN. Your testimony has tried to provide a context for this discussion and I applaud you for doing that. There can be some differences as to what the context looks like but I think essentially you are saying we ought to take another look before we leap, not taking too long.

And I think especially as trade has been evolving and trade issues have been evolving more and more with developing nations, we need to have a context. We need to take that kind of a hard look, not an academic one but a hardheaded one.

In your testimony, in the effort to provide a context, at the end you talk about the important issues of interrelationships of the economy with labor and environmental issues. In your testimony

you say, "Advancing worker rights and labor standards is in our national interest and is consistent with our deepest national values."

Then you go on, on the next page, to say, "In my view, the challenge is how to maximize progress in three areas which are of major importance to us: Expanded market access, advancing worker rights and core labor standards, and promoting environmental protection and sustained development."

Then you say, actually a bit earlier, your conclusion: "We simply have to forge a consensus of this subject that alluded us in 1994 and 1995."

I am not sure we will bridge all the differences or there will be a full consensus, but I think your testimony, if we look at it carefully, will help to advance a hardheaded dialog.

I think NAFTA is relevant. It is not the whole story. We need to look both at our exports and their imports.

Let me ask you, though, in the time you and I have remaining, to just say a word about why you say advancing worker rights and labor standards is in our national interest? I assume you mean our national economic interest. You also say it is consistent with our deepest national values.

I think most people would agree with that. I am not sure how much agreement there is on the statement "Advancing worker rights and labor standards"—as you put otherwise, "core labor standards"—is in our national interest. Why is that?

Ms. BARSHEFSKY. Let me say that the United States has long sought to act in a manner to improve working conditions around the world through various multilateral fora, through various regional arrangements, through various cooperative arrangements with various countries.

This is an important issue for a number of reasons. One, of course, is the question of U.S. workers competing against workers who make substantially lower wages. Some of that may be justified by comparative advantage or differing economic circumstances, but a more serious question arises when that disparity is a result of an enforced government policy to keep it that way.

So, too, the question, for example, of child labor has substantial bearing on the United States and our longer term economic prospects. To the extent countries engage in bonded labor, forced child labor, countries that have no mandatory education or very little in the way of educational systems, we see no way for its domestic population to get out of a vicious cycle. But these countries become greater and greater exporters around the world. And, of course, we are in competition with those exports.

There is a double blow which is the lack of development in those countries and the lack of regard for its own workers or people and then, of course, the competitive situation.

But I think, at the same time, we have to recognize that labor is only one variable in the cost of production and in most industries it is actually the least important variable in that cost, with infrastructure and the cost of capital playing a much more substantial role in a country's outward competitiveness in the global marketplace.

As far as our core values go, of course for the United States, we are a land of opportunity. The notion that governments would knowingly discriminate among classes with respect to labor, would force children into occupations that are plainly hazardous, would keep a segment of population relegated to a particular status is abhorrent, I think, to the U.S. way of thinking.

Mr. LEVIN. Thank you very much.

Thank you, Mr. Chairman.

Chairman CRANE. We want to express profound appreciation to you, Ambassador Barshefsky, for all of the hard work you have done thus far, and we look forward to burdening you even more in the future and we look forward to working with you, too.

Thank you for coming.

Ms. BARSHEFSKY. Thank you so much.

Chairman CRANE. Our next witness follows the tough negotiator who has just been here before our Subcommittee. She had quite a reputation for the tenacity she demonstrated when she represented the United States in NAFTA and Uruguay round negotiations under President Bush.

In continuation of our bipartisan tradition, I want to express appreciation to Ambassador Carla Hills for accepting my invitation to join us today. We are very much indebted to you, Carla, for coming. With that, you may proceed.

STATEMENT OF CARLA A. HILLS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HILLS & CO.; AND FORMER U.S. TRADE REPRESENTATIVE

Ms. HILLS. Thank you, Mr. Chairman. I was delighted to receive your invitation to share with you my thoughts on trade policy.

As the world's largest exporter, importer, and investor, we have a major national interest in ensuring that global commerce continues to flourish in ways that maximizes our opportunities and minimizes the risks for our citizens, and history tells us that we make a difference.

America exercised post-war leadership to open the global economy, and the results were spectacular. World trade, global growth, and the U.S. economy soared.

In the eighties, when protection began to hinder our growth, the United States pushed for another round of trade talks. In the nineties, our leadership in the Uruguay round and in the NAFTA helped lock in market reforms. Without our leadership, the world would be a very different place today, to the detriment of our citizens.

To maintain our influence internationally, we need to do four things better: First, develop a broader domestic consensus and understanding that U.S. prosperity depends on remaining globally engaged; second, be more clear, consistent, and decisive in our trade policies. At the outset, we must think carefully about what it is we want, say what that is, mean what we say, and do what we say we will do; third, we need to lead by example, abiding by the agreements that we negotiate, if we expect others to do so; and more carefully weigh the growing burdens on trade from the use of economic sanctions as a means of furthering our nontrade objectives;

and finally, we need to cultivate international support for our positions.

As we look ahead to the future, our trade policy must promote open markets. But even with the best of policies, our Nation cannot effectively lead if our trade negotiators cannot deliver on the deals they negotiate. Thus, the immediate challenge is for this Congress and this administration to agree on new trade agreement approval authority traditionally known as fast track.

Fast track seeks to harmonize the powers that the Constitution grants Congress to regulate international commerce with the constitutional powers given the President to negotiate with foreign powers. Fast track was conceived as a result of a bipartisan recognition that our trade team could not negotiate effectively if their counterparts knew that if they struck a deal, a second negotiation would follow with Members of Congress. Such a two-step process would inevitably lead the nations with whom we negotiate to hold something back.

To take advantage of future and current opportunities, the 2-year stalemate over the relationship between trade and standards for labor and the environment must come to an end.

Assuming fast track is granted, a top priority should be to move forward with Chilean accession to the NAFTA. Two administrations, Republican and Democrat, have concluded that it well serves our national interest to bring Chile into the NAFTA, for the NAFTA constitutes the type of comprehensive agreement that we should want to take root in this hemisphere.

Its market-opening provisions have substantially raised trade among all three parties. Unfortunately, that positive outcome has been overshadowed by Mexico's financial crisis. But the NAFTA had nothing to do with Mexico's financial difficulties, nor has it been detrimental to any of the parties' interest.

Quite the opposite is true. The NAFTA helped ensure that Mexico remain committed to an open economy, and as a result, it has bounced back much more rapidly than most expected, and United States entrepreneurs retained access to the Mexican market allowing them to sell a record $57 billion in exports last year.

Chilean accession to the NAFTA is important in itself and for the signal that it would send about America's commitment to hemispheric trade liberalization.

At the 1994 Summit of the Americas, the hemisphere's leaders unequivocally committed to negotiate a comprehensive Free Trade Area for the Americas by the year 2005. Since then, the momentum for a hemispheric free trade has stalled, largely because of our indecision. As a result, integration is proceeding without U.S. leadership, creating problems for us. The proliferation of agreements is creating a morass of conflicting rules for our businesses. U.S. firms are disadvantaged in the region, as nations lower trade barriers without our participation. And as the hemisphere moves forward, we are losing the influence to ensure that integration reflects our economic interest.

Trade ministers meet in Brazil in May, and the United States could enhance its influence there if our negotiators had an expression of congressional support through the passage of fast track.

Asia is another key region where, like Latin America, we ought to be exercising the leadership befitting our great Nation. By exercising leadership on trade and economic issues in two of the fastest growing regions of the world, Asia and Latin America, we can maximize our commercial opportunities and advance our trade objectives.

In addition to regional liberalization, we need internationally agreed rules to govern global commerce. That is why three administrations worked hard to conclude the Uruguay round agreements, which in addition to substantial trade liberalization created the WTO and provided that trade ministers meet every second year to continue to remove trade barriers.

At the first WTO ministerial meeting this past December, ministers concluded the Information Technology Agreement, which will save our entrepreneurs about $1 billion. In mid-February, WTO members agreed to open basic telecommunications worldwide, a market valued at about $600 billion annually.

Ambassador Barshefsky and her team deserve high praise for both of these agreements.

We can do more. In agriculture and services, we have only started to liberalize. Negotiations in both are set to resume in 1999, and the United States should be positioned to lead in these important areas. We need rules in investment. A more controversial area is the relationship between trade and standards governing labor and the environment.

Just as the United States lacks a domestic consensus on how to address these issues, there is no consensus in the WTO. In my view, we need first to agree on our objectives, then use available fora to negotiate internationally agreed standards, just as we have done in our more effective international environmental agreements. Once we have the standards, we can tailor appropriate enforcement mechanisms.

Another issue that will affect trade policy is the terms on which new members enter the WTO. Of the 34 nations applying, the largest is China. China's entry into the WTO, based upon a sound protocol of accession, is very much in our Nation's interest. It will ensure us increasing access to the Chinese market and give us a multilateral forum in which to deal with our trade differences.

To achieve the strongest protocol of accession, our negotiators should be in a position to tell the Chinese that Congress will grant permanent MFN if the terms of their accession meet our specific concerns.

Mr. Chairman, I am happy to answer your questions.

[The prepared statement follows:]

Statement of Carla A. Hills, Chairman and Chief Executive Officer, Hills & Co.; and Former U.S. Trade Representative

Mr. Chairman and members of the Subcommittee, thank you for inviting me to discuss with you U.S. trade policy objectives and initiatives.

Many people have questioned whether the United States can or should continue to be the leader of the global economy. Over the past four years, a variety of voices on all sides of the political spectrum have said the United States should look to its domestic interests and reduce its global involvement.

These views suggesting an "either-or" choice between our foreign and domestic interests cause me discomfort. It is increasingly hard to draw a line between the two. Nor do I find it persuasive that by withdrawing from global endeavors, we are somehow better able to solve our economic problems here at home.

It is true that the world has benefited substantially from U.S. economic leadership. But the principal beneficiaries have been our own citizens, who have been blessed with five decades of unparalleled prosperity.

In my view, self-interest alone should persuade us to maintain our global leadership on trade and economic issues, which does not always mean control, but certainly means influence.

IMPORTANCE OF TRADE TO THE UNITED STATES

The United States has an enormous stake in the continued growth of world commerce. We are the world's largest exporter. Last year we sold $837 billion abroad, or almost $3,100 for every man, woman, and child in our country.

We also are the world's largest foreign investor and host to foreign investment. Just looking at direct investment, in 1995 (the most recent year for which data are available), our stock of direct investment abroad was $711 billion overseas, and the stock of foreign direct investment in the United States was $560 billion.

Our global trade and our investment earnings and payments now equal about one-third of our $7 trillion economy.

We are inextricably linked to the global economy. And that linkage has helped fuel America's substantial growth over the past half century.

Hence, we have a major interest in ensuring that global commerce flourishes in ways that maximize opportunities and minimize risks for our citizens. History tells us that we can make a difference.

U.S. ECONOMIC LEADERSHIP HAS SHAPED THE WORLD TO OUR ADVANTAGE

U.S. economic leadership over the past 50 years has shaped the global economy very much to our benefit.

Following the Second World War, it was our leadership that opened the global economy in the belief that economic interdependence would encourage political stability.

To that end, we led a coordinated effort to establish a series of international institutions, including the General Agreement on Tariffs and Trade—the GATT—to promote global trade and economic growth. And we launched the Marshall Plan to stimulate recovery in Europe and, in turn, stimulate markets for our exports.

The results were spectacular. In the quarter century following the war, world trade soared 500 percent, the global economy grew at the fastest sustained rate ever, nations devastated by the war rebuilt, and the United States enjoyed the highest growth in its history.

In the 1980s, as trade protection began to hinder world growth, the United States pushed for a new trade round to modernize and strengthen the global trading system. The Uruguay Round, launched in 1986, went beyond tariffs to services, intellectual property rights, and investment—areas of rapidly growing commercial importance.

In the early 1990s, U.S. trade leadership caused a sea change in economic policies around the world.

It is no exaggeration to claim that our successful negotiation of the North American Free Trade Agreement in 1992 did far more than stimulate trade throughout North America. It also:

- Breathed new life into the then-stalled Uruguay Round;
- Encouraged the 18 nations of the Asia-Pacific region to adopt a set of principles to liberalize trade and investment over the next 25 years; and,
- Placed liberalization at the top of the agenda in the Western Hemisphere, where for the first time hemispheric leaders have committed to negotiate a free trade agreement by the year 2005.

Our economic, political, and military leadership over the past five decades has not only helped to ensure that the freedoms we cherish are enjoyed by an ever-widening range of people, but also has created an international climate that is more secure.

We have helped build a world that is increasingly in our image, and our success in stimulating change more and more appears to be self-sustaining. Last year, for example, a military coup in Paraguay failed, thanks to threatened political and economic pressure brought by Paraguay's partners in MERCOSUR—Argentina, Brazil, and Uruguay, who themselves have changed dramatically since 1989.

Similarly, in Venezuela, despite vows at his inauguration to pursue populist statist policies, President Raphael Caldera found he could not swim against the tide of global economic reform and has moved to restore free-market orthodoxy.

Just imagine if the United States had failed to lead economically and politically over the past 50 years, how different the world would look today, to the grave detriment of basic U.S. interests.

THE U.S. STILL NEEDS TO BE THE WORLD'S ECONOMIC LEADER

If, as we turn the corner into the next century, the United States fails to exercise economic leadership, we could jeopardize the peace and prosperity for which we paid so dearly this century. For example:

We want open markets as that is the best way to ensure world growth and stability.

We want nations making a transition from statist economies to market regimes to be integrated into the global economic system.

We want developing nations, which purchase about 40 percent of our exports, to prosper.

We want all nations to adopt sound macroeconomic policies to ensure stable, noninflationary growth. That will enable freer flows of trade and investment and increased growth, and allow nations to deal more effectively with issues of

security, population, poverty, pollution, social equity, disease, terrorism, and drug trafficking—challenges that are difficult to contain within national borders.

Most of our economic objectives require cooperation among nations. If we drop out, there is less likelihood that cooperation will occur and more likelihood that we will not like the outcome.

LEADERSHIP IN TODAY'S GLOBAL ECONOMY

Believing, as I do, that the United States is unwise in the extreme not to maintain its influence with respect to global economic issues, the question is what needs to change. I would suggest attention in four areas.

Rally Domestic Support

First, we need to develop a broader domestic understanding that the United States must remain engaged globally if it is to prosper.

In trade, for example, for most of the post-World War II era, there was a strong domestic consensus in favor of promoting free and open markets here and abroad to strengthen ties with our allies, reduce economic frictions, and spur global and U.S. economic growth—all to the end of containing communism.

With the Cold War's end, that consensus has started to unravel. Trade, which once was viewed as a "no-brainer," now is seen by too many as a "no-gainer." This is a very dangerous trend.

Yet there has been little effort by our national leaders to defend and promote our trade policies and to explain the importance to our economy of global commerce—imports as well as exports. The vacuum has been filled disproportionately by those who seek to turn back the clock and retreat into a "Fortress America" of protectionism.

Trade is truly a virtuous circle, but we need to educate people about its virtues or risk losing them.

Be Clear and Consistent

Second, we need to be more clear, consistent, and decisive in our policies. We must think carefully about what it is we want, say what this is, mean what we say, and do what we say we will do.

Public indecision and inconsistency costs us support at home and abroad. Let me illustrate with two examples.

In 1993, there was a long delay before the Administration unequivocally came out in support of the NAFTA. That worried the agreement's proponents in both parties, who wondered if the Administration would be there at the end. It energized the opposition and turned what should have been an easy approval vote into a cliffhanger.

And, it badly hurt our standing in Asia when the United States announced in June 1993 that it would not renew most-favored-nation (MFN) status for China unless it made progress on human rights. For 11 months, China was criticized publicly for its lack of progress. In 1994, when the United States announced that it would both renew MFN and delink it from human rights, the Chinese, as well as people at home and abroad, were astonished.

It was the right decision, but the way in which we handled it made our subsequent negotiations in Asia more difficult on a range of issues. Making threats that we do not or belatedly discover that it is in our own best interest *not* to keep erodes our credibility.

Lead by Example

Third, we must abide by the agreements we negotiate if we expect others to do so.

When the United States announced 100-percent tariffs on $6 billion of Japanese cars without first taking its case to the WTO, it trumpeted to the world that it would ignore the WTO's dispute settlement mechanism. Our "shoot first and litigate later" approach set an unfortunate example that could cost us in the future.

Also, we need to weigh the growing and unpredictable burden on our trade from the use of economic sanctions as a means of furthering foreign policy and other non-trade objectives. Between 1993 and 1996, we imposed sanctions on some 35 nations unrelated to trade and economic issues. Where, after careful analysis, we conclude that we must take remedial actions, our actions must be effective (unilateral sanctions almost never are) and reasonably related to the conduct we oppose.

When our security is at stake, I believe we have every right to take action that we deem in our national interest. But as we have concerns about attempts to intrude upon our sovereignty, we should be careful when our actions infringe on the rights of other nations to pursue economic and foreign policies that sometimes differ from our own.

Cultivate Friends and Allies

Finally, we need to cultivate international support for the positions we take. That requires diplomacy and effective coalition building early on.

In the Uruguay Round, our ability to work with other agricultural-exporting nations helped rein in Europe's trade-distorting subsidies. The negotiation of the Information Technology Agreement is a more recent example of the success we can achieve when we build a core group of supporters and then seek to expand the group.

There are times when unilateral action may be necessary, as, for example, when U.S. interests are being harmed but no internationally agreed rules exist to protect them. But unilateralism should be used sparingly, for we waste valuable political capital, particularly when we ignore the international rules that do exist.

A Trade Policy for the New Millennium

Although global trade and investment are more open today than at any time in the past eight decades, the United States still faces a series of challenges.

To advance our national interest and enhance our prosperity, our trade policy should seek to promote open world markets through multilateral action; bilateral or regional action; and, on rare occasions when necessary, unilateral action. These elements, wisely employed and tailored to the circumstance, can be mutually reinforcing.

We should give action at the multilateral level our highest priority, for it is there that we can build major market openings that deliver the maximum opportunity for our entrepreneurs and create a more predictable, rules-based environment in which they can do business. Regional and bilateral agreements may enable us to pursue more focused strategies and achieve faster, deeper, and more comprehensive liberalization than may be possible in a multilateral context. Also, these narrower agreements may provide a base upon which to build broader support for our trade and investment objectives.

New Trade Agreement Implementing Authority

Even with the best of trade and investment objectives and the most carefully conceived strategies, the United States will not be a leader, and our nation's trade negotiators will not be effective, if they do not have the ability to deliver on the deals they negotiate.

Thus, the first, and in my view, the immediate challenge facing the United States is for this Congress and this Administration to agree on new trade agreement implementing authority—traditionally known as "fast-track" authority.

Fast track constitutes a cooperative process between the Congress and the Executive Branch for negotiating and approving trade agreements that seeks to harmonize the exercise of the power that the Constitution grants the Congress to regulate commerce with the power it grants the President to negotiate with foreign nations. Historically, the Congress lays out specific negotiating objectives for the Administration and is closely consulted by the Administration during trade negotiations. In return, the Congress votes to approve or reject—amending—the agreement that the Administration negotiates.

Fast track was conceived as a result of bipartisan recognition that our trade team could not effectively negotiate for our nation if their counterparts knew that if they struck a deal, a second negotiation would follow with members of Congress.

Such a two-step process would inevitably cause nations with which we negotiate to hold something back for the second negotiation. Nations repeatedly have told us

that without such procedures, they will not negotiate significant trade agreements with us.

We need new fast-track authority to take advantage of current opportunities—bringing Chile into the NAFTA and moving forward with the Free Trade Area of the Americas and the Asia Pacific Economic Cooperation Forum (APEC)—as well as other opportunities that may present themselves in the future.

The two-year stalemate between those who want our trade agreements to focus solely on trade and economic issues and those who want them in addition to cover labor and environmental issues must come to an end.

NAFTA Expansion

Assuming fast track is granted, our first priority should be to expand the membership of the North American Free Trade Agreement—NAFTA—through Chilean accession to that agreement.

Chile has led the process of economic reform in Latin America and has enjoyed 13 straight years of economic growth. Over the past five years, two Administrations—Republican and Democrat—have promised to negotiate with Chile to bring it into the NAFTA.

The NAFTA constitutes the type of agreement we should want to take root in this hemisphere. It provides for full elimination of all tariffs, including agriculture; broad market openings for services providers; world-class protection of intellectual property rights; protection for the rights of investors; and a mechanism for settling our trade disputes.

In the first year of the agreement, its market-opening provisions led to record trade among all three NAFTA partners. Unfortunately, that positive outcome was overshadowed by Mexico's financial crisis, and the NAFTA's opponents were quick to say that the United States never should have entered into the agreement.

But the NAFTA had nothing to do with Mexico's financial difficulties. Nor was it detrimental to *any* of the parties' interests.

Indeed, quite the opposite is true. The NAFTA helped to ensure that Mexico remains committed to an increasingly open, deregulated, and competitive economy.

Thanks in large measure to trade, Mexico's economy has bounced back much faster than most analysts predicted. Last year's economic growth topped five percent. And, demonstrating a restoration of its financial credibility, Mexico raised $16 billion on international financial markets and, on January 15, repaid—3 years ahead of schedule—the final $3.5 billion borrowed from the United States to help it through the peso crisis.

The United States has been a beneficiary of this rebound. Despite the peso's devaluation, our exports to Mexico set a new record of almost $57 billion in 1996, nearly 24 percent higher than in 1995, and substantially above any year prior to the NAFTA. This stands in stark contrast to what happened after the 1982 financial crisis, when restrictions Mexico imposed cut our exports by half, and it took six years before they returned to pre-crisis levels.

Mexico is by no means out of the woods economically, and it faces very serious social and political challenges. It is a nation in transition, just as much as the nations of Eastern Europe and the former Soviet Union. But President Zedillo is trying to move Mexico in the right direction, and the NAFTA has encouraged that movement.

Free Trade Area of the Americas

Chilean accession to the NAFTA is important in itself and in terms of the signal it would send about America's commitment to economic reform and trade liberalization in the hemisphere.

Free trade throughout the Americas is a logical sequel to the NAFTA and the Enterprise for the Americas Initiative launched by President Bush in 1990, which ushered in a wave of good will in Latin America toward the United States and support for continued trade and economic reform.

Hemispheric trade liberalization was enthusiastically endorsed at the December 1994 Miami Summit of the Americas. There, all 34 leaders in attendance committed for the first time ever to negotiate a free trade agreement for the Americas as comprehensive as the NAFTA by the year 2005.

Since then, although work on the Free Trade Area of the Americas (FTAA) has continued at the technical level, progress at the political level has stalled. The stalemate over fast-track authority and the 1996 election put the United States on the sidelines, unable to lead by offering a credible plan of action on which it could deliver.

While we have dawdled, others have moved forward. MERCOSUR, the common market comprising Argentina, Brazil, Paraguay, and Uruguay, has signed free trade

agreements with Chile and Bolivia, creating a market of 225 million consumers with a combined GDP of roughly $1 trillion. Mexico has negotiated numerous free trade agreements throughout Latin America and is in talks with the European Union. And Canada has signed an agreement with Chile, giving Canadian exporters and investors an edge over U.S. companies.

In short, integration in the hemisphere is proceeding, but without U.S. participation or leadership. The dangers to us are several.

First, the proliferation of competing free trade arrangements in the hemisphere is increasingly creating a morass of conflicting rules for our businesses operating in the region.

Second, U.S. entrepreneurs are at a growing competitive disadvantage as other nations in the region lower trade barriers among themselves without U.S. participation.

Third, as the hemisphere moves forward, the United States becomes less relevant to the process, and we lose influence and the opportunity to ensure that integration takes account of our economic interests.

The United States still has time to act. Trade ministers are set to meet in Belo Horizonte, Brazil, in May. The United States has proposed an ambitious agenda for that meeting. Its voice at that meeting and throughout the hemisphere would be immeasurably strengthened, and its counsel much more likely taken, if Ambassador Barshefsky and her team could go to Brazil with a strong expression of Congressional support through the passage of fast-track authority. We could then reclaim our role as leader in the process of hemispheric integration, a process we started over a decade ago with the U.S.-Canada Free Trade Agreement, continued through the NAFTA, and can complete with the FTAA.

APEC

Asia is another region where our national interest requires that we exercise leadership with respect to trade and investment liberalization.

The World Bank projects that Asia will grow eight percent annually over the next decade, outpacing growth in the rest of the world by more than two-to-one.

By the year 2000, it is estimated that 600 million Asians will have disposable incomes as high as the average in the industrialized world at the start of this decade.

Because Asian economies together comprise one quarter of the world's economic output and an even larger share of our global commerce, how reforms progress in this important region will in large measure determine what can be achieved globally.

Since 1993, leaders of the geographically far-flung economies that comprise the Asia-Pacific Economic Cooperation forum—APEC—have met annually. APEC includes the diverse economies that rim the Pacific, such as China, Hong Kong, and Taiwan; Indonesia, Thailand, and Singapore; Japan, Malaysia, and South Korea; Australia, Canada, and the United States.

In 1994, APEC leaders agreed to eliminate their trade and investment restrictions: the industrialized economies to meet that goal by the year 2010, and the developing economies to do so by the year 2020.

In subsequent annual meetings, they have adopted specific market-opening measures. Because these 18 nations produce half the world's output, other nations increasingly pay attention to agreements reached by the APEC members on trade and investment issues.

The endorsement by APEC this past November of the Information Technology Agreement—aimed at eliminating tariffs on items connected with information technology, such as computers, semiconductors, and LAN equipment—paved the way for the World Trade Organization in December to conclude the agreement, which will save our entrepreneurs over $1 billion.

Ambassador Barshefsky and her team deserve great credit for their skillful handling of this negotiation.

By exercising leadership in two of the fastest-growing regions of the world—Asia and Latin America—we can maximize our commercial opportunities for our entrepreneurs and our workers and advance our trade objectives.

The World Trade Organization

But for U.S. entrepreneurs to obtain maximum opportunities in the global economy, it is essential that we have a body of rules to govern international commerce agreed to by all the players with whom they trade or would like to trade.

That is why three Administrations pushed so hard for a successful conclusion to the Uruguay Round of multilateral trade negotiations. The Uruguay Round agreements, approved by the Congress in 1994, cut global tariffs, and, for the first time, opened services markets, lowered barriers and subsidies in agriculture, strength-

ened protection for intellectual property rights, and made dispute settlement under the newly created World Trade Organization—the WTO—faster and more certain.

As part of improved dispute settlement, nations are turning to the WTO with much greater frequency to settle trade disagreements. Since the WTO entered into force in 1995, some 45 distinct matters involving 68 requests for consultations have been referred to the WTO. The United States has been a complainant in just over half (23) of these matters. Of these 23 cases in which the United States has filed a complaint, we have won or settled 6 cases, 9 are before active dispute settlement panels, and 8 are either pending consultations or awaiting the formation of a formal dispute settlement panel. Of the 10 matters in which we are a respondent, we settled 4, lost 3, and 3 are still under consideration.

The Uruguay Round agreements also provided that trade ministers will meet every second year in an effort to continue to remove barriers to trade and investment.

At their first ministerial meeting this past December in Singapore, the ministers not only reached a consensus on the issues they would tackle in the future—liberalization of telecommunications, financial services, agriculture and investment—they also concluded the Information Technology Agreement I mentioned earlier.

In mid-February, the WTO concluded an accord opening basic telecommunications worldwide. This market, valued at roughly $700 billion annually, up to now has been dominated by state-run monopolies. U.S. companies excel in this sector, and the accord is another outstanding accomplishment for Ambassador Barshefsky and her team.

We can do more. The Uruguay Round agreements only started the liberalization process with respect to agriculture, where subsidies in developed countries alone still cost consumers almost $350 billion annually, and tariffs in some foreign markets reach 900 percent.

And while many services were covered, many were not. Negotiations in both sectors are set to resume in 1999, and the United States should be in a position to lead in these important areas so vital to our economic success.

Investment is another area where we need internationally agreed rules. Although negotiations are proceeding under the auspices of the Organization for Economic Cooperation and Development (OECD) on a Multilateral Agreement on Investment (MAI), the OECD has a limited membership—Europe, North America, Japan, Australia, New Zealand, and South Korea. I worry that non-members may be unwilling to accept commitments over which they had no say. At the Singapore meeting, WTO trade ministers agreed to exploratory work in this area. Since investment issues often are inextricably linked to services issues—for example the right to establish a local office or repatriate earnings—I believe we should encourage the WTO to move beyond exploratory work to serious investment negotiations.

A more controversial area is the relationship between trade and labor and environmental standards. Just as the United States lacks a domestic consensus on how to address these issues, there is no consensus in the WTO.

As a practical matter, those who argue that any new trade agreements signed by the United States should include labor and environmental provisions enforceable by trade sanctions are putting the cart before the horse.

In both areas we need first to agree on the governing norms. We have a variety of fora in which to discuss these issues and to negotiate internationally agreed standards. We should use these fora to develop international consensus on the standards we wish to adopt, as we did in environmental agreements such as the Convention on International Trade in Endangered Species, the Montreal Protocol on Substances that Deplete the Ozone Layer, and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal. Once we have internationally agreed values and standards, we can tailor the enforcement mechanism to the particular accords, which may include some form of trade sanction for goods that violate those standards, as with the agreement protecting endangered species.

Another major issue confronting the WTO, which is relevant to U.S. trade policy, is the over 30 countries seeking membership in the WTO—many of whom just a few years ago, such as Russia, China, Vietnam—would have turned their backs on the disciplines WTO membership requires.

CHINA

One of the largest is China.

It makes little sense to talk about a *World* Trade Organization in which a country with 20 percent of the world's population, having an almost $1 trillion economy, and which is the world's eleventh largest exporter, is not a member.

China's entry into the WTO, based upon a sound protocol of accession, is very much in our nation's interest. WTO membership would put China on a predictable path of economic reform that would ensure us of increasing access to the Chinese market. It would also give us a multilateral forum in which to deal with our trade differences without giving up our right to use our domestic trade laws if China reneged on its commitments to open its markets.

Our negotiators have consistently sought to ensure that China agrees to commercially meaningful commitments to open its market, protect the rights of exporters and investors, enhance the transparency of China's laws and regulations, and abolish restrictions that are not WTO-consistent in its protocol of accession.

Complicating these negotiations for the United States is our annual review process required by the Jackson-Vanik law to renew China's most-favored-nation (MFN) status. MFN is a misnomer. In today's world, it is the normal, non-discriminatory treatment we grant about 160 other nations.

Since China already has permanent MFN status from every other major WTO member, the value of WTO membership to it is greatly reduced without the assurance of permanent MFN from the United States.

But unless the Jackson-Vanik law were repealed, China would not obtain permanent MFN trading status from us even if it joins the WTO.

The Jackson-Vanik law is a relic of the Cold War. Under its provisions, for a President to give a Communist nation MFN status, the law requires that he certify annually the fact that their citizens are free to emigrate.

We have differences with China, but immigration is not one of them. We have thousands of Chinese students enrolled in our schools and thousands of Chinese visitors each year. Instead, we use the occasion of the Jackson-Vanik review to debate China's conduct in a number of non-trade areas.

Our negotiators should have every means available to ensure that they can negotiate the strongest, most commercially meaningful terms of accession for China as possible. To me, that means that the Administration should be explaining to the Congress the reasons why we should grant China permanent MFN status *if* we get a solid accession agreement. If the Administration could say to the Chinese, "We have consulted closely with the Congress, and we believe we will be able to obtain permanent MFN status provided the terms of your WTO accession are clearly in our commercial interest," it cannot help but enhance the chances of successfully concluding the strongest protocol of accession for China's entry into the WTO.

CONCLUSION

For half a century, the United States has been an active participant in building the global trading system. It has been a voice for removing the barriers that divide the nations in the world, in the belief that shared economic opportunity would unite us.

As we look to the new century, we should look back with pride on our accomplishments and forward with hope for the future. We have earned the respect of our trading partners in this century to shape events in the next.

Chairman CRANE. Thank you very much.

In contrast to other trade agreements we have successfully consummated, such as with Canada and Israel, the Uruguay round, and NAFTA, by contrast, have some very vocal opponents in this country, as Mr. Nussle was touching upon. How can we make a better case that NAFTA is successfully achieving what was intended when you first negotiated it?

Ms. HILLS. I think our leaders need to speak out on the merits of the NAFTA. There is absolutely no question that this agreement enhances our national interests. It has given us the opportunity to expand our exports. It has protected us from restrictions that Mex-

ico in the past has imposed upon our exports. It has opened up a market, and it has galvanized liberalization and economic reform throughout the hemisphere.

Chairman CRANE. I think one unfortunate thing was the timing of that devaluation and the misunderstanding that has been aggravated by some political candidates as to a cause-and-effect relationship. But it is a burden and as Mr. Nussle indicated, I am sure we have all had feedback from back home that is negative and ill informed, and I commend you for your comment.

Another thing is, Ambassador Barshefsky testified that because of the degree of openness of the U.S. economy, no other country in the world is in a better position to take advantage of the large opportunities presented by this expanding global economy, and you agree that U.S. firms and workers stand up well to international competition.

Ms. HILLS. Absolutely, Mr. Chairman. We are the most competitive nation in the world.

We also have very low trade barriers. I cannot understand why people would argue against our seeking to bring down high barriers in markets where we want to sell, when already the barriers that surround our markets are negligible or nil.

Chairman CRANE. Well, I couldn't agree with you more. We have got to get your message out, too.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

I would like to thank Ambassador Hills for being here today, and obviously, your testimony and all of the work you have done over the years, particularly as you were U.S. Trade Representative a few years ago, we appreciate everything you have been doing for our country.

I just have one basic question. It was a followup on the Chairman's question. In terms of fast track, if we don't get it in the near future or any time over the next 2 or 3 years, what will happen in terms of MERCOSUR and the Latin American market, which is a young market, one obviously that we would like to continue to do trade with, particularly exports with countries like Argentina, Brazil, and perhaps others? Perhaps you can lay out a scenario of what would happen if we don't obtain a fast track.

Ms. HILLS. Without fast track, we cannot effectively negotiate the hemispheric free trade or even a trade agreement with the southern cone, the MERCOSUR group of nations, and South American liberalization will proceed without us.

Already, our entrepreneurs are expressing dissatisfaction over the differing rules that they encounter because of the proliferation of trade agreements, and as tariffs are lowered among nations where we have not been a participant, we, of course, are disadvantaged economically.

Mr. MATSUI. I understand that, in fact, a few chief executive officers of manufacturing concerns had suggested to me they may have lost business opportunities because, for example, the tariffs on computer equipment between Brazil and Argentina, or at least exports into Argentina from Brazil, the tariff is very low. Whereas, the United States exports to Argentina, the tariffs are rather high. Is that one of the problems that is going on now in terms of the dis-

advantage U.S. exporters have, particularly in the manufacturing equipment area?

Ms. HILLS. Absolutely, Mr. Matsui, and the mention was made of wheat earlier. The fact is, Canada can send wheat to Chile as a result of its agreement with Chile on more competitive terms than our farmers.

Mr. MATSUI. In terms of the comments made by Ambassador Barshefsky, fast track is not about NAFTA. Fast track is about our strategic interest, and I know you refer to that in your comments, but could you elaborate on that somewhat in terms of why it is important and why is it not appropriate, even though I agree with you in terms of the value of NAFTA? I think NAFTA had value when it was obviously much better in terms of our bilateral relationships to have NAFTA than not to have NAFTA, but perhaps you can discuss the whole concept of why this issue should be delinked from the whole discussion of NAFTA.

Ms. HILLS. The discussion should be hinged on our need to be a leader in the world, to shape events to our economic and strategic advantage, and if our trade negotiators cannot go to the bargaining table and negotiate market openings in the fastest growing regions of the world, we are competitively disadvantaged, and that simply has to be corrected.

We have been sidelined for 2 years, and some consensus and compromise must be reached on this issue of fast track, or we are going to do our Nation a grave disservice.

Mr. MATSUI. Thank you very much, Ambassador Hills.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Ambassador Hills, it is great to see you here. We are benefiting from the things you did when you were in office, and we are enormously appreciative of your leadership here.

I asked Ambassador Barshefsky about the ASEAN nations, and I am still a little confused about this because we have certain targets. Obviously, the MFN or the WTO as far as China is concerned, there are certain issues with Japan. Clearly, we have the relationships with Europe, and we are now trying to battle with fast track, with Chile, in order to compete with the MERCOSUR agreement, but what should we be doing in APEC or with the ASEAN nations that we are not now doing?

Ms. HILLS. Asia is the fastest growing region in the world. Its growth for the next decade is going to outpace growth in the rest of the world by more than 2 to 1. We are a mature economy, with 5 percent of the people, and producing about one-quarter of the output. Needless to say, we must be in these markets that are so vibrant and growing.

At the turn of the century in just 3 years, there will be 600 million Asians with incomes that are as high as Europe had at the beginning of this decade. Asia is a market of enormous potential.

As a leader, we want to be in a position to benefit from opportunities all around the globe. I think Ambassador Barshefsky was absolutely right. We have interests in moving forward on open issues in the WTO.

Of course, we want Japan to deregulate and provide more market opportunity.

In the Latin American region, which is the second fastest growing region, we are more likely to be in that region than either Europe or the Asians.

APEC, of which we are a member, produces half the world's output. So we want liberalization to take place in that region. We want to be a mover and a player in the Asia-Pacific Economic Cooperation Forum.

The 7 ASEAN nations, soon to be 10, are a vibrant part of APEC. The ASEANs have agreed to open their market by the year 2003. We should be talking to them about how we can participate and encourage further liberalization because this is a very interesting market for U.S. producers.

Mr. HOUGHTON. Just to continue here for a moment, we should be talking to them, and we should be talking to every country, and particularly those that have a decent market and are growing very fast economically, but is there anything specifically that we should be doing, similar to the fast track authorization in the ASEAN area?

Ms. HILLS. Mr. Houghton, the fast track authorization would enable us to more effectively do something specific in all regions. If we don't have fast track, you can erase all the nations, all the regions, and the whole world for future trade liberalization.

The ASEANs are an important component of the Asia-Pacific Economic Cooperation Forum, which meets annually in November. We were, I think, successful in achieving a market opening in the information technology agreement in December because we had reached a consensus with the 18 APEC members in November. In other words, it set up that agreement so that we could carry it to a successful conclusion with the rest of the world.

So, yes, there are many specific things we can do with the ASEANs which are part of APEC, and with APEC as a whole. As a world leader, we should be there, but we need fast track to effectively be there.

Mr. HOUGHTON. Thank you very much.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. Madam Ambassador, let me join with the rest of our colleagues in thanking you for the great foundation you laid as we move forward in expanded trade.

One of the things you spelled out in your testimony is that we should abide by negotiations we have already agreed to. How would you fit Helms-Burton into that category, now that you are no longer with any administration?

Ms. HILLS. I, Mr. Rangel, am not a proponent of unilateral sanctions, primarily because I don't think they work.

Second, I am a proponent of consistency. A consistent theme in U.S. policy has been to deal with closed economies by trying to get them to open through engagement with the world.

Third, when we have nontrade objectives as a result of grave offense, and quite honestly, Cuba has caused us the gravest offense, I would like to see our response be commensurate with the offense caused. When we use trade sanctions to deal with nontrade offense, we hurt ourselves, on the one hand, and we do not accomplish our objectives, on the other.

Mr. RANGEL. I need your advice because I don't believe Castro should just walk away after the atrocities that he has committed on so many good people, but I agree with you, 100 percent, that we shouldn't cause more pain than we are receiving relief by doing it. If you find any way that I could be effective in doing the things that you believe should be done, if there is a way to do it without causing embarrassment to our country, that would be the way I would want to do it.

It is unfortunate how a loud-mouthed person like me has to be so quiet when I am overseas listening to my country being condemned for something that over here I condemn, but over there, I just have to say, Well, we are driving the bus, you know, and that is it.

The second thing is the President speaks a lot about this bridge that we have to build to the next century. There is no question that you can see the way our trade is going as we shift to services and goods for overseas. We are losing a lot of low-skilled jobs.

What made the country so great was that immigrants could come and do anything, but they knew their kids would have access to a decent education and they would win.

You have no idea of the hopelessness that prevails in many communities where the schools are just not functioning. Now, I am so pleased with the President having cleared this GI bill for everyone. But internationalists such as you, are there papers you read that perhaps our work force is not keeping up with the competition or expanded trade? Or are the increased number of people in jail—it is 1.6 now, which is comparable to a large number of people who just are old or untrained—is that considered just one of the costs of doing business? Can we move forward from an economic point of view, locking up folks and not doing better in the school system? Could we survive competitively even if we sought not to do these social things?

Ms. HILLS. Well, as a society, Mr. Rangel, we will want to address these very serious issues.

Mr. RANGEL. I know that.

Ms. HILLS. We can try to open markets, and our trade can thrive and our economy can grow, but trade policy won't solve all the issues that face our society. We must give attention to education and to upgrading the skills of our people and to eliminate dependency.

Mr. RANGEL. Let me reframe the question. I am not saying this is the right thing to do, or do we want to do it, or should we do it, or whether it is local or State. I am not talking about that.

I am just saying that if the rule prevailed and we accepted it, that an education is not a Federal issue and should be left up to the local and State governments to decide. And if, for whatever reason, we find an ever-increasing number of young people going to jail, and the Congress would say that, too, is local and we can't do anything about it, my question to you, not as a social worker and not as an educator and not as a criminal justice major: Considering the expenses it takes to lock up people and that we will need to continue to compete as it relates to the skills of the work force, is there any discussion as to whether there is a disparity in the air? Forget the reason why.

Ms. HILLS. My response would be that, obviously, if we have a festering and growing social problem, it is a difficult and costly issue for our economy to carry, but far more than that, we should want to correct the problem because we are the Nation that we are.

Mr. RANGEL. Well, you know that that is a humane, decent answer, but I want an economist that would assume that someone else would do the right thing, and they would just give me the statistical data, and that is how far can we go ahead.

We find out what the expense is of doing business. We can look at it, as we did with slavery, and say, you know, be kind, be gentle, do the right thing, but we have got to get this cotton picked.

In this particular case, we have got to be competitive with the rest of the world. But you know where I am going, and if you find anything along those lines that would justify me forcing this country to do the right thing because they have to do it, it is a heck of a lot easier than me talking with my colleagues saying that education is a national concern, it shouldn't be left up to local school boards. So, if you could help me with that, too, I would appreciate it.

Ms. HILLS. I would be delighted.

Mr. RANGEL. Thank you for all the good you have done.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Ambassador Hills, good to see you again.

Ms. HILLS. Thank you.

Mr. RAMSTAD. I have long been a fan of yours, dating back to the many years in which my predecessor and mentor, Bill Frenzel, served on this panel. I know how much respect Mr. Frenzel had for you as well, and we appreciate your input here today.

I was very impressed by your strong definitive statement about fast track authority. I, like you, and most Members of this Subcommittee, are concerned about the retreat, if you will, from free trade. In the Congress as a whole, the antifree trade forces seem to have dominated the debate in recent times, and I believe strongly that we need to reverse this trend.

Let me ask you this, Ambassador. In your exchange with Mr. Houghton, I wasn't quite clear. You said that fast track authority alone will give the administration the tools they need to make sure the United States is able to participate in all of the regional agreements developing around the world, or do we need other steps as well to ensure that we are not left out of other advantageous agreements?

Ms. HILLS. We need fast track authority to enable us to sit down at a table and negotiate regional and global agreements. Otherwise, our trading partners will not negotiate with us. They will understand that even if they strike a deal with Ambassador Barshefsky and her team, they cannot give us what we ask because they have another negotiation to go through with Congress, and therefore, they simply will not negotiate with us. That has been the reason for and the history of why we have had fast track, and we have had it, without interruption since 1974.

It is only in this past 2 years that we have had this hiatus that has kept the United States on the sidelines.

Mr. RAMSTAD. And I am not surprised that my question elicited that response.

I think it is just tragic that we have had this hiatus, and we need to reverse this, I believe sooner rather than later, to avoid any more deleterious consequences.

I am not sure I know the answer to educate, inform, and improve the free trade mood, if you will, of our colleagues. I know that we here can't do it alone; that we need people like you and others like Mr. Gibbons who served with such distinction in this body. We need people from industry. We need people from labor. We need pressure on the Members, as you, I am sure, understand, given your experiences here.

It is very frustrating, and I guess, if nothing more, I am expressing one Member's frustration at the retreat from free trade, and the problem that the administration is having and those of us who want to get fast track approved.

My point is, I think we need to work in a bipartisan pragmatic way, not just those of us here in Congress, but with you and others as well. Please help us. We need it.

Thank you, Ambassador.

Mr. Chairman.

Chairman CRANE. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Welcome. I wanted very much to say hello and to hear you once again. It is good to see you back.

Ms. HILLS. Thank you.

Mr. LEVIN. Maybe I will refrain from any specific questions, except to say that I think that your successor, not immediately, but your successor's testimony should help spark some important debate about the context against which we are considering fast track, and I think it has been bogged down in part because there is a failure to discuss, to debate, and resolve that context.

I am not sure there has been any overwhelming loss or tragic loss. I do think, unless we talk through the general, we are going to continue to be bogged down on the specifics.

You have a background in your present position that should help us engage in that discussion, and whether one agrees or not all the time, I look forward to your participation.

Ms. HILLS. Thank you, Mr. Levin.

Chairman CRANE. Well, again, we want to express appreciation to you, Carla, for coming, and we solicit your ongoing input and contributions because we need all the outside help and guidance we can get.

Ms. HILLS. Thank you, Mr. Chairman and Members of the Subcommittee.

Chairman CRANE. Thank you so much for coming today.

Our next panel of witnesses will include Hon. Sam Gibbons, the former Chairman of the Ways and Means Committee and a former colleague of ours on the Trade Subcommittee; and Fred Bergsten, director of the Institute for International Economics.

I look forward to hearing from both of you, and I would like to take a moment, though, to welcome Sam back. It is good to see you are still working on behalf of the advancement of opening foreign

markets and carry that message that free and open trade helps our economy.

I just feel a little awkward with you sitting there, Sam, and all of us sitting here. That is a little disconcerting, but will you proceed with your testimony, gentlemen.

STATEMENT OF HON. SAM M. GIBBONS, CHAIRMAN, GIBBONS & CO., INC.; AND FORMER MEMBER OF CONGRESS

Mr. GIBBONS. Well, I want to tell you, it feels a lot different being down here than up there.

Chairman CRANE. Is it more comfortable?

Mr. LEVIN. Which is better?

Mr. GIBBONS. It takes the same strong sternum to get through these down here as it used to up there, and I appreciate it. I appreciate the invitation to come here, and I shall be brief and try to respond to any questions that you have.

I am just really happy to share this table with Fred Bergsten, who I have known and admired for so long.

Well, as you know, I spent 30 years laboring in this venue. It was a labor of love, and I still love it.

As all of you know, good trade helps America. It is the foundation of peace, and if we are going to have a peaceful, prosperous world, we have got to trade together.

I think it is important that all of us, who sit in a position like you do, every now and then back off and look at ourselves and say who are we and where are we going, and that is what the purpose of this hearing is today.

The first thing that strikes us square in the face is that we are really less than 5 percent of the Earth's population. Ninety-five percent of all the markets are outside of the United States. All the consumers out there who are going to consume all the things that we produce are outside the United States.

We are the wealthiest group of people on Earth. We have a set trade policy for good purposes for 50 years. We have been the leader. We consume more. We export more. We import more, and we have established in the world the rule of law, and we have done more for better labor rights and better environment than anybody else on Earth. There is a lot more to be done, but we have gotten started.

We can congratulate ourselves, which I think we probably do too often by sitting back and patting ourselves on the back and saying, Hey, we have done it for 50 years, aren't we wonderful, but, you know, the job has only started. It is certainly nowhere near finished, and we need to get out of that self-congratulatory position and get on with leading again.

If when we come out of this long 2-year-or-longer sort of Rip Van Winkle type of approach, we are going to find that China is out there with its huge population, its rapidly growing economy, followed by India, almost the size of China, more middle-class consumers in India than there are in the United States, more college graduates in India than there are in the United States, and yet, we don't know where India is going or where it is going to be. They are really an uncertain ally in the future.

Indonesia, the fourth largest country on Earth—and, you know, Indonesia did play some kind of role, as murky as it may have been, in our last election. God knows what they did, but they are the fourth largest country on Earth, rich in natural resources, and we don't have any idea where they are going or what they are going to do, and we need to get engaged with them, to say nothing of Europe with its now 380 million Europeans in the European Community, 380 million Europeans. That is contrasted with our 265 million Americans, growing all the time, not only with this European Union, but now it is EuroMed.

That is to say nothing of Russia or Japan or Korea or South America. South America, almost equal in population to North America, is rapidly putting together its MERCOSUR and its Andean group and all those things, and they are making deals outside of the hemisphere with the Europeans, with the Asians, and we have a lot going on out there that we need to get up and start leading again or we are going to find ourselves responding to their trade policy and their ideals and their market challenges instead of us being out there grabbing those, often claiming them as our own.

The problem is really our style of government. No place on Earth does there exist an institution like the U.S. Congress.

Now, we love it, we honor it, but all the other countries out there that have anything like a democracy have parliamentary-styled democracies, and those parliamentary-styled democracies do not get as engaged in the whole process of trade, as does the Congress.

Now, I am not condemning the Congress. I am just identifying our problem. It is difficult for us to lead because nobody wants to deal with us as long as they have got to make a deal with our negotiator, which they must do. It is impossible for 535 of us up here on this Hill to negotiate, but they have to make a deal with our negotiator out there, and then they have to come back and have it torn apart here on the House floor or the Senate floor, so you can't make a deal.

We have overcome that in all—actually, we overcame it about 30 years ago, but we really overcame it in the seventies with fast track, and unless we get down and grant fast track really quickly to the administration, we are going to find ourselves in a bad drifting situation.

Fast track is a misnomer, as all of us know. There is nothing fast about it. I don't know where the hell the word came from. I was in the room when it was invented, but it wasn't logical then, and it is certainly not logical now, but fast track is the way you have to go. You have to give the administration the power to negotiate.

I found out, and a part of it is my fault, and this is part of a self-confession now. We have tried to micromanage fast track too much. We spend too much time trying to figure out what the hell we are going to put in there as the negotiating objectives and very little time following the actual negotiations after we have sent those negotiators out.

I won't tell you about all the meetings that I used to call, and were not too well attended, some in this room, some back there in the library, some over in 137, all over the Hill here trying to get

people, Members of Congress, engaged in talking to our negotiators because that is where you are going to get your points across.

We could write letters to the negotiators. We could form groups and blocks of people and go to the negotiators and say, Hey, you are not pushing this strong enough, but we spend all the time trying to figure out what we are going to get them to negotiate about, trying to micromanage how in the negotiations, trying to micromanage what the outcome of the negotiations is, and that is just a waste of time.

What we ought to do is give them fast track, follow them very closely in the negotiating process, intervene it. These negotiations are really very public negotiations. If you go to them, you are going to find there are not only our negotiators there and the foreign countries' negotiators there, but there are a whole flock of American businessmen there. There are a whole flock of other businessmen there, and they are all working with those negotiators as they go along.

We have a wonderful formal process here in the United States of working with these negotiators, but what we need to do is to get them out and get them negotiating, getting them out so that they can lead, so that we could be setting the world standard, not trying to follow other people.

The problem is we ought not worry about wasting so much time about what is in the negotiating objectives. We ought to spend more time following negotiators after they get their license or their fast track so they could go out negotiating, and then that is the time we ought to work on them.

Let us get started. We have granted to Presidents, from Kennedy on, negotiating authority. Kennedy really had the broadest negotiating authority, but he had very limited objectives. When he brought back his negotiation, we here in the Congress just sort of waved at it when it came through, and then we got a little more serious years later in the others. The fast track we have practiced has really been a good democratic operation, but it can't be done unless it is done on a bipartisan basis, and we must get started on it.

I will be glad to answer any questions you have.

[The prepared statement follows:]

Statement of Hon. Sam M. Gibbons, Chairman, Gibbons & Co., Inc.; and Former Member of Congress

I welcome this invitation to appear before you. I appear before this Committee representing no one other than myself.

I've spent a lifetime studying the trade issues before this Committee, including 30 years of practical hands on experience in the policy-making process.

Good international trade benefits all Americans. Fair competition increases our national standard of living, but with that comes a requirement to work and live smarter.

Fair and competitively traded goods and services build a more peaceful and prosperous world. Good international trade is the foundation of our peace and prosperity.

Who are we Americans and where are we going? Americans are about 5% of the earth's population. Ninety-five percent (95%) of the world's consumers live beyond our borders. Americans are the wealthiest people on earth. We produce, consume, export and import more than any country in the world. We have been the world's leader for more than 50 years in setting trade policy, promoting the international rule of law, building market economies, pushing for better human rights, striving

for a better environment and higher labor standards. We have made these historic accomplishments while making unprecedented contributions to world peace.

We could sit back on our laurels—be very comfortable and console ourselves with self congratulations for a job well started.

But, if we continue to be complacent as we drift towards more protectionism and nationalistic isolationism, we will find ourselves responding to global trade policies established by others. There is nothing inevitable about our success or our position in the world.

Emerging from our sleepy drift we will find China with its rapidly expanding economy and huge population dominating the world with its economic and military power threatening our security. India with its huge population (about the size of China) will be an uncertain player in our peace and security. Indonesia, the fourth largest country on earth, rich in resources will be a new and untried power—to say nothing of the new Europe, Russia, Japan, Korea, or the enormous emerging markets in Latin America.

We can not rest on our laurels. We can not afford to turn inward. We must lead or be condemned to follow. The world is not waiting for the United States. Huge trading blocks are emerging, filling the void in U.S. leadership. South America is organizing MERCOSUR, Europe its European Union and Euromed, the Asian Pacific Rim countries under ASEAN and so it goes around the world. We have only NAFTA, which is fragile, untested in global negotiations and some in the United States would like to dismantle it.

Americans have rested long enough. We are running out of time and opportunity to lead again.

One of our challenges is our style of government characterized by our very strong Congress, the strongest and most independent in the world. This unique characteristic prevents our negotiators from making a solid deal in a negotiating session. No foreign government will make a deal with us in a negotiation because they know from experience that Congress will ultimately re-write the agreement. No other country negotiates like the United States because they have Parliamentary governments which do not amend agreements. Their Parliaments only accept or reject, so they require us to do the same before they will sit down to serious negotiations with us.

Over the years, by trial and error we have learned to overcome this unusual characteristic of our government by developing a procedure that we erroneously call "fast track."

If the United States is going to have the opportunity to develop trade policy for the rest of this century and beyond, Congress must provide broad unrestricted trade negotiating authority or else we will be in the position of reacting to the trade policies developed by the rest of the world.

Our government must have "fast track" trade neogtiating authority or no one will go to the negotiating table with us. History is full of failed attempts.

My years of experience tell me that the Congress wastes too much time just getting ready to start the negotiations. Congress tries to predict with excessive detail and precision what and how to negotiate. This pre-negotiation micro-management is not important because after all nothing counts until, by law, the Congress approves the agreement.

The process takes years, conditions change, what seems important now may be nothing by the time Congress finally must act and vice versa.

So let's get started. If the negotiations are agreeable to Congress then it can be converted into the law of the land. If the negotiated agreement is not acceptable to Congress then nothing happens and no U.S. law is changed, nothing is lost.

We have waited too long to get started. Let's not wake up someday and find our opportunities have vanished.

For the last 38 years, every U.S. President has been given "fast track authority." We have always granted it on a bipartisan basis. Let's get started! It is in our best interest.

I welcome your questions and observations.

Chairman CRANE. Thank you.

Mr. Bergsten.

STATEMENT OF C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. BERGSTEN. Mr. Chairman, thank you. It also feels awkward for me to be sitting here next to the former Chairman after so many years of responding to him across the well.

Mr. GIBBONS. I apologize.

Mr. BERGSTEN. No. I want to say what an honor it is, and he has reconfirmed today what a leader he is in this process. I have admired what he accomplished for so many years, and it is a real privilege to be next to you today.

I just want to make three points to the Subcommittee today. The first is to suggest that passing fast track is one of the most constructive steps that the Congress can take this year to promote the objectives of the American economy, and I say that for a simple reason. The foremost problem in our economy is stagnant standards of living.

We have full employment. We have created 50 million jobs in the last 27 years. But wages, and in fact incomes, have been stagnant, and standards of living have not improved. That to me is our major national economic problem.

Trade is a very important part of the solution to that problem. Export jobs pay 10 to 15 percent more than average jobs. The productivity of export firms is 20 percent above the norm. Exporting firms expand their employment 20 percent faster than average firms, and small- and medium-sized firms account for 70 percent of the employment growth.

This is particularly true for manufacturing employment, and I would like you to look, if you have my statement in front of you, at the chart at the end, because it tells a fairly dramatic story that I think is not widely appreciated.

The chart shows manufacturing jobs in the economy. The middle line shows the sharp upward trend in manufacturing jobs in exporting plants.

The bottom line shows the fall in manufacturing jobs in nonexporting plants.

In fact, it may surprise you to know that more of our manufacturing jobs, i.e., high-paying jobs, are now in exporting plants than are in nonexporting plants, and the gap is rising sharply every year.

The growth in jobs at exporting plants has outweighed the decline in jobs at nonexporting plants so much that the sharp reduction in total manufacturing jobs, which began about 20 years ago, has now been arrested. If current projections hold true, by sometime early next century we will actually return to the high point for manufacturing jobs of the late seventies.

This is one illustration of the tremendous payoff that the economy can get from the trade sector in terms of total jobs, but particularly in terms of good high-paying manufacturing jobs, and that is why I suggest that Congress do what it can to promote the trade sector of the economy. It will be an important part of the solution to the real problem that ails the American economy, which is the failure of wages, income, and standards of living, and to rise to the levels we would like to see.

I don't suggest that trade is a magic elixir. To be sure, we have to undertake domestic steps to empower our people to take full advantage of the opportunities provided by increased trade. The most important of those steps are better education for all Americans and continuous training of our work force. I want to recognize Mr. Rangel's work in this area because I think he has articulated the link between the trade side and domestic side of the economy as clearly or more clearly than anybody—by stressing the need for new initiatives on education, worker training, and the like. Education and training are critical, but we would have to undertake those efforts without trade. However, in my view, trade enables our society to exploit the benefits of investments of that type to the maximum possible extent, and we want to see education and training in the linked environment that Mr. Rangel has talked about so pointedly and so effectively and, in fact, so eloquently.

Second, even if we do everything right at home, the benefits that I'm talking about are available only if we continue to break down export barriers, and I think we have a huge opportunity to do so because we face an asymmetrical situation in the world economy.

The United States has already eliminated virtually all impediments to foreign access to our markets. Other countries still complain a lot, but the truth is we have very few barriers.

On the other hand, other countries still have extremely high barriers, and that is particularly true of the large, rapidly growing markets in Asia and Latin America that Sam Gibbons quite rightly emphasized.

So, if we were able to move to reciprocal trade liberalization with those countries that have high barriers, it essentially would mean that they move along the trading spectrum in our direction—toward free trade.

The best U.S. trade policy would be to achieve free trade with our most important trading partners. The only way we can achieve a level playingfield is to induce the other countries to emulate our past liberalization by going to free trade, and the time is right because our economy is strong and vibrant. Our firms are competitive.

Our European and Japanese competitors are in poor economic situations. They have lost a lot of their self-confidence. We are prepared to take advantage of the situation far better than we were 5 years ago, 10 years ago, or at any time during my prolonged activity in this business.

The last three administrations, those of Reagan, Bush, and Clinton, have effectively pursued United States interest by negotiating a series of trade liberalization arrangements, starting with Israel and Canada, moving to Mexico, and NAFTA, and then to global progress in the Uruguay round. But the greatest potential lies ahead.

Building on President Bush's proposed enterprise for the America's initiative, President Clinton agreed at the December 1994 Summit of the Americas in Miami to create a Free Trade Area of the Americas. A month before that in Indonesia, the APEC Summit participants agreed to achieve free and open trade and investment in the Asia-Pacific region.

Building on another Bush initiative, the administration plans to pursue further global liberalization in agriculture services and several other key sectors. If successful, all this will achieve what I suggested—moving to free trade with countries that have high barriers as opposed to our very low barriers. Moving them to our category would give us tremendous asymmetrical benefits, but the administration could pursue those initiatives only if it has fast track authority from Congress, and without that, as the former Chairman said, nothing will move ahead.

The exceptions prove the rule. Over the last 2 years, the administration achieved two major breakthroughs with huge benefits for the American economy, American workers, and the whole society: the information technology agreement and the telecommunications services agreement. But those agreements were achieved because they were among the few areas where fast track authority still existed or additional authority was not needed. On other important trade issues, the United States simply could not move ahead, because it didn't have fast track authority.

Finally, I believe that it is urgent for you and the administration to work out new fast track authority, and the reason, to put it bluntly, is that other countries are eating our lunch while we stand on the sidelines.

A couple of examples. MERCOSUR is already the third-largest trading bloc in the world. It is moving to consolidate trade agreements among the South American countries, while we are on the sideline unable to do anything.

Even Chile, whose President spoke eloquently to you a couple of weeks ago, is unwilling to negotiate with the United States. It has negotiated a deal with Canada, a deal which, incidentally, violates some of our norms on antidumping and the freedom of capital movements—this happened because we weren't party to the negotiations. South America is consolidating as we sit on the sideline.

There are other elements at play as well. The European Union is out dealing with non-EU countries while we don't act. So far, the European Union only has framework agreements, but they could be the precursor of something more significant.

The latest framework agreement came to my attention yesterday. I didn't know about it in time to include it in my statement. When President Chirac of France was in Brazil last week, he proposed to the Brazilians, and they, of course, accepted, the first ever summit meeting bringing together the heads of state of all of the countries and all of the MERCOSUR countries.

Now, what does that sound like, if not like the EU countries trying to get into our backyard, making deals that would build Europe-South America trade relations—at our expense? If we continue to dither, this scenario will repeat itself for the next 4 years, and in a very fast-moving, dynamic world economy, we are going to be left behind.

We delay at our peril. The time is long past when the world would simply wait for the United States. The others will move on without us if we are not ready.

So, at the end of the day, I am urging the administration to effectively carry forward its stated commitments to make fast track one of its highest priorities for 1997. I urge you to provide the new ne-

gotiating authority as soon as possible. It is imperative to move forward on the bipartisan basis that has, with so much benefit to the country, characterized our trade policy for the last 60 years.

Thank you very much.

[The prepared statement follows:]

Statement of C. Fred Bergsten,[1] Director, Institute for International Economics

The American economy can reap enormous benefits from new international trade initiatives that reduce foreign barriers to our exports. Congressional renewal of fast track negotiating authority is essential to permit the Administration to pursue such initiatives and is one of the most beneficial steps the Congress could take this year to help our economy. Provision of such authority is extremely urgent because our competitors around the world are taking advantage of the absence of American authority and will do so even more extensively if we stay out of the game. I will briefly elaborate each of these three statements on the view that they should provide the focus for American trade policy in 1997 and beyond—and especially for Congressional action in the immediate future.

TRADE AND THE AMERICAN ECONOMY

The main problem facing the American economy is the very slow growth of average living standards over the past generation. Our economy has created 50 million jobs over the past 27 years and more than 10 million jobs over the last four years. But the median family income is virtually unchanged from the 1970s. The average real wage has been flat for almost twenty years. Our cardinal economic problem is to create *better* jobs with *higher* wages and benefits.

Trade provides an important part of the solution to that problem. Export jobs pay 10–15 percent more than the average wage. Productivity in export firms is 20 percent above the norm. Exporting firms expand their employment about 20 percent faster than others and are 10 percent less likely to fail. Small and medium-sized firms account for 70 percent of these results.[2]

The rapid export expansion of the past decade has come largely in high-wage manufacturing industries. Since 1992, a majority of our manufacturing workers have been employed in plants that export. The export surge has almost stopped the decline of unemployment in the manufacturing sector (see chart 1). A continuation of recent trade trends could restore net growth in manufacturing jobs within the next few years. It could even restore their previous (1979) peak in the first decades of the next century.

Increased globalization thus provides substantial benefits for American workers and the American economy. To be sure, we must undertake a series of domestic steps to empower our people to take full advantage of the opportunities provided by globalization.[3] The most important are better education for all Americans and continuous training for our work force.[3] But these efforts would be needed even if we had no trade, and globalization enables our society to exploit their benefits to the maximum possible extent. There is no reason to settle for more modest returns on our investment in education and training when global integration offers such handsome benefits.

THE CRUCIAL IMPORTANCE OF TRADE NEGOTIATIONS

Even if we do everything right at home, such benefits are available only if we continue to succeed in breaking down barriers to our exports abroad. The United States now has an enormous opportunity to do so because we face a hugely asymmetrical international situation. On the one hand, we have already eliminated virtually all

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[1] Also Chairman, Competitiveness Policy Council and Chairman, APEC Eminent Persons Group throughout its existence 1993–95. The views expressed in this statement are those of the author and do not necessarily reflect the views of individual members of the Institute's Board of Directors or Advisory Committee.

[2] These and other data are derived in J. David Richardson and Karin Rindal, Why Exports Matter: More!, Washington: Institute for International Economics and The Manufacturing Institute, 1996.

[3] See Dani Rodrik, Has Globalization Gone Too Far?, Washington: Institute for International Economics, March 1997.

[3] See the several reports of the Competitiveness Policy Council to the President and Congress, especially Building a Competitive America (March 1992) and A Competitive Strategy for America (March 1993).

impediments to foreign access to our own market.[4] On the other hand, most other major economies—particularly the large and rapidly growing markets of Asia and Latin America—continue to impose substantial restrictions on our (and others') sales to them. "Reciprocal" liberalization in the future thus essentially means that other countries reduce their barriers to, or at least toward, our low level.

The best way for the United States to achieve truly *fair* trade is thus to negotiate *free* trade with our most important trading partners. The only way we can achieve a level playing field is to induce them to emulate our past liberalization. *The time is right because the American economy is strong and vibrant while both Europe and Japan are suffering from prolonged stagnation and loss of self-confidence.*

The Reagan, Bush and Clinton Administrations have pursued American interests effectively and courageously by negotiating an ascending series of liberalization arrangements. The initial free trade treaties were with Israel and Canada in the middle 1980s. Mexico was added via NAFTA in the early 1990s.[5] Global progress was made simultaneously in the Uruguay Round.

The greatest potential lies ahead, however. Building on President Bush's proposed Enterprise for the Americas Initiative, President Clinton agreed at Miami in December 1994 to create a Free Trade Area of the Americas. In Indonesia a month earlier, he agreed at the annual APEC summit to achieve "free and open trade and investment in the Asia Pacific region" by 2010 (for the advanced countries that account for about 90 percent of APEC trade, by 2020 for the rest). Building on another Bush initiative, the Administration plans to pursue further global liberalization in agriculture, services and several other key sectors in the World Trade Organization.[6]

The Administration can pursue these initiatives only with the provision of fast track negotiating authority by the Congress. Without fast track, the United States will be unable to win maximum concessions from other countries because they will fear that Congress will reopen negotiations and demand more. Even Chile, whose President Frei recently addressed the Congress eloquently on these issues, will not deal with the United States in the absence of such authority. APEC's initial effort to launch its liberalization effort got off to a slow start last year largely because the United States was unable to move and other countries were unwilling to do so in our absence.

The exceptions prove the rule. The United States was able to lead two major successful trade negotiations over the past year: an Information Technology Agreement and a deal on global telecommunications services in the WTO. Each eliminates barriers on over $500 billion of trade in two of the world's most dynamic sectors. Both are hugely in the interest of the United States and were in fact strongly promoted by American companies. Both were possible only because the Administration retained residual negotiating authority from the Uruguay Round and was thus able to advance American interests in an effective manner.

The achievement of free trade in the Western Hemisphere and the Asia Pacific, and perhaps subsequently in the World Trade Organization, would maximize the benefits for the American economy described above. The largest and most rapidly growing economies in the world would eliminate their barriers to our market access. This would of course include nontariff border barriers and relevant domestic measures, though tariffs themselves remain quite important in many of those countries. American exports would boom further and millions more high-paying jobs would be created. The new negotiating authority should encompass these possibilities. *There are few steps that the Congress could take this year that would be as helpful for what ails the American economy.*

THE URGENCY OF ACTION

It is extremely urgent for the Congress and the Administration to work out new fast track authority. World trade and investment patterns are moving and shifting

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[4] American's remaining barriers carry a net economic cost of only about $10 billion in an economy of more than $7 trillion. See Gary C. Hufbauer and Kimberly Ann Elliott, Measuring the Costs of Protection in the United States, Washington: Institute for International Economics, January 1994.

[5] Some critics have argued that recent American trade liberalization initiatives have been a failure because of the sharp deterioration of our trade balance with Mexico. That deterioration was caused by the Mexican macroeconomic and financial crisis, however, which had little to do with NAFTA. In fact, NAFTA shielded the United States from an even greater impact from the Mexican crisis by deterring Mexico from responding (as in the past) by erecting new import controls and exempting the United States from those new controls which it did impose.

[6] I in fact believe that the United States should now seek to roll together the numerous regional free trade agreements, including the existing European Union and NAFTA, into a global free trade effort. See my "Globalizing Free Trade," Foreign Affairs, May/June 1996 and my testimony of September 11, 1996 before this Subcommittee.

at breakneck speed. Other countries and groupings are rapidly filling the void left by the American inaction (with the two exceptions cited above) of the past two years. We run a serious risk of being left behind if we do not quickly re-engage. Examples abound:

• Mercosur, already the third largest trading bloc in the world, is consolidating virtually all of its neighbors into a South America free trade agreement and will continue to do so without concern for our interests as long as the absence of negotiating authority blocks us from engaging its members in serious negotiation to achieve a Free Trade Area of the Americas.

• The subregional arrangements in Asia, notably the ASEAN Free Trade Area, have accelerated their own liberalization timetable and will thus increasingly discriminate against us unless we are able to energize APEC to bring down barriers across the entire Asia Pacific region.

• Prolonged American absence from implementation of APEC's liberalization goals could revive interest in an Asian-only arrangement along the lines of Malaysian Prime Minister Mahatir's proposed East Asia Economic Caucus (EAEC).

• Tired of waiting for the United States, Chile has struck bilateral free trade deals with Canada and Mexico that include provisions that raise questions for US interests, including a total phaseout of antidumping rules and legitimization of continued capital controls.

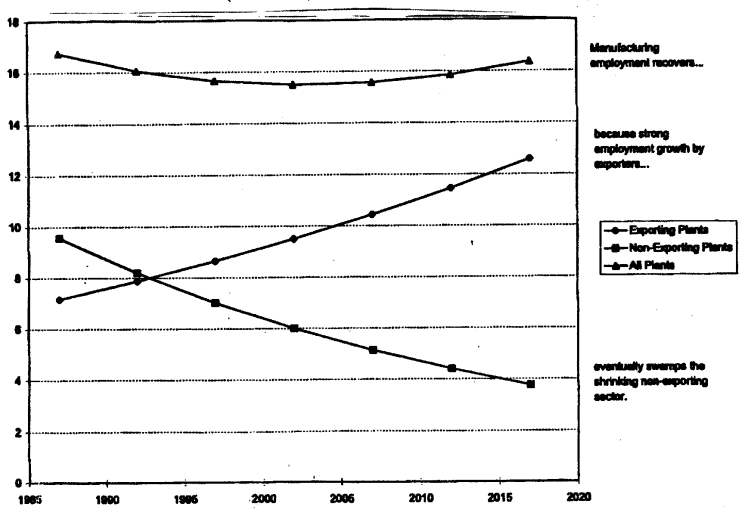
• The European Union is doing deals throughout the world, including with Mercosur and East Asia, which are only consultative at this point but could become much more substantive if the United States continues to dither.

Hence we delay at our peril. The time has long passed when the world would simply wait for the United States to act. The Europeans, Asians and Latin Americans have all become major autonomous players in the world economy. They will move on without us if we are not ready.

At the same time, American leadership is essential to push the global economy in the most constructive directions. We simply must get back in the game if we are to protect our own interests, and to exploit the opportunities to achieve the enormous future benefits described above.

In view of all this, I urge the Administration to effectively carry forward the commitments made repeatedly by President Clinton to make fast track one of his highest priorities in 1997 and to recognize that it must compromise on the labor and environmental issues in order to do so. I urge the Congress to then provide the new negotiating authority as soon as possible. It is imperative to move forward on the bipartisan basis that has, with so much benefit to the country, characterized American trade policy for the past 60 years.

Chart 1
Total Manufacturing Jobs and Job Growth for Exporting and Non-Exporting Plants
1987-1992, with 5-Year Projection Through 2017
(in millions of workers)



Chairman CRANE. Thank you, Fred.

The focus on fast track extension, to me, is the most important consideration before our Subcommittee and by the administration and by Congress, too, or I mean should be, because of the importance of our expanding exports. But you mentioned, Sam, earlier that here is South America with 380 million people, and yet, almost roughly 39 percent of our total exports went to South America, 1996. It is probably the biggest single market that we have, even bigger than Asia for the time being. That is not to say I am discounting the importance of reaching agreements with our Asian trading partners as quickly as we can, too. I would hope that somehow we might get some communication to the administration and get this question of fast track extension resolved, and ideally, as I think Charlene said, get it resolved before the President goes down to South America in May. We need your ongoing input and guidance on a bipartisan basis, and that was one of the things while serving under you on this Trade Subcommittee that was so enjoyable was we had the greatest degree of bipartisanship of any issue that came before our Congress.

I want to thank you both for your testimony, and keep up the input. Any guidance you might give any of the folks in the administration, Sam, please do that, as well as to us here in Congress.

Bob.

Mr. MATSUI. Thank you, Mr. Chairman. I don't have any questions. I would just like to, again, thank Chairman Gibbons for all the effort he has given and inspiration he has given to all of us over the years, particularly as Chairman of our Subcommittee there in 1993 and 1994. We just can't tell you how much we appreciate your service to the country and to all of us.

Those of us who are still here always look to you for a role model on issues of trade and opening markets, and we want to thank you very much.

I would just like to, again, comment on what you had testified to in terms of what our role should be. I think, obviously, we should be concerned about objectives and putting fast track together, but we should really be spending our time, as you suggest, on meeting with our negotiators during the course of their negotiations with these countries, and I think that observation is one that is well taken and one that we should really all focus on.

So, again, I want to thank you, Mr. Chairman, and thank you as well, Fred, for your testimony. I continue to work with you all the time, and I appreciate it. Thank you both.

Mr. Chairman.

Mr. GIBBONS. We are working together on a bipartisan basis out of the congressional framework here to work with the administration to try to help them put their ideas together and get them sold.

You have got to understand that I voted for a rather unusual law that I am trying to obey, and that is I can't come down here and talk with you about the thing. I can talk to anybody else on Earth, but there are 535 people that I am forbidden by law to come down and talk to. That quarantine runs out in a few months. So, I am unusually quiet right now.

I can come down at your invitation, though. If you can stand me, invite me.

Mr. MATSUI. Thank you.

Chairman CRANE. Mr. Rangel.

Mr. RANGEL. I got some kind of feeling, Sam, that I don't have to invite you in order to hear from you, but it is strange how you leave, I move up one, and now I am back one. Some things never change.

Mr. GIBBONS. Charlie, I have sat in every chair up there.

Mr. RANGEL. You and I, too.

Mr. GIBBONS. Way over here on the other side, to the left of Sander. I used to sit over there with President Bush, if you can believe it, that long ago.

Mr. RANGEL. Well, listen, Sam, I have no hesitancy in saying I will be calling upon you, and certainly with Fred, who made the observation about the possible moving ahead further than a large segment of our economy. I understand that a book has been written by your shop. I saw the name of Danny Roderick on this subject.

I am living more closely to the panic than I express, but I know I have to find ways to say things that other people understand. It just seems to me that people need to review what America is sending them to compete with, as opposed to our competitors who come here and get the education and go back home and teach. I just don't know whether we can keep up.

In any event, everyone talks about how this fast track just has to be done or all of our credibility will be shot, the President should have it, the Congress is too far involved, and we have to be bipartisan, and yet, all morning, nobody said what are we talking about. I haven't heard one person even mention it, and the administration is working on language. Language for what? What is the issue?

Is it wrong to say we do have some minimum standard of conduct on behalf of people that this great Nation is doing business with? Does it mean we should go in and organize labor unions and organize strikes and tell them to pay what we pay? No, but somewhere along the line, it has to be something between leave them alone, after all, the companies are going to do the right thing, and getting involved in telling them what they can do with their property, their environment, and their workers.

Now, how in the devil can we do the right thing, as bipartisan as we like to believe we are, where nobody is helping us to do the right thing? Not even the President of the United States. He is waiting to work this out.

Some people are now locked into concrete, and I was just telling Bob Matsui that some people who were calm about this last year, now they believe that all of the destruction of life as we know it in Mexico is directly connected with NAFTA.

Now, once they start spreading it, what do we know? There are some people that say mind your own business, let the free enterprise system work its will, and that is wrong. What do we do, Sam? If we call upon you as a consultant and a specialist, you know the President, you know us, you know Phil, what is the answer?

Mr. GIBBONS. I think it is more important to follow the negotiations after they are started than to try to tell them in advance what, by micromanaging, exactly what they should be.

Mr. RANGEL. And what that is going to lead to is that the President is going to get Republican support, the minimum amount of Democrats, and you will have to stretch to call it bipartisan.

Mr. GIBBONS. Since I am not as busy as I used to be, Mr. Rangel, I have gone back and read some of the things we did in the past and some of the things I have said in the past, and I have got a little mea culpa. I will tell you, we tried to micromanage it too much. We put too much detail in there.

When I read some of it, I kind of laugh because some of the stuff just repeats year after year after year after year, and the problem is we could never strike a deal. It is not that we didn't try. We couldn't strike a deal in that area. Perhaps we could have struck a deal if the Members of Congress had said, Hey, that is not what we are talking about, we have got to get something done about labor rights, we have got to get something about the environment, but that comes from blocks in the Congress who could do a better job in doing that than trying to set all this out in the broad overall instructions that we can't seem to agree on.

Mr. RANGEL. You seem so relieved since you don't have an election to face.

Mr. GIBBONS. You don't know what a relief that is.

Mr. RANGEL. It just means everything.

Mr. GIBBONS. If all of you knew what a relief that is, there wouldn't be any of you up there because it is wonderful.

Mr. RANGEL. Well, common sense prevails. All of the politics now is out of your mind. You just want us to do the right thing, don't you, Sam?

Mr. GIBBONS. Absolutely, absolutely.

Mr. RANGEL. Well, we will keep working on that.

Mr. GIBBONS. All right, and I will work with you if you will invite me up to talk with you.

Chairman CRANE. Mr. Jefferson.

Mr. JEFFERSON. Sam, it is good to see you. I don't have any questions. I had a moment to talk with you. I am very pleased to see you here, to be back on the Subcommittee, and I enjoyed my service with you.

As always, you have expressed yourself forthrightly and with great conviction, and I appreciate your being back with us. I look forward to working with you on this issue and any others that come up.

Mr. GIBBONS. Thank you, Mr. Jefferson.

I remember what you said in one of your questioning sessions and what Mr. Rangel has said about drugs and all those things. We need to include that in there, but one of the things that is happening in the United States is that while we are entering into globalization, we are destroying our safety nets around. We ought to be strengthening and straightening out our safety nets in education, in all of those kind of things, because as we move into this globalized economy, and we don't have any choice, really, we have got to move into it, we have got to realize that some people are not going to be able to make the change.

That is one reason my family lives in Florida instead of in the hills of Virginia over here because, as farmers back 125 years ago, we Gibbonses couldn't keep up. We went to Florida, and we were able to finally get ahead down there, but there are those people. There are real people that are out there. They need to be caught by our safety net, rehabilitated, retrained, sent forward. Instead of doing that, we are neglecting the safety nets. We are destroying the safety nets, and yes, we ought to be talking about drugs and about all those things in these negotiations.

There was one statistic that someone threw out here. I think it was Mr. Hills. We are less than 5 percent of the world's population. We consume more than 50 percent of all the world's drugs, and yes, we need to do something about it. We need to work with those suppliers, but we have got to work on the demand side up here.

We have got to come up with programs in this Congress——

Mr. JEFFERSON. There is one question about that.

Mr. GIBBONS [continuing]. That do more about the demand side.

Mr. JEFFERSON. The issue before us is on these trade questions.

Mr. GIBBONS. Yes.

Mr. JEFFERSON. We get to talk about the supply side of it.

I can't argue about your observation on the demand side, but we have been involved so intimately in the last few years with Mexico, and we have tried to open markets and deal with financial support when the time came to bail them out from tough problems, and we have tried, I think, to be good neighbors.

We just want to have the same response from them on this drug question, and I don't think it means we hold up all the fast track issues, necessarily, but it certainly means that these things we discuss, as we contemplate these agreements with Mexico—because this is really different from the environment and the labor issues which are very important issues we must address. This is one that

is devastating our community and putting pressure on this safety-net side that you are talking about.

We really must do something about it, and I hope we don't try to pick between the demand and supply side issues because we have to work on the demand side, but right now, since we are talking about trade, and with our neighbors, they must be better neighbors on the supply side of this question, as far as I think.

Mr. GIBBONS. Well, I agree with you. I think a lot of the fine law-abiding Mexicans would agree with you.

The problems they are having down there are really serious problems, with the undermining of their government and all the things that we see.

There are a lot of fine people in Mexico. They hate drugs and want to do away with them and decry the corruption and distortion it is bringing to their society.

We need to do more, but we have got to calm down the demand side of the equation. We are financing with American dollars this doggone war that is about to overrun us.

Chairman CRANE. Mr. Levin.

Mr. LEVIN. Mr. Chairman, I will be very brief. I want to say hello to two wonderful people. Because you are such important parts of the debate, let me just say one thing.

Fred, you said in your testimony, you talked about breaking down barriers, and as you know, I would say amen to that. Before that, you say the main problem facing the American economy is the very slow growth of average living standards over the past generation, and I think most Members of the House would agree with that.

Then you say trade becomes an important part of the solution to that problem, and the debate in part here is how much trade is an important part of the solution and how much it has been a part of the problem.

I think, Sam, that we are not micromanaging, and I don't think we should, the debate by trying to work out what is the scope of authority of the administration on that issue, and some expression from this institution as to how important we think it is.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. RANGEL. Mr. Chairman.

Chairman CRANE. Yes, Charlie.

Mr. RANGEL. Just let me say this to Fred. I hope that you and your institute might find some way for those who have this concern about the gap, perhaps after the book is published, to see how we can best present our argument in a noncombative way.

Our major problem on this Subcommittee and in the Congress is not that we challenge each other's sincerity. It is just that we can't find the right words to get this thing across. I am encouraged by your remarks. I only ask you to provide me some help and to feel comfortable in contacting me whenever if you can think of some way Phil Crane and I could better use the same language, because we have not had a problem that has been partisan. We have just had problems in the language that we feel comfortable with. Both of you could be very helpful in that area because we are very disappointed we have not fulfilled our commitments to our trading

partners with fast track, and I don't see anyone working to move it any faster. We had a dead-still for no good reason, as I see it. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Well, again, we thank you, Sam and Fred, but before we break, any input you could provide to the administration, too, Fred, like I was mentioning to Sam—I mean, you have fed us. Now feed them so that we might try and expedite this process.

With that, then, we will be in recess until 2 p.m. for our next panel of chief executive officers, and again, thank you both, Fred and Grover Cleveland—oh, excuse me. It is Sam Gibbons. I knew there was a resemblance there.

Thank you both.

Mr. GIBBONS. Thank you.

[Whereupon, at 1:57 p.m., the Subcommittee recessed, to reconvene at 2:07 p.m., the same day.]

Chairman CRANE. Gentlemen, if you will take your seats, please. We shall resume our hearing for today.

It is now my privilege to introduce our next panel of witnesses, which consist of chief executive officers from four prominent American firms. The panel consists of Joe Gorman, chairman and chief executive officer of TRW, on behalf of the Business Roundtable; John Pepper, chairman and chief executive officer of Procter & Gamble, on behalf of the National Foreign Trade Council—and I will yield to Rob Portman to welcome you momentarily—Michael Jordan, chairman and chief executive officer of Westinghouse Electric Corp., on behalf of the Emergency Committee for American Trade, who I am pleased to see here as a Chicago Bulls fan; and finally, Robert Denham, chairman and chief executive officer of Salomon Bros.

I look forward to hearing your thoughts about future trade initiatives which lay ahead for America and how they will affect U.S. companies.

With that, I will yield to my distinguished colleague, Congressman Portman.

Mr. PORTMAN. Mr. Chairman, I thank you. I think Mr. Pepper is pretty well known to the three members of the panel who are with me today, but I would like to introduce him briefly.

Chairman CRANE. Better than Mike Jordan?

Mr. PORTMAN. Well, not as well as Michael Jordan. John Pepper has got a pretty good jump shot, in case anybody wants to know that about him. He is not as good on the rebounding.

He is chairman and chief executive officer, as you know, of the Procter & Gamble Co., and the reason I wanted to introduce him was to point out that he has actually taken Procter & Gamble and moved it aggressively into the international area by expanding exports and international business.

It is my understanding, Mr. Pepper, that Procter & Gamble has doubled its sales and profits outside the United States in just a few short years since you took the helm, and I think that is an enviable record for all of our businesses in this country, and that includes a lot of established markets, but also, some of our new emerging markets—China, Russia, India, Latin America, and so on.

He has a remarkable record, then, of actually expanding economic growth through exports which a lot of us talk about, and he also has a remarkable record, Mr. Chairman, you should know, of attention to our youth, and he focuses primarily on education initiatives. He has done a great job in our State and around the country, but also on the increasing problem we see of drug abuse among our teenagers. Yesterday, he took an hour out of his very busy day to be with us to unveil a new proposal in Cincinnati, as an example, with regard to fighting drug abuse.

So, on all those counts, I want to commend him and thank you for giving me the honor of introducing him this afternoon.

Chairman CRANE. Well, we are happy to have you all here, gentlemen. Traditionally, we ask that you try and confine your presentations to around 5 minutes, but any written statements will be made a part of the permanent record.

With that, we will start in the order I introduced you.

Mr. Gorman, Mr. Pepper, Mr. Jordan, and Mr. Denham.

STATEMENT OF JOSEPH GORMAN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TRW, INC.; ON BEHALF OF BUSINESS ROUNDTABLE

Mr. GORMAN. Mr. Chairman and Members of the Subcommittee, I am Joseph Gorman, chairman and chief executive officer of TRW, Inc. We are a Cleveland-based manufacturing and service company providing products and services with a high technology or engineering content to the automotive, space and defense, and systems integration markets.

We currently operate in 27 countries around the world and employ about 68,000 men and women, including 38,000 in the United States.

I am appearing today on behalf of the Business Roundtable, an association of more than 200 chief executive officers of leading U.S. corporations, employing in the aggregate over 10 million people.

The Roundtable includes companies representing virtually every sector of the economy, including automotive, telecommunications, computers, semiconductors, transportation, consumer products, financial services, and many others.

I appreciate the opportunity to speak with you today about U.S. trade policies and initiatives.

My point today is quite simple. The United States must be the leader in global trade liberalization efforts in order to ensure that markets around the world are open to American companies and their workers.

International trade and investment are more than ever critical for the well-being of the U.S. economy, its companies, and its workers. To keep a strong and growing economy, to expand opportunities for Americans, and to increase our standard of living, we have no choice. We must compete and win in the global economy, and this must be the foundation of the Nation's economic and trade policy.

In business, if you stop investing in the future, you will surely fall behind: for the United States, trade and investment liberalization is equally important. If we are not leaders on liberalization, we

surely will fall behind other countries that are pursuing aggressively their own liberalization agendas.

Moreover, continued efforts are needed to open up markets in developing countries, markets that will present huge opportunities for this country in the years to come. Despite recent improvements in world trade rules, trade and investment barriers remain, and new ones are being erected all of the time. That is why it is critical we vigorously pursue trade and investment liberalization initiatives, such as those taking shape in the Asia-Pacific region and Latin America.

The economic impact of new trade agreements can only be positive for the United States. Basically, we are already open to the world. Thus, we almost always gain more from trade and investment agreements than we give. On top of this, our competitive edge means that we are most likely to be able to seize the opportunities presented by new market openings.

The United States must lead in opening up markets and expanding global commerce. This February, 70 countries reached a global agreement to open up telecommunications markets. The United States refused to accept an agreement last year because it was too weak. We fought hard for a better deal. It was only through our leadership that a truly good agreement was reached, one that will open up significant new opportunities for our companies and workers. But importantly, if we cease to lead, the world will not wait for us.

The last several years have seen an increasing flurry of trade negotiations and trade arrangements around the world. Our trading partners have matured politically and economically and are moving toward narrow regional agreements to open markets for their own products and services. We should be concerned about these agreements that don't include us because they can have significant adverse effects on our exporters, our workers, and our economy.

Of particular concern are overlapping and growing trade agreements in Latin America, our own backyard. For example, U.S. companies' exports to MERCOSUR countries can face significant tariffs while exports among MERCOSUR members are becoming duty free. As a result, United States-made products become less competitive in, say, Argentina, against products made in any other MERCOSUR country, such as Brazil.

There is another danger if the United States abdicates leadership. While regional and bilateral arrangements may continue in the absence of U.S. leadership, overall liberalization globally may stagnate. This would not be to anyone's benefit, and certainly not to ours. We need the opportunities represented by markets in other countries to continue boosting our economy and raising our standard of living.

We cannot hope to conclude meaningful agreements, however, if we cannot assure our trading partners that agreements reached with our trade negotiators will not have to be negotiated a second time with the U.S. Congress or the U.S. private sector.

During the last 30 years, Presidents Nixon, Ford, Carter, Reagan, Bush, and Clinton all utilized the fast track process. Expanding trade has always been and should be a bipartisan issue.

Both sides of the aisle are in favor of expanding economic growth and creating jobs.

The Roundtable continues to believe that fast track should be extended for a period of time that realistically takes into consideration the increasingly complicated nature of international trade and investment negotiations.

The Roundtable also believes that fast track should be reauthorized for use in both multilateral and bilateral negotiations. To limit it to one or the other or to specific countries is too restraining. It would unduly restrict the United States from taking advantage of unforeseen negotiating opportunities that may arise and would increase the likelihood of other countries reaching trade agreements without U.S. participation.

The United States is the strongest country in the world economically, politically, and militarily. However, we cannot maintain these strengths if we do not continue to engage fully the world outside our borders.

Ninety-five percent of the world's consumers live outside the United States. The world's fastest growing and most promising new markets are spread truly across the globe. There is no way we can have a promising future as a nation if we don't actively pursue these foreign customers and markets.

Mr. Chairman, that concludes my remarks. I look forward to answering any questions that you may have.

[The prepared statement follows:]

Statement of Joseph Gorman, Chairman and Chief Executive Officer, TRW, Inc.; on Behalf of Business Roundtable

INTRODUCTION

Mr. Chairman and members of the subcommittee, I am Joseph Gorman, Chairman and Chief Executive Officer of TRW Inc. TRW is a Cleveland-based manufacturing and service company that provides products and services with a high technology or engineering content to the automotive, space and defense, and systems integration markets. We currently operate in 27 countries around the world and employ about 68,000 men and women, including about 38,000 in the United States. I am appearing today on behalf of The Business Roundtable, an association of more than 200 chief executive officers of leading U.S. corporations, employing over 10 million people. The CEOs examine public policy issues that affect the economy and develop positions which seek to reflect sound economic and social principles. The Roundtable includes companies representing virtually every sector of the economy, including automotive, telecommunications, computers, semiconductors, transportation, consumer products, financial services, and many others. I appreciate this opportunity to speak with you today about U.S. trade policy objectives and initiatives.

In the interest of providing the most useful input from The Roundtable, I'm going to focus on points (2) through (5) of your hearing announcement. While specific trade negotiating objectives and priorities are of course important issues, I think that I can more usefully address these other issues, given the nature of The Roundtable, whose members span many sectors of the U.S. economy.

My point today is simple: the United States must maintain its leadership in global liberalization efforts so that it can ensure that markets around the world are open to American companies and their workers. International trade and investment are, more than ever, critical for the well-being of the U.S. economy, its companies, and its workers. To keep a strong and growing economy, to expand opportunities for Americans, and to increase our standard of living, we have no choice—we must *compete* and *win* in the global economy. This must be the foundation of the nation's economic and trade policy.

TO WIN IN THE GLOBAL ECONOMY, THE UNITED STATES MUST LEAD LIBERALIZATION EFFORTS

Over the past few decades, successive Congresses and Administrations have made admirable progress in breaking down barriers to foreign markets. U.S. companies have done a lot to take advantage of these opportunities, to the benefit of their workers, their communities, and the country as a whole. However, the ever-changing global economy continually presents new opportunities and challenges. We must reach out for these opportunities and meet these challenges. In order to do so, the United States must continue to pursue trade liberalization, breaking down foreign barriers to our exports and investment.

In my industry, as in all others, if you stop investing in the future, you run the serious risk of falling behind. Trade and investment liberalization is the same—an ongoing process in which the United States must invest. If we are not in the vanguard of liberalization, we risk falling behind other countries, which are pursuing their own liberalization agendas. Moreover, continued efforts are needed to open up markets in developing countries, markets that will present huge opportunities for this country in the years to come. Despite recent improvements in world trade rules, trade and investment barriers remain, and new ones may always be erected. That is why it is critical that we aggressively pursue trade and investment liberalization initiatives, such as those taking shape in the Asia-Pacific region and in Latin America.

International trade and investment agreements are still needed to open foreign markets for American companies and their workers

We need to continue pushing the envelope on trade liberalization. The United States has been the leader in pushing for open markets because we know that with our market the most open in the world, we have the most to gain from removing foreign barriers to our goods and services. And the best way to push trade liberalization forward is to pursue aggressively trade agreements that tear down foreign barriers. We have led the world through creation of the GATT and seven subsequent rounds of tariff-cutting and other market-opening negotiations under the GATT framework, which culminated in the creation of the WTO. We put into effect the NAFTA, which has already demonstrated its benefits. This has all been good work, and has helped our companies and workers compete in the global economy. But more is needed.

Many countries still maintain significant tariffs on U.S. exports. In an increasingly competitive global economy, these small taxes can make the difference between success and failure in foreign markets. Further tariff-cutting agreements are therefore necessary and we should pursue them on a multilateral, regional, bilateral, and sectoral basis.

Moreover, as tariffs and traditional non-tariff barriers to our goods and services exports have fallen, new problems have emerged. For example, inadequate intellectual property protection, investment restrictions, customs and other administrative problems, and standards-related barriers have emerged as major problems for U.S. exporters. Our agricultural exports continue to face a range of non-tariff as well as tariff barriers. Recent agreements have gone part of the way to resolving some of these problems but again, more is needed multilaterally, regionally, bilaterally, and sectorally. With respect to agriculture, new multilateral talks are particularly needed.

The economic impact of new trade agreements can only be positive for the United States. We already are pretty much open to the world. Thus, we almost always gain more from trade and investment agreements than we give. On top of this, our competitive edge means that we are most likely to be able to seize the opportunities presented by new market opening.

If the United States is not at the table, it can't play and it can't win

If the United States does not lead in opening up markets and expanding global commerce in a way that will benefit our companies and workers, no one else will. For example, this February, 70 countries reached a global agreement to open up telecommunications markets. The United States refused to accept an agreement last year because it was too weak; we fought hard for a better deal. It was only through our leadership that a truly good agreement was reached, one that will open significant new opportunities for our companies and workers. The United States must ensure that it continues to hold its position of leadership—we need to be at the head of the table to make sure that agreements are fair and meet U.S. interests.

The world is not waiting for us; the last several years have seen an increasing flurry of trade negotiations and trade arrangements around the world. In the past,

nearly every major trade agreement required U.S. leadership. This is no longer the case. Our trading partners have matured politically and economically and are moving toward narrow regional agreements to open markets only for *their own* products and services. Both within and among the major trading regions—Asia, Europe, and Latin America—countries are working toward new trade arrangements that would exclude the United States and change the rules of the game to their advantage and our disadvantage. For example:

- Mercosur, comprised of Argentina, Brazil, Uruguay, and Paraguay, is implementing a common market.
- Mercosur and Mexico may reach a trade agreement this year.
- Mercosur now has association agreements with Chile and Bolivia, and may reach an agreement with Venezuela in the future.
- The Andean Community, consisting of Bolivia, Colombia, Ecuador, and Venezuela, are establishing a free trade area.
- Mercosur and the Andean Community are discussing a free trade arrangement.
- Chile now has separate free trade agreements with both Mexico and Canada.
- Latin American nations have a web of other bilateral arrangements that are the precursors of future free trade agreements.
- There has been discussion of a Mercosur-ASEAN free trade area.
- ASEAN members are implementing a free trade area.
- South Asian nations are pursuing a preferential trading arrangement.
- The European Union has been exploring trade agreements with both Latin American and Asian nations. The EU expects to conclude a reciprocal trade agreement with Chile and has initiated talks with Mexico to pursue a comprehensive trade agreement.
- Several countries, mainly in Central Europe, are negotiating entry into the EU.
- Central European nations are pursuing a free trade agreement.

We should be concerned about these agreements that don't include us because they can have significant adverse effects on our exporters, our workers, and our economy. Of particular concern are overlapping and growing trade agreements in Latin America, our own backyard, that do not include the United States. For example, U.S. companies' exports to Mercosur countries can face significant tariffs, while exports among Mercosur members are becoming duty-free. Thus, U.S.-made products become less competitive in, say, Argentina against products made in another Mercosur country, such as Brazil. Of course, U.S. companies can produce their goods in Mercosur countries rather than in the United States if necessary to remain competitive in the region, but it hardly makes sense for U.S. trade policy to encourage this. Moreover, in order to meet the local content requirements of Mercosur and benefit from duty-free treatment, U.S. companies that produce in Mercosur members will have to source more of their parts and components from Mercosur countries, cutting down on purchases from U.S. suppliers. The end result: a loss for the U.S. economy and U.S. workers.

In addition, other countries often do not reach the same high levels of liberalization, transparency, and fairness in their trade and investment agreements that the United States insists on in its own agreements. As more and more trade agreements are reached that exclude the United States, it becomes increasingly likely that in a future negotiation with another country or trade bloc, the United States will be unable to reach a good agreement because the negotiating partner will insist on the weaker standards in its other trade agreements. We could then be faced with two choices: accept a bad agreement or reach no agreement at all.

There's a related danger if the United States abdicates leadership. While regional and bilateral arrangements may continue in the absence of U.S. leadership, overall liberalization in the global arena may stagnate. This would not be to anyone's benefit, and certainly not to ours. We need the opportunities of markets in other countries to continue boosting our economy and raising our standard of living. The United States therefore must ensure that global liberalization efforts continue through all possible avenues. In particular, we must maintain our leadership role at the WTO and ensure that it continues the good work of opening markets around the world.

Thus, in order to ensure that our trading partners don't implement agreements and regimes detrimental to our interests and that future progress in expanding global trade is not compromised, we must remain engaged and maintain the leadership role we have exercised so successfully these many years. This is not a burden for the United States. It is an unparalleled opportunity to shape the world's economic relationships in our interests.

Fast-track procedures are a necessary tool for reaching new trade and investment agreements.

It is clear that new trade and investment agreements are needed to promote continued growth for the United States, and to ensure that we are not left out in the cold as other countries reach their own agreements. We cannot hope to conclude meaningful agreements, however, if we cannot assure our trading partners that agreements reached with our trade negotiators will not have to be negotiated a second time with the U.S. Congress or the U.S. private sector.

During the last thirty years, Presidents Nixon, Ford, Carter, Reagan, Bush, and Clinton all utilized the fast-track process established by the Congress to facilitate international trade and investment negotiations to break open foreign markets for U.S. products and services. Expanding trade has always been, and should still be, a bipartisan issue—both sides of the aisle are in favor of expanding economic growth and creating jobs.

The reasons for fast-track today are just as compelling as they were in the past, if not more so. In the past, fast-track authority was enacted in the context of an existing or contemplated major trade negotiation. As I described earlier, things have changed—important trade negotiations no longer wait for U.S. leadership, and other countries are reaching their own agreements without us. In addition, agreements are being negotiated in a broad range of contexts—multilaterally, regionally, bilaterally, and sectorally (*e.g.*, the recent telecommunications and information technology agreements). If fast-track procedures are not reauthorized, our trade negotiators will not be able to pursue effectively negotiations that are on the immediate horizon, such as those in Latin America and the Asia-Pacific region. Trade negotiators will also not be able to grab at targets of opportunity that may arise. If our trade negotiators are unable to continue tearing down foreign trade and investment barriers, it can only harm the nation's economic, political, and security interests.

The Roundtable continues to believe that fast-track should be extended for a period that realistically takes into consideration the increasingly complicated nature of international trade and investment negotiations. The Roundtable also believes that fast-track should be reauthorized for use in both multilateral and bilateral negotiations. To limit it to one or the other or to specific countries is too restraining—it would unduly restrict the United States from taking advantage of unforeseen negotiating opportunities that may arise, and would increase the likelihood of other countries reaching trade agreements without U.S. participation.

The Business Roundtable hopes that the Administration and Congress will reach a compromise as soon as possible on the outstanding issues regarding fast track and implement new negotiating authority. With fast-track, our negotiators can proceed with the important work of breaking down barriers to American exports and boosting opportunities for our companies to compete and win in the global economy.

SUCCESS IN THE GLOBAL ECONOMY IS CRITICAL FOR THE AMERICAN ECONOMY, ITS COMPANIES, AND ITS WORKERS

The United States must lead in promoting trade and investment liberalization around the world because the U.S. economy, as well as its businesses, have become internationalized. This is a fact of life that we can not, and should not, run from, but rather must embrace. Some may seek to hide from the global economy. But we can't run from the reality of globalization, and we can't afford to turn our backs on the opportunities it presents.

The United States is the strongest country in the world economically, politically, and militarily. However, we cannot maintain our economic strength, nor our strength in other areas, if we do not continue to engage fully the world outside our borders. Ninety-five percent of the world's consumers live outside the United States. The world's fastest-growing and most promising new markets are spread across the globe. There's no way we can have a promising future as a nation if we don't actively pursue these foreign customers and markets.

The global economy is real, and the United States is part of it

International trade is increasingly important for the world as a whole. From 1994 to 1995, world trade in goods increased 8 percent by volume and 19 percent by value, rising to a bit over $5 trillion. In contrast, the increase in world goods output was only 3 percent. Equally impressive, world trade in services increased 13 percent by value to just over $1 trillion.

And the world at large is more important to the U.S. economy than ever before. We remain the world's largest exporter—our total exports were $835.7 billion ($611.7 billion of goods and $224.9 billion of services) in 1996. Total trade—imports

plus exports—accounted for nearly $1.8 trillion in business activity, equal in magnitude to nearly 24 percent of the size of the U.S. economy as a whole.

My company, like all members of The Business Roundtable, is constantly aware of how important the global economy is. TRW's automotive customers are global. Our companies, quite simply, cannot grow or even survive if we don't tap foreign markets. For my company, international sales totaled $3.9 billion in 1996, or about 40 percent of our total sales.

Trade is good for our economy, good for business, good for workers, good for farmers, and good for consumers

The nation has recognized the existence of the global economy and the opportunities it presents. American companies have worked hard to compete and win in that economy, and we have seen the positive results. U.S. exports continue to rise at an impressive pace—in 1996, exports were up 6.2 percent from the year before. And exports in some key product areas are growing even faster. For example, in 1996, exports of airplanes and airplane parts jumped 26.9 percent; exports of computers were up 11.6 percent; and exports of scientific instruments were up 10.7 percent.

Exports are the engine driving economic growth and job creation in the United States. Export growth has accounted for about one-third of the nation's overall economic growth over the past ten years, and export growth continues to greatly outpace the growth of the economy as a whole. In 1996, exports of goods and services rose by 6.5 percent in real terms, compared to a 2.4 percent increase in real GDP.

Trade is good for the economy and for our companies. But as importantly, it's good for American workers. There are now over 11 million U.S. jobs that are created and supported by exports. Export-related jobs accounted for 1 out of every 8 net jobs created in the United States between 1992 and 1996. Exports account for about 1 in 10 civilian jobs in the nation, and about 1 in 5 manufacturing jobs.

Export-related jobs are also higher-wage jobs. Export-supported jobs in general pay, on average, 13 percent more than the average U.S. wage. The premium is even more striking if you look at the core of export-supported jobs—those directly supported by goods exports. These jobs pay, on average, 20 percent more than the average U.S. wage. And a lot of our export growth is in high-wage, high-tech sectors. These are clearly the types of jobs we want to promote for this and future generations.

Exports are also very important for the nation's farmers. U.S. agriculture exports hit a record $61.2 billion in 1996, up 7 percent from 1995. One out of every three farm acres in America, and 50% of our wheat acres, 57% of our rice acres, and 37% of our soybean acres, are dedicated to exports. Last year, U.S. agriculture had an estimated $27.4 billion trade surplus—the largest ever.

Trade benefits the company that sells goods or services abroad. But trade also has a tremendous beneficial ripple effect in communities and throughout the U.S. economy. Trade benefits suppliers, especially the numerous small and medium sized companies whose goods are either incorporated into exports or whose goods and services directly support the operations of U.S. exporters. Trade benefits numerous service providers, such as insurance companies and banks that finance an exporting company's activities. The benefits ripple throughout the local community, to the restaurants, stores, and other establishments near the facilities of exporters and their suppliers.

Let's not forget that imports are also important to maintaining a vibrant, competitive economy and high standards of living. Imports give consumers a greater choice of goods and services, and provide them with goods and services not always available from U.S. sources. They create jobs in areas like retailing, distribution, ports, and transportation. Imports allow U.S. companies and workers to use the best technology and components from around the world increasing their productivity and competitiveness and therefore leading to higher wages and creation of more U.S. jobs. Moreover, imports encourage competition and innovation in general. Walling off producers from competition often results in bloated, uncompetitive enterprises. This does not benefit anyone—not the company, not its workers, not consumers, and not the nation.

International investment is also a crucial part of competing and winning in the global economy

Not only is trade good for the United States—international investment is important, too. In order to seize the opportunities presented by the global economy, companies must be able to invest in other countries when this makes sense for their businesses. And this investment creates new markets and customers for U.S. companies and their workers and boosts the U.S. economy.

The primary goal of foreign investment is the desire to serve the consumers in the country or region in which the investment occurs, not to find cheap labor or other inputs. In 1994 (the latest year for which data is available), about 67 percent of total sales by U.S. companies' majority-owned foreign affiliates were sold in the affiliate's country of location; another 23 percent were sold in other foreign countries. So, a total of 90 percent of U.S. companies' sales of foreign-made goods and services are sold *outside the United States*. This makes sense. Customers, be they users of intermediate goods in their own production operations or end users, demand prompt and reliable service from their suppliers. It is frequently difficult to meet those demands from thousands of miles away in the United States. Customers sometimes need or want to receive their goods from nearby manufacturing facilities. Proximity is even more important for services, of course. Consumers expect their banks, telephone companies, and professionals to be nearby.

Investment abroad brings back significant benefits here at home. Workers in the United States often design, test, and market products made at overseas plants. And, because U.S. companies invest overseas to stay competitive and win new customers, their foreign investments help boost U.S. exports and maintain and create American jobs. Exports follow investment—in 1994 (the latest year for which data is available), exports of goods by U.S. companies to their foreign affiliates totaled $129 billion, 25 percent of all U.S. goods exports. And U.S. companies' trade with their foreign affiliates generated a $19.2 billion trade *surplus*.

U.S. companies' overseas operations also generate income that comes back here to the United States, where it can be reinvested in U.S. operations to the benefit of the local economy and U.S. workers. In 1995, this flow of income back into the United States was over $100 billion. Moreover, overseas investments are often needed to keep U.S. companies competitive. Foreign investment allows companies to enjoy greater economies of scale and scope, as well as access to important foreign technologies.

Foreign investment by U.S. companies is concentrated in developed countries. If foreign investment were motivated by a search for low cost inputs, developing countries would be the predominant location for foreign investment. But developing countries account for only about one-fifth of U.S. companies' total overseas investments. Companies' foreign investment decisions are complex; many factors, including the size of the country's and the region's market; the quality and reliability of transportation, telecommunications, energy, and other infrastructures; protection of intellectual property; the regulatory and legal climate; skill level of workers; presence of needed materials and inputs; political risks; stability of the currency and economy, go into the mix. Production costs, including labor costs, are but one of many factors.

Unfortunately, sometimes U.S. companies are forced to invest in foreign countries in order to jump over high barriers to imports. In these situations, the only way to compete in that market often is by producing your goods in that country. This is yet another reason for breaking down foreign trade barriers: to ensure that our companies are not forced to invest abroad, and can make foreign sales through exports from the United States when that is a competitive way to do business. My company is a prime example of how breaking down foreign trade barriers can increase sales from the United States by eliminating some of the need to invest abroad. Since 1990, as foreign barriers have progressively come down, TRW's export sales as a percentage of our international sales have grown from about 10 percent to 20 percent.

Because the United States is the world's most competitive nation, we have the most to gain from the global economy and from trade and investment liberalization

To borrow from Mark Twain, reports of the death of U.S. competitiveness have been greatly exaggerated. Back in the 1980s and early 1990s, conventional wisdom held that the United States had been overtaken by Japan and Germany and might never regain its place in the sun.

Well, look what happened: today, the United States is back on top. Our economy has been growing faster than those in Europe and Japan. We have led the G–7 nations in growth of industrial output for the past five years and in growth of manufactured exports from 1985 to 1995. While we need to make more progress, we have the lowest budget deficit as percentage of GDP of any G–7 economy. We have created more net jobs in the past few years than all other G–7 nations *combined*, and our unemployment rate is below that of every other major industrial economy besides Japan (which keeps official unemployment low through artificial means that harm its economy). While we still have a trade deficit, it has declined by 40 percent as a percentage of GDP, from about 2.7 percent in 1985 to 1.6 percent in 1996.

We have the world's largest economy, the most productive workers, the best technology, and the most innovative people. That's why we are considered to be the most competitive country in the world, as confirmed last year by the World Competitiveness Yearbook from the International Institute for Management Development. Remember how pundits were writing off the U.S. computer and semiconductor industries in the 1980s? Well, now we're highly competitive in a range of important industries, such as: semiconductors, computers, computer software, aerospace equipment, applied materials, biotechnology, construction equipment, telecommunications and other information-based equipment and services, financial services, information services, and entertainment. These are the technologies of today—and of tomorrow. We must not be afraid to leap wholeheartedly into the opportunities presented by the international marketplace.

We have done so well as a nation because we have willingly sought out the opportunities presented by the global economy. We have the resources and the capability to be winners. All we need to do is ensure that our companies and our workers, and the products and services they produce, are given the opportunities to compete and win in the global economy.

We need to do more, of course, to ensure the continued competitiveness of the nation, its companies, and its workers. In a world of increasing technological innovation, companies must be able to rely on a steady flow of educated, trained, and skilled scientists, technicians, and workers. To meet this need, The Business Roundtable supports appropriate and effective worker retraining programs and initiatives to improve the U.S. education system.

The global economy and technological change demand a new national workforce development strategy. The existing federal and state programs are fragmented and uncoordinated. Current programs need to be reassessed with a new focus on quality and international competitiveness. The Business Roundtable supports reform of federal job training programs—last Congress we supported H.R. 1617, the Comprehensive and Reformed Education Employment and Rehabilitation Systems (CAREERS) Act, which would have consolidated up to 100 education, job training and assistance programs. This legislation emphasized competitiveness as a fundamental goal for U.S. workforce development programs. We would support similar legislation in the 105th Congress.

In 1989, The Roundtable CEOs agreed that improving the performance of the K–12 education system is a critical priority and The Roundtable made a 10-year commitment to a state-by-state transformation of our schools. Our focus is at the state-level because states have primary responsibility for education in our country.

Thanks to efforts by The Business Roundtable and others in the past few years, 43 states now have business-led reform coalitions that are keeping the pressure on local school systems to change. For example, in Ohio where TRW has its headquarters, the Ohio Business Roundtable is working closely with Governor Voinovich on a set of reforms that are beginning to result in higher test scores. Clearly, we have a long way to go before our K–12 education system is considered the best in the world, but we believe we are headed in the right direction.

The government must also ensure that national policies and laws do not unduly hamper U.S. companies' global competitiveness. For example, the U.S. tax system needs to deal better with the global nature of today's businesses. Current rules for taxing foreign-source income are inexhaustibly complex and expensive to comply with. The U.S. rules depart from international norms and increase tax burdens for U.S. companies by restricting the use of foreign tax credit, deferral, and treaty benefits.

With growing world economic integration, the anticompetitive effects of U.S. international tax policy will be magnified. The U.S. system for taxing foreign source income should be reviewed with an eye to making it more compatible with the modern economic environment. If this issue is not addressed, U.S. companies competing in global markets will be seriously handicapped, to the detriment of their workers and the nation as a whole.

With improved education and training and wise governmental policies the United States will remain highly competitive. In an open global economy, America will come out on top.

Developing countries in particular hold huge promise

Right now, the majority of our trade is with developed countries—Canada, countries in Europe, and Japan. However, the real big opportunities are in large developing countries. These are the countries that can grow, and are growing, the quickest. For example, between 1985 and 1995, the U.S. economy grew 26.4 percent, Europe's, 26.5 percent, and Japan's, 33.7 percent. Developing countries in Asia grew by a whopping 109.3 percent in the same period.

While world imports grew 96.8 percent between 1985 and 1995, developing economies' imports jumped 180.4 percent, and imports of developing countries in Asia were up 226.1 percent. And these developing countries are in particular need of the types of goods and services that we are great at producing, in such areas as, telecommunications, construction, information technology, biotechnology, environmental protection and cleanup, and finance.

Moreover, development builds demand for consumer goods and services, again an area of U.S. predominance. By the year 2010, China, India and Indonesia combined will have 700 million people with annual income equal to that of Spain today. The opportunities for the United States are, frankly, mind-boggling.

We are already seeing significant benefits from trade with these markets. Between 1992 and 1996, U.S. goods exports to Pacific Rim countries (excluding Japan and China), jumped 57 percent; goods exports to Latin America surged by 49 percent. This is much faster than growth of our exports to many of our major developed country trade partners—in the same four years, U.S. goods exports to Europe grew only 18 percent. Growth of developing country economies and U.S. exports to those countries are predicted to continue rising dramatically. If current trends continue, by 2010 Latin America will surpass Japan and Western Europe combined as a market for U.S. exports.

There's another important point to make here. Economic liberalization in other countries benefits not only the United States, but the liberalizing country itself, as well as global stability in general. Developing countries around the world have recognized the benefits of liberalization and have, to varying degrees, abandoned protectionist strategies in favor of openness. The result has been an economic boom in many developing countries. This in turn promotes creation of middle classes, which, along with openness to the rest of the world, promotes democracy and economic and political stability. Thus, economic liberalization advances important U.S. non-economic goals. And, in pure self-interest, we should note that these effects in turn boost the market for U.S. exports.

Critics of international trade and investment are off the mark

With the opportunities of the global economy come fears. Some have argued that trade costs U.S. jobs because of imports. It is true that some jobs are displaced by imports. However, trade is only one factor that impacts the job market; technological change is far more significant. But we must look at the result of the changes taking place in the national and world economy—the gradual shift of jobs from low-productivity, low-competitiveness, low-wage jobs to high-productivity, high-competitiveness, high-wage jobs. We are moving inexorably towards a knowledge-based economy with jobs shifting away from unskilled industrial employment to skilled workers in a service-related and information-based economy. These job shifts are to be expected and welcomed as we approach the 21st century; they will lead to a better future for today's and tomorrow's workers.

There are always advocates of imposing trade barriers to "protect" jobs. Unless we are willing to reconsider the failed theories of isolated and planned economies, we know that jobs are created by the reality of the marketplace. You cannot permanently freeze jobs into the economy if the realities of technology and competition mandate otherwise. Moreover, we cannot effectively promote export growth and open markets abroad while closing our own markets.

Even recognizing the realities of the market, we cannot and should not ignore the real effects of job loss for individuals. I simply do not believe that trying to freeze our economy is in the interest of this or future generations of workers. Our work force is one of the most diversified and highly educated in the world, and as a very large and flexible economy, we have the ability to absorb workers into productive and well-paying jobs. Protectionism is not the way to help our workers, our citizens, nor our economy. What we need to do is keep our economy dynamic and open, and promote good, solid, effective training and education to help workers adapt to change. As I've already mentioned, The Business Roundtable remains committed to working with Congress and the Administration to develop and implement good education and training programs.

Some have pointed to the U.S. trade deficit as evidence that trade is bad for the United States. Actually, we have a trade deficit because we consume more than we produce. The rest of the world provides us with what we demand, so we run a deficit. Also, in the last few years, our economy has been growing steadily while our trading partners are stuck in recessions or slow growth periods, so we temporarily import more and export less. The federal budget deficit doesn't help, either. It's another manifestation of our propensity to consume excessively.

We also recognize that the trade deficit has fallen significantly in the last decade when compared to the size of our economy. Moreover, a large portion of our trade

deficit consists of petroleum imports, which is not a job-displacing commodity—our deficit in petroleum products was 35.2 percent of the total trade deficit in 1996. Another huge chunk—18 percent—was in our auto and auto parts deficit with Japan, which is due to special, unique bilateral problems. I would also note that, compared to the size of its economy, the United States imports far less than every other developed country except Japan.

When discussing the trade deficit, we should be addressing the low savings rate in the United States and the high federal budget deficit, not imports. If we can lick these problems, we will have gone a long way to improving the U.S. economy, and the trade deficit will fall in line. Tearing down foreign barriers to our exports can only help. Resorting to isolationism and protectionism to "solve" the trade deficit problem will not help the economy.

There are also those who argue that international investment is bad. I think that the facts I have already presented prove that this is not true. It's important to recognize that the decision to invest is a very complex one, involving many factors, not just low production costs. The United States is endowed with numerous advantages which make it a very attractive place for U.S. companies and foreign companies to invest, including a highly productive and well-educated work force, state of the art communications networks and computer systems, technologically advanced production facilities, a well-developed transportation infrastructure, and stable and sophisticated legal and financial systems. If low wages were the main determinant of investment decisions and manufacturing strength, Haiti and Bangladesh would be economic leaders, not the U.S., Germany, and Japan.

There are also those who bemoan the fact that the United States is no longer the clear world leader in all aspects of global commerce, as we were after the Second World War. There's a reason for this—we recognized that a prosperous and growing world economy was central to achieving our nation's economic, foreign policy, and national security objectives. That is why our national policy for the past 50 years has been to promote world growth and prosperity. The Marshall Plan was one element of this long-standing U.S. policy. Promoting trade and investment liberalization on a continuing basis is another.

World growth is a win-win proposition—bigger markets abroad mean more sales for our companies and workers. If our companies and workers are competitive—and they are—our nation can be a clear winner in a vibrant world economy. We must continue to be fully engaged and we must work with other countries to promote openness and growth, which will benefit all players in the global economy, including our own citizens.

CONCLUSION

The United States can only maintain its economic strength if it *competes* and *wins* in the ever-expanding global economy. Trade and investment agreements are needed to tear down foreign barriers and ensure that our companies can make full use of their competitive advantage. If the United States does not maintain its leadership position in world liberalization efforts, it will be on the sidelines as other countries reach agreements that leave our companies and workers out in the cold. The Business Roundtable hopes that the private sector, Congress, and the Administration can all work together in this area and ensure a bright future for our country.

Chairman CRANE. Thank you, Mr. Gorman.

Mr. Pepper.

STATEMENT OF JOHN E. PEPPER, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, PROCTER & GAMBLE CO.; ON BEHALF OF NATIONAL FOREIGN TRADE COUNCIL

Mr. PEPPER. Mr. Chairman, distinguished Members of the Subcommittee, I am John Pepper, chairman of the board and chief executive of the Procter & Gamble Co. I am testifying today on behalf of NFIC, the National Foreign Trade Council.

I would like to focus my remarks on just three points. The first is, and Joe Gorman made it, the world is not waiting for the United

States to take advantage of the benefits from trade agreements. That is what makes this matter so urgent.

The United States has an impressive record of achievement leading the rest of the world in the direction of a trading system that is rules based, transparent, and open. That, as we all know, has been at the foundation of a great economic stimulus under which world trade has consistently outpaced world economic growth.

Frankly, I, along with my colleagues at the NFTC, are seriously concerned that we are now falling behind many other major countries without fast track authority.

It has now been 3 years since Chile was invited to joint NAFTA. Other trade-negotiating efforts initiated in late 1994 are losing momentum, such as the creation of a Free Trade Area of the Americas and the move toward eventual free trade among APEC countries.

While we have been sitting on the sidelines, considering lots of things, but not getting them done, our trading partners are aggressively reaching agreements among themselves.

Allow me to elaborate. Chile's uniform 11 percent tariff is being phased out for both Mexico and Canada, but not for the United States. Among the MERCOSUR countries, tariffs as high or higher than 40 percent have been totally eliminated, but not for us.

Consequently, and not surprisingly, interregional trade among MERCOSUR partners is exploding. It has grown over 40 percent in just the past 2 years between those countries. Meanwhile, the best trade growth the United States can report with any one of the MERCOSUR countries is 20 percent over the same period, less than half of what is being achieved within that group.

Beyond that, the European Union is moving to establish new trade relationships with Mexico. Japan is in the process of forming greater relationships with Latin American, and I haven't mentioned the Andean Pact. Latin America is the second fastest growing region in the world. It is our neighbor, and if we don't move forward, in my judgment, to achieve the FTAA, we may be about the only major country without preferential trade status.

Point two, the U.S. economy is dependent on expanding trade and investment globally. While we are the world's largest, most competitive economy, 95 percent of the world's population lives outside the United States. This means that the vast majority of growth potential for our economy, for jobs in our country, comes not from the United States, but from the rest of the world.

Our experience at Procter & Gamble is a good example. We are a $35 billion company today. More than half of our total business comes from outside the United States, but 73 percent of our growth in the last decade has come from international markets.

Had we not been able to expand our business globally over that period, we would be a much smaller and much weaker company today. We would be less competitive. We would employ fewer American workers, and those jobs that we did provide would be a lot less secure.

Instead, we have 44 U.S. manufacturing plants. We have over 40,000 employees. Many of those plants have significant export business and key nonmanufacturing functions located in this country, such as research and development and engineering are servicing our business all around the world.

Our Jackson, Tennessee, plant is an excellent illustration of this. We built Jackson in 1971 to produce Pringles Potato Chips and Duncan Hines baking mixes. Around 1990 to 1991, we began to develop an export business for Pringles. Today, worldwide exports of Pringles are over $200 million. We employ over 1,300 people at Jackson, Tennessee, and we are launching a $185 million expansion to the facility, made possible primarily because of greater exports. This will create 200 additional new jobs there and a multitude more in small businesses serving our material supplies for the plant.

I would like to comment on NAFTA as one example of an agreement negotiated under fast track authority. NAFTA has and continues to be successful. The Department of Labor indicates that 311,000 jobs have been created under NAFTA. Exports, despite the peso devaluation, are setting new records—$57 billion last year—an increase of 23 percent in dollar terms over the previous year.

Additionally, I think it is significant to point out that the United States share of Mexico's imports has grown from 69 percent before NAFTA to 76 percent today. This is in contrast to the decline in the United States share of imports into Brazil from 25 to 23, and in Argentina from 24 to 21. I would submit this is due to less favorable free trade and the existence of MERCOSUR there.

What is more, NAFTA has kept Mexico on the path toward open economic reform and trade liberalization with the United States during what has obviously been its worst recession in modern history.

Procter & Gamble's United States exports to Canada and Mexico have nearly tripled since NAFTA was implemented. Other NFTC members believe, as we do, that NAFTA is a win-win for all three countries and should be expanded. To do this, however, we must get fast track.

That leads me to my third and final point. Without fast track authority to negotiate new agreements, the United States will jeopardize domestic job growth, and it will be disadvantaged to other countries and regions of the world.

Fast track authority must be a top priority for our government. Spending time, as I often do, in Latin America, I fear that this does not have the urgent attention it needs.

Fast track should be broad in its coverage and long term. The issue of linking labor and environment to fast track is highly controversial. These nontrade objectives are worthy of pursuit in and of themselves, I am sure, but they should not impede the progress of trade expansion, which is so important to our economy.

Trade expansion by itself brings about economic development for our trading partners, which supports the improvement of environmental and labor conditions.

At P&G, we seek to attain, attract, and retain the best people anywhere we do business. What is more, we design and engineer our manufacturing equipment to a single high global standard, whether that is in Mehoopany, Pennsylvania, or in Guangzhou, China.

In conclusion, let me say that if we are to secure a prosperous future for our children, we must work together. It is critical that Congress and President Clinton join together to get new bipartisan

fast track authority. We have no time to lose. The world is moving. I think it will move faster, not slower. We must act now.

That concludes my testimony.

[The prepared statement follows:]

Statement of John E. Pepper, Chairman of the Board and Chief Executive Officer, Procter & Gamble Co.; on Behalf of National Foreign Trade Council

Mr. Chairman and distinguished members of the Subcommittee, I am John E. Pepper, Chairman of the Board and Chief Executive of The Procter & Gamble Company. I am appearing today on behalf of the National Foreign Trade Council, a broad-based organization of over 500 U.S. companies having substantial international operations or interests. I also serve on NFTC's board.

I appreciate the opportunity to testify today on U.S. trade policy. I would like to focus my remarks on fast track trade negotiating authority and make three points: 1) the world isn't waiting for the U.S. to take advantage of the benefits from trade agreements; 2) the U.S. economy is dependent on expanding trade and investment globally; and 3) without fast track authority to negotiate new trade agreements, the U.S. will jeopardize domestic job growth and be disadvantaged to other countries and regions throughout the world.

1. *The World Isn't Waiting for the U.S. To Take Advantage of the Benefits from Trade Agreements*

The United States has an impressive record of achievement in leading the rest of the world in the direction of a trading system that is rules-based, transparent and open. Through multilateral, regional and bilateral efforts, we have negotiated clear rules of the game for international trade, and have progressively reduced tariff and non-tariff trade barriers. The result has been an enormous economic stimulus under which world trade has consistently outpaced world economic growth. It also has led to a trading system that is largely built around U.S. concepts of market-based economic growth and a sense of fair play.

NAFTA and the WTO, two examples of agreements negotiated under fast track authority, are resounding successes and we should be proud of them. Expansion of these agreements is critically important as is the pursuit of other initiatives that promote basic U.S. trade interests. This means moving forward on Chile's accession to NAFTA, expanding free trade throughout the Western Hemisphere, encouraging the APEC process, and strengthening the WTO through accession of major emerging economies, such as China, Russia and Vietnam, on viable commercial terms.

NFTC members are seriously concerned that we are falling behind. It is now approaching three years since Chile was invited to join NAFTA. Other trade negotiating efforts initiated in late 1994 are losing momentum, such as the creation of a Free Trade Area of the Americas (FTAA) and the move toward eventual free trade among APEC countries. Our negotiating ability and credibility is limited without fast-track authority.

Meanwhile, our trading partners are aggressively reaching agreements among themselves, while the United States is forced to sit on the sidelines. Chile and Canada have negotiated their own free trade pact, the European Union is moving to establish special trade relationships with Mexico and elsewhere in Latin America. The Andean Pact is getting stronger. Japan, as well, is wisely seeking to enhance its trade position in the region. Chile, moreover, has a free trade agreement with MERCOSUR, which is led by Brazil. While there is nothing wrong with these agreements in and of themselves, we must recognize the benefits created by them exclude the U.S.

These developments are putting American firms and workers at a competitive disadvantage. For example, Chile's uniform 11% tariff is being phased out for both Mexico and Canada, but not for us. Among the MERCOSUR countries, tariffs as high or higher than 40% have been eliminated. Consequently, intraregional trade among MERCOSUR partners is exploding, growing over 40% in the past two years. Meanwhile, the best trade growth the U.S. can report with any MERCOSUR country is 20% over the same period. Latin America is the second fastest growing region in the world and if we don't move forward on achieving the FTAA, we may be the only country without preferential trade status.

2. *The U.S. Economy is Dependent on Expanding Trade and Investment Globally*

The U.S. is the world&AElig's largest, most competitive and innovative economy. However, it's important to remember that 95% of the world's population lives outside the United States. This means that the vast majority of growth potential for

American industry—growth that provides American jobs—comes not from the U.S., but from the rest of the world.

Our experience at Procter & Gamble is a good example. We are a $35 billion company. More than half of our total business comes from outside the U.S.—and 73% of our growth in the past decade has come from international markets. Had we not been able to expand our business globally over that period, we'd be a much smaller company today. In fact, we would be a far less competitive company today. We'd employ fewer American workers and those jobs we did provide here would be far less secure.

Instead, we have 44 U.S. manufacturing plants and more than 40,000 U.S. employees. Many of our U.S. plants have substantial export business, and key non-manufacturing functions here in the U.S., such as Research & Development, Engineering, and Logistics support our international operations.

Our Jackson, Tennessee facility is an excellent illustration of this point. The Jackson Plant was built in 1971 to produce Pringles and Duncan Hines baking mixes for domestic sales. It wasn't until around 1990/91 that we began to develop an export business for Pringles. Today, exports of Pringles to Canada, Europe, Latin America and Asia are over $200 million in sales, and represent a third of the plant's production volume. We now employ 1300 people at Jackson and we're launching a $185 million expansion to the facility. This expansion will result in 200 additional new jobs to our work force there. The future for P&G is in expanding our international business opportunities. Obviously, Jackson has and will continue to be a major beneficiary of this trend.

I'd like to comment on NAFTA in light of the Administration's pending review and questions about its success. The record is clear—NAFTA has brought major benefits to the United States and is very much in the mutual interest of the NAFTA partners—the United States, Canada, and Mexico. NAFTA is doing exactly what it was intended to do—breaking down Mexico's very high trade barriers to us and leveling the playing field. It has expanded U.S. jobs, trade and market share.

The facts speak for themselves. Today, 2.3 million high-wage U.S. jobs depend on trade with Canada and Mexico—311,000 of these jobs have been created under NAFTA. Exports to Mexico are setting new records, despite the peso crisis. In 1996, we exported $57 billion to Mexico—an increase of 23% over the previous year and 37% over 1993, the year before NAFTA went into effect. Likewise, exports to Canada in 1996 were 33% above 1993 exports. U.S. market share in Mexico has grown from 69% before NAFTA to 76% today. At the same time, our non-NAFTA European and Japanese trading partners have seen their market shares decline.

NAFTA, moreover, has kept Mexico on the path towards open economic reform and trade liberalization with the United States during its worst recession in recent history. This is in sharp contrast to what happened during the financial crisis of 1982 when Mexico imposed 100% duties and other trade restrictions on American products. It took seven years for our exports to recover then. This time it took only eighteen months.

NAFTA has created business opportunities for Procter & Gamble. Procter & Gamble's exports of finished products from the U.S. to Canada and Mexico have nearly tripled since NAFTA was implemented. We believe we have only scratched the surface of market opportunities available as a result of NAFTA.

Other NFTC member companies have also benefited from NAFTA and remain fully committed to this agreement. It's a win-win for all three countries and should be expanded.

The NFTC also applauds the recent conclusion of the WTO Information Technology Agreement which was concluded under a residual grant of fast-track negotiating authority. It is a demonstration of our ongoing ability to lead in the trade arena when our negotiators have the necessary tools. While Procter & Gamble had no specific stake in the outcome of this agreement, we know that the expansion of rules-based regimes will ultimately help our business.

While these trade agreements benefit American firms and workers, it's imperative that all of us do a better job of explaining how trade makes us strong. We can't afford not to. Trade now accounts for 30 percent of U.S. GDP. Exports have been responsible for one-third of U.S. economic growth over the past decade. These exports support 11 million American jobs. Export related jobs pay better, and are more stable and productive. Clearly, trade fuels our economy.

3. *Fast Track Authority Must Be Renewed Now.*

Without fast track negotiating authority, our ability to access foreign markets is seriously compromised and places us at a competitive disadvantage. Renewal of fast track must be a top priority for our government. It should be broad in its coverage and long term.

The issue of linking labor and environment to fast track is highly controversial. These non-trade objectives are worthy of pursuit in and of themselves, but should not impede the progress of trade expansion. Trade expansion by itself brings about economic development for our trading partners, which supports improved environment and labor conditions.

At Procter & Gamble, we seek to attract and retain the best people wherever we do business. Additionally, we design and engineer our manufacturing equipment to a single high global standard whether it's being installed in Mehoopany, Pennsylvania or Guangzhou, China.

In conclusion, let me say that important events on the horizon beg for strong U.S. trade leadership, credibility and strategic vision. If we are to secure a prosperous future for our children, we must work together. It is critical that Congress and President Clinton join together to enact new fast-track trade negotiating authority that builds on our impressive and positive trade legacy. We have no time to lose. The rest of the world is moving. The time to act is now. Thank you.

U.S. JOBS RELATED TO MAKING PRINGLES

Procter & Gamble packages Pringles potato chips in only one location -- Jackson, Tennessee -- but many other companies, small and large, contribute to making this product. As Pringles sales increase, P&G and its workers are affected, and so are these suppliers and their workers.

MEMBRANE AND LINER
Made in Kaukauna, Wisconsin
Supplier: Thilmany
Enrollment in Kaukauna: 1,200
Corporate Enrollment:
(International Paper 70,000)

CORRUGATED BOXES
Made in Herrin, Illinois
Supplier: Orpack-Stone
Enrollment in Herrin: 130
Corporate Enrollment: 130
&
Made in Olive Branch, Mississippi
Supplier: Weyerhaeuser
Enrollment in Olive Branch: 127
Corporate Enrollment: 39,000

FOIL FIBER CAN
Made in Jackson, Tennessee
Supplier: Sonoco
Enrollment in Jackson: 200
Corporate Enrollment 19,000

METAL ENDS
Made in Memphis, Tennessee
Supplier: Sonoco
Enrollment in Memphis: 200
Corporate Enrollment: 19,000

PLASTIC LID
Made in Lee's Summit, Missouri
Supplier: Plastic Enterprises
Enrollment in Lee's Summit: 200
Corporate Enrollment: 200
&
Kansas City, Missouri
Supplier: Omega Plastics, Inc.
Enrollment in Kansas City: 25
Corporate Enrollment: 25

LABEL
Made in Columbus, Wisconsin
Supplier: American Packaging
Enrollment in Columbus: 215
Corporate Enrollment: 630

POTATOES
Grown in Washington, Idaho,
North Dakota and neighboring states.
Suppliers: Nearly 1,000 independent farmers.

POTATO FLAKES
Processed in Rupert and
Glenns Ferry, Idaho
Supplier: Magic Valley Foods, Inc.
Enrollment at both plants: 305
Corporate Enrollment: 420
&
Processed in Boardman, Oregon and
Warden, Washington
Supplier: Oregon Potato Company
Enrollment at both plants: 230
Corporate Enrollment: 230

Chairman CRANE. Thank you, Mr. Pepper.
Mr. Jordan.

STATEMENT OF MICHAEL H. JORDAN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, WESTINGHOUSE ELECTRIC CORP.; ON BEHALF OF EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. JORDAN. Mr. Chairman, I want to thank you for this opportunity to testify before the Trade Subcommittee of the Ways and Means Committee of the House of Representatives. While I fully support my colleagues' call for trade liberalization initiatives and their instruments such as fast track, in the interest of brevity, I shall confine my remarks to two particular topics, unilateral U.S. trade sanctions and the financing of U.S. exports.

Before I continue, let me point out my awareness that the Ways and Means Committee is not the Committee of formal jurisdiction insofar as either sanctions or export finance are concerned, but this Subcommittee and its Senate counterpart are primarily responsible for setting trade policy within the Congress. That brings me directly to my two central points. First, the growing recourse to unilateral trade sanctions has brought us to the point where they are having a serious deleterious impact on overall U.S. trade policy, and second, the lack of legislative commitment to export financing seriously undermines our international competitiveness.

The National Association of Manufacturers in its recent survey, which I am submitting for the record, points out that between 1993 and 1996, the United States has enacted 61 U.S. laws and executive actions authorizing unilateral trade sanctions, a new one every 3½ weeks.

The Congress of the United States owes it to the national exporting community and its work force to ask what substantive effect these sanctions can have in a global economy where a buyer refused service in one country can almost always find a willing seller in another.

Let me offer a specific example from the experiences of the Westinghouse Corp. Our energy systems business unit, which is based in Monroeville, Pennsylvania, is widely regarded as one of the leaders, if not the leader, in the global nuclear power industry. Unfortunately, notwithstanding the quality of our products, demand for new nuclear powerplants in the United States is nonexistent, but this need not have posed a serious problem for our Monroeville work force because, like many companies which have had to confront major shifts in the American marketplace, our energy systems unit could have responded by displaying the type of flexibility which is said to be its hallmark, shifting from a domestic focus to one concentrated on the high-growth international markets where demand for nuclear power is high, most notably in China.

Unfortunately, legislation was passed in 1989 which effectively prevents United States civilian nuclear equipment manufacturers from selling their products in China. Now, without arguing the moral or ideological reasons for its passage, we must recognize that no other nation joined us in that prohibition. Consequently, the impact on China has been nil and the impact on Monroeville severe. China, denied the ability to purchase the superior United States product which it still wants, by the way, has since 1989 purchased or contracted for approximately $8 billion in nuclear plants from France, $3 billion from Canada, and $4 billion from the Russian

Federation. Meanwhile, our Energy Systems Unit in Monroeville has been obliged, through layoffs and early retirement, to dispense with the services of 3,500 members, or one-third of its work force.

I would like to stress that these layoffs affect nuclear and mechanical engineers, marketing and sales professionals, as well as heavy manufacturing jobs throughout the country. In fact, we are quickly facing a dwindling supply of nuclear experts that will impact our ability to service existing reactors in the United States, and we think this is a national issue.

Mr. Chairman, I have no doubt that had those men and women been allowed to compete in the Chinese market along side their European, Japanese, and Canadian counterparts, they would all be working today, and we would have the leading share. This legislation, effectively, deprived them of very well-paying jobs and exported most of those to France, Canada, and Russia.

I think the terrible irony from a business perspective is that many of the members who initiate and support ongoing trade restrictions will be making speeches from the floor this year decrying the escalating trade imbalance between China and the United States. If we want to turn our backs on the potential of $4 billion per annum sales in nuclear equipment, in addition to the billions lost in secondary services, we must accept a massive and growing trade deficit with China. This deficit is expected to reach unprecedented levels as long as we have a trade policy which is driven more by a desire to make gestures of little value than it is to underwrite the economic security of the men and women in this Nation. Simply, it is hard enough to achieve market-opening opportunities in tomorrow's largest economy without self-imposed closure through trade policy.

Now, so far as concerns export financing, I must say I am amazed to hear some Members of Congress decry it as so-called corporate welfare and demand its termination. Are they unaware that the Japanese economy is in the doldrums, that the French and German unemployment rates are touching 12.5 percent, and that there is no more dangerous competitor than a desperate one? Does anyone doubt that the governments of these nations will try to stop their unemployment by providing the most aggressive financing support for their exports into large emerging overseas markets?

Yet, we hear Members of Congress call for us to abandon institutions such as the U.S. Export-Import Bank, the Overseas Private Investment Corp., and the Trade Development Agency, as if to demonstrate some sort of moral probity to our trade rivals, all of whom, by the way, are increasing the power of their export finance institutions at levels that far exceed our own. Anyone who wishes to question that assertion should consider that in 1995, the Export-Import Bank financed $13.2 billion in exports. By contrast, its German equivalent financed $23 billion, the French financed $53 billion, and the Japanese financed a massive $144 billion in exports.

Mr. Chairman, during this country's confrontation with the Soviet Union, I was never one to support unilateral disarmament on the presupposition that Moscow would do likewise. By the same token, we cannot support those who would have us abandon some of our most significant weapons in an increasingly cut-throat international financing and trading environment. If we do, the con-

sequences for U.S. exporters will be such that the phrase "trade policy" will have to it a remarkably irrelevant ring. Now, I am painfully aware of the effects of these recent trade policy decisions. My corporation has had to significantly downsize as a result of these policies, and more will follow with the elimination of our export finance agencies. I can assure you that Westinghouse will not be alone.

So, in closing, let me stress that I do not seek to lay responsibility for this Nation's trade sanction or export financing woes at the door of this Subcommittee. To the contrary, under both Republican and Democratic leadership, this Subcommittee has been strongly supportive of U.S. trading interests. But without a proper understanding of the impact of unilateral sanctions and the importance of export finance toward U.S. exporters and their employees, you can be assured there will be more chief executive officers like myself telling you similar tales of frustration and failure. The current trend has created a system that business simply does not comprehend. However, a comprehensive, commercially driven trade strategy is urgently needed in today's cut-throat international trading system. I come here today to request such a strategy and to look to you as those who have the capability and the understanding to fashion and implement such a strategy.

With the Chairman's permission, I would like to, in addition to the NAM's sanction review I mentioned before, submit for the record recommendations from the President's Export Council on the implementation of unilateral sanctions, a case study on the effectiveness of United States sanctions on civilian nuclear trade with China, and a copy of ECAT's supplemental views on United States trade policy objectives.

Mr. Chairman, I thank you for this opportunity to speak with this group on such an important issue.

[The prepared statement follows:]

Statement of Michael H. Jordan, Chairman and Chief Executive Officer, Westinghouse Electric Corp.; on Behalf of Emergency Committee for American Trade

MR. CHAIRMAN, I WANT TO THANK YOU FOR THIS OPPORTUNITY TO TESTIFY BEFORE THE TRADE SUBCOMMITTEE OF THE WAYS AND MEANS COMMITTEE OF THE HOUSE OF REPRESENTATIVES. I AM ALSO HONORED TO REPRESENT THE EMERGENCY COMMITTEE FOR AMERICAN TRADE IN TODAY'S HEARING. WHILE I FULLY SUPPORT MY COLLEAGUES' CALL FOR TRADE LIBERALIZATION INITIATIVES AND THEIR INSTRUMENTS SUCH AS FAST TRACK, IN THE INTEREST OF BREVITY, I SHALL CONFINE MY REMARKS TO TWO PARTICULAR TOPICS—UNILATERAL U.S. TRADE SANCTIONS AND THE FINANCING OF U.S. EXPORTS.

BEFORE I CONTINUE, LET ME POINT UP MY AWARENESS THAT THE WAYS AND MEANS COMMITTEE IS NOT THE COMMITTEE OF FORMAL JURISDICTION IN SO FAR AS EITHER SANCTIONS OR EXPORT FINANCE ARE CONCERNED. THIS SUBCOMMITTEE AND ITS SENATE COUNTERPART ARE PRIMARILY RESPONSIBLE FOR THE SETTING OF TRADE POLICY WITHIN THE CONGRESS. BUT THIS BRINGS ME DIRECTLY TO MY CENTRAL TWO POINTS. FIRST, THE GROWING RECOURSE TO UNILATERAL TRADE SANCTIONS HAS BROUGHT US TO THE POINT WHERE THEY ARE HAVING A SERIOUS DELETERIOUS IMPACT ON OVERALL U.S. TRADE POLICY. SECOND, THE LACK OF LEGISLATIVE COMMITMENT TO EXPORT FINANCING SERIOUSLY UNDERMINES OUR INTERNATIONAL COMPETITIVENESS.

THE NATIONAL ASSOCIATION OF MANUFACTURERS, IN ITS RECENT SURVEY WHICH I AM SUBMITTING FOR THE RECORD, POINTS OUT THAT BETWEEN 1993 AND 1996 THE UNITED STATES HAS ENACTED 61 U.S. LAWS AND EXECUTIVE ACTIONS AUTHORIZING UNILATERAL TRADE SANCTIONS

(A NEW SANCTION EVERY 3 1/2 WEEKS). THE CONGRESS OF THE UNITED STATES OWES IT TO THE NATIONAL EXPORTING COMMUNITY AND ITS WORK FORCE TO ASK WHAT SUBSTANTIVE EFFECT THESE SANCTIONS CAN HAVE IN A GLOBAL ECONOMY WHERE A BUYER REFUSED SERVICE IN ONE COUNTRY CAN ALMOST ALWAYS FIND A WILLING SELLER IN ANOTHER.

LET ME OFFER A SPECIFIC EXAMPLE FROM THE EXPERIENCES OF THE WESTINGHOUSE CORPORATION. OUR ENERGY SYSTEMS BUSINESS UNIT, BASED IN MONROEVILLE, PENNSYLVANIA, IS WIDELY REGARDED AS ONE OF THE LEADERS, IF NOT THE LEADER, IN THE GLOBAL NUCLEAR POWER INDUSTRY. UNFORTUNATELY, NOTWITHSTANDING THE QUALITY OF THE PRODUCT, DEMAND FOR NEW NUCLEAR PLANTS IN THE U.S. IS NONEXISTENT. THIS NEED NOT HAVE POSED A SERIOUS PROBLEM FOR OUR MONROEVILLE WORK FORCE. LIKE MANY COMPANIES WHICH HAVE HAD TO CONFRONT MAJOR SHIFTS IN THE AMERICAN MARKETPLACE, OUR NUCLEAR ENERGY SYSTEMS UNIT COULD HAVE RESPONDED BY DISPLAYING THE TYPE OF FLEXIBILITY WHICH IS SAID TO BE ITS HALLMARK, SHIFTING FROM A DOMESTIC FOCUS TO ONE WHICH CONCENTRATED ON HIGH GROWTH AREAS OVERSEAS WHERE DEMAND FOR NUCLEAR POWER IS HIGH, MOST NOTABLY CHINA.

UNFORTUNATELY, LEGISLATION WAS PASSED IN 1989 WHICH EFFECTIVELY PREVENTS U.S. NUCLEAR EQUIPMENT MANUFACTURERS FROM SELLING THEIR PRODUCT IN CHINA. WITHOUT ARGUING THE MORAL OR IDEOLOGICAL REASONS FOR ITS PASSAGE, WE MUST RECOGNIZE THAT NO OTHER NATION JOINED US IN THIS PROHIBITION. CONSEQUENTLY, THE IMPACT ON CHINA HAS BEEN NIL AND THE IMPACT ON OUR EMPLOYMENT SEVERE. CHINA, DENIED THE ABILITY TO PURCHASE THE SUPERIOR U.S. PRODUCT WHICH IT WANTED, HAS SINCE 1989 PURCHASED OR CONTRACTED FOR APPROXIMATELY $8 BILLION OF NUCLEAR PLANTS FROM FRANCE, $3 BILLION FROM CANADA AND $4 BILLION FROM THE RUSSIAN FEDERATION. MEANWHILE, ENERGY SYSTEMS IN MONROEVILLE HAS BEEN OBLIGED, THROUGH LAY-OFFS AND EARLY RETIREMENT, TO DISPENSE WITH THE SERVICES OF 3,500 MEMBERS OR ONE-THIRD OF ITS WORK FORCE. MOREOVER, I WOULD LIKE TO STRESS THAT THESE LAYOFFS AFFECTED NUCLEAR AND MECHANICAL ENGINEERS, MARKETING AND SALES PROFESSIONALS AS WELL AS HEAVY MANUFACTURING JOBS. IN FACT, WE ARE QUICKLY FACING A DWINDLING SUPPLY OF NUCLEAR EXPERTS THAT VERY LIKELY WILL AFFECT THIS NATION'S ABILITY TO SERVICE OUR OVER 100 DOMESTIC REACTORS. THIS IS A NATIONAL SECURITY ISSUE.

MR.CHAIRMAN, I HAVE NO DOUBT THAT HAD THOSE MEN AND WOMEN BEEN ALLOWED TO COMPETE IN THE CHINESE MARKET ALONGSIDE THEIR EUROPEAN, JAPANESE AND CANADIAN COUNTERPARTS, THEY WOULD ALL BE WORKING TODAY. THIS LEGISLATION EFFECTIVELY DEPRIVED THEM OF THEIR WELL-PAYING JOBS BY EXPORTING THOSE JOBS TO FRANCE, CANADA AND RUSSIA.

MOREOVER, THE TERRIBLE IRONY, FROM A BUSINESS PERSPECTIVE, IS THAT THOSE SAME MEMBERS WHO INITIATE AND SUPPORT THESE ONGOING TRADE RESTRICTIONS WILL BE MAKING SPEECHES FROM THE FLOOR THIS YEAR DECRYING THE ESCALATING SINO-U.S. TRADE DEFICIT. IF WE WANT TO TURN OUR BACKS ON THE POTENTIAL $4 BILLION PER ANNUM SALES IN NUCLEAR PLANTS, IN ADDITION TO THE BILLIONS LOST IN SECONDARY SERVICES, WE MUST ACCEPT A MASSIVE AND GROWING TRADE DEFICIT WITH CHINA. THIS TRADE DEFICIT IS EXPECTED TO REACH UNPRECEDENTED LEVELS AS LONG AS WE HAVE A TRADE POLICY WHICH IS DRIVEN MORE BY A DESIRE TO MAKE GESTURES OF LITTLE VALUE THAN IT IS TO UNDERWRITE THE ECONOMIC SECURITY OF THE MEN AND WOMEN OF THIS NATION. SIMPLY, IT IS HARD ENOUGH TO ACHIEVE MARKET OPENING OPPORTUNITIES IN TOMORROW'S LARGEST ECONOMY WITHOUT SELF-IMPOSED CLOSURE THROUGH TRADE POLICY.

AS FAR AS EXPORT FINANCING IS CONCERNED, I MUST SAY THAT I AM AMAZED TO HEAR SOME MEMBERS OF CONGRESS DECRY IT AS SO-CALLED "CORPORATE WELFARE" AND DEMAND ITS TERMINATION. ARE THEY UNAWARE THAT THE JAPANESE ECONOMY IS IN THE DOLDRUMS, THAT THE FRENCH AND GERMAN UNEMPLOYMENT RATES ARE TOUCHING 12.5% AND THAT THERE IS NO MORE DANGEROUS COMPETITOR THAN A DESPERATE ONE? DOES ANYONE DOUBT THAT THE GOVERNMENTS OF THESE NATIONS WILL TRY TO STOP THEIR UNEMPLOYMENT ROT BY PRO-

VIDING THE MOST AGGRESSIVE FINANCING SUPPORT FOR THEIR EXPORTS INTO LARGE EMERGING OVERSEAS MARKETS?

AND YET WE HEAR MEMBERS OF CONGRESS CALL FOR US TO ABANDON INSTITUTIONS SUCH AS THE EXPORT-IMPORT BANK, THE OVERSEAS PRIVATE INVESTMENT CORPORATION AND THE TRADE DEVELOPMENT AGENCY AS IF TO DEMONSTRATE SOME SORT OF MORAL PROBITY TO OUR TRADE RIVALS, ALL OF WHOM ARE INCREASING THE POWER OF THEIR EXPORT FINANCE INSTITUTIONS AT LEVELS FAR EXCEEDING OUR OWN.

MR.CHAIRMAN, DURING THIS COUNTRY'S CONFRONTATION WITH THE SOVIET UNION, I WAS NEVER ONE OF THOSE TO SUPPORT UNILATERAL DISARMAMENT ON THE PRESUPPOSITION THAT MOSCOW WOULD DO LIKEWISE. BY THE SAME TOKEN, WE CANNOT SUPPORT THOSE WHO WOULD HAVE US ABANDON SOME OF OUR MOST SIGNIFICANT WEAPONS IN AN INCREASINGLY CUT-THROAT INTERNATIONAL TRADING ENVIRONMENT. IF WE DO, THE CONSEQUENCES FOR MAJOR U.S. EXPORTERS WILL BE SUCH THAT THE PHRASE "TRADE POLICY" WILL HAVE TO IT A REMARKABLY IRRELEVANT RING. I AM PAINFULLY AWARE OF THE EFFECTS OF THESE RECENT TRADE POLICY DECISIONS. MY CORPORATION HAS HAD TO SIGNIFICANTLY DOWNSIZE AS A DIRECT RESULT OF THESE POLICIES. MORE WILL FOLLOW WITH THE ELIMINATION OF OUR EXPORT FINANCE AGENCIES. I CAN ASSURE YOU, WESTINGHOUSE WILL NOT BE ALONE.

IN CLOSING, LET ME STRESS THAT I DO NOT SEEK TO LAY RESPONSIBILITY FOR THIS NATION'S TRADE SANCTION AND EXPORT FINANCING WOES AT THE DOOR OF THIS COMMITTEE. TO THE CONTRARY, UNDER BOTH REPUBLICAN AND DEMOCRATIC LEADERSHIP, THIS COMMITTEE HAS BEEN STRONGLY SUPPORTIVE OF U.S. TRADING INTERESTS. BUT, WITHOUT A PROPER UNDERSTANDING OF THE IMPACT OF UNILATERAL SANCTIONS AND THE IMPORTANCE OF EXPORT FINANCE TOWARD U.S. EXPORTERS AND THEIR EMPLOYEES, YOU CAN BE ASSURED THAT THERE WILL BE MORE CEO'S LIKE MYSELF TELLING YOU SIMILAR TALES OF FRUSTRATION AND FAILURE. THE CURRENT TREND HAS CREATED A SYSTEM THAT BUSINESS DOES NOT COMPREHEND. A COMPREHENSIVE, COMMERCIALLY DRIVEN TRADE STRATEGY IS URGENTLY NEEDED IN TODAY'S CUT-THROAT INTERNATIONAL TRADING SYSTEM. I COME HERE TODAY TO REQUEST SUCH A STRATEGY AND LOOK TO YOU AS THOSE WHO HAVE THE CAPABILITY AND UNDERSTANDING TO FASHION AND IMPLEMENT THAT STRATEGY.

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO SPEAK BEFORE THIS VITALLY IMPORTANT BODY.

[Additional material is being retained in the Committee files.]

Chairman CRANE. Thank you, Mr. Jordan.

Mr. Denham.

STATEMENT OF ROBERT E. DENHAM, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SALOMON BROS., INC.

Mr. DENHAM. Mr. Chairman and Members of the Subcommittee, I very much appreciate the opportunity to discuss U.S. international trade policy objectives and future trade initiatives.

International trade liberalization benefits U.S. workers, U.S. businesses, and creates markets for U.S. exports. As the chairman of Salomon, Inc., international economic liberalization and trade are integral to our strategic planning.

We currently do over 50 percent of our financial service business aboard. Our continued growth, expansion plans, and ability to compete throughout the world will require new free trade commitments and a thorough implementation of prior agreements.

It is important that our financial service competitors, others in international business, and the host governments of the countries in which we do business all play by the same rules.

As the other panelists have discussed today, the United States has the world's most liberal and open economy. This has made the United States the leading economy of the world. More than 11 million U.S. jobs now depend on exports, 1.5 million more than only 4 years ago.

Wages and jobs supported by goods in financial services exports are 13 to 16 percent higher than in non-trade-related jobs. Over the last 4 years, roughly one-fourth of our economic growth has come from exports. Services exports alone are up 26 percent in the last 4 years.

We are now at a crossroads. Our fundamental interest is in moving others toward markets that are as open as ours. In this increasingly competitive global environment, the question is no longer should the United States continue to seek new trade liberalizing initiatives. The questions are now when, with whom, and how should we pursue the next course of trade liberalizing negotiations.

Specifically, U.S. leadership must play a key role in influencing regional trade pacts that are currently under negotiation, so as to ensure these arrangements are favorable to U.S. businesses and workers. We cannot afford to be left out.

Recognizing the benefits of freer trade, many of our trading partners, especially those in our own hemisphere, have now started to band together forming regional trading arrangements, such as the common market of the South, or MERCOSUR, and the Andean community. This gives us a historic opportunity. If we join in the negotiations, we can benefit from the market opening that will result. Otherwise, negotiations will proceed without us and preferential arrangements available to countries that do participate will mean that U.S. firms will be disadvantaged. This would do tremendous damage to our economic future. It is no fanciful concern.

The European Union right now seeks an agreement with MERCOSUR, the South American trade alliance that is anchored by Brazil and Argentina. MERCOSUR has completed an association agreement with Chile that provides free trade between the participating nations. MERCOSUR has also undertaken highly visible commercial initiatives toward Asia, the ASEAN nations, as well as Korea and Japan.

Negotiations will begin soon between MERCOSUR and Colombia, Venezuela, and Mexico, countries which are eager to remove trade barriers faced by their competitive domestic companies.

Even our own NAFTA partners, Canada and Mexico, have made side trade liberalization deals with Chile, a nation that has an economic outlook and profile that should qualify it to be the first nation to accede to NAFTA.

Unfortunately, the United States stands to lose trade and investment opportunities as a result of these arrangements. If we do not join in, we will be at an insurmountable disadvantage in these markets. The United States is already seeing the impact of these arrangements as importers who can realize significant tariff savings, source their supplies from countries that benefit from these free trade arrangements.

The Free Trade Area of the Americas seeks to put our firms on an equal playingfield within the hemisphere, but currently, partnerships are being formed without us. Unfortunately, even with NAFTA and GATT, most of the critical markets for the future still maintain market access barriers that can prohibit exports from entering.

We have a stake in marketing opening around the world, in Asia, in Latin American, in the former Eastern European bloc, and in Africa where trade restrictions have contributed to the complete failure of economies. But we have special interest in seeing trade barriers come down in this hemisphere, where American firms tend to have strong market positions.

Without a clear international trade vision, whether we want to or not, the United States will sit on the sidelines as growing regional trading pacts create increasing interdependence of their participating economies by lowering tariffs and breaking down market access barriers.

Congress must show our partners that the United States is ready to move forward. This is why fast track authority is so essential. Without a signal from Congress, others will not take U.S. interest in market-opening agreements seriously.

To conclude, trade liberalizing measures directly affect business, jobs, and consumers each day. The opportunities and protections created by the pacts, such as NAFTA and the Uruguay round, enable firms such as Salomon Bros. to be more globally competitive in committing capital and delivering financial services.

I would again like to thank the Subcommittee for holding a hearing on this important subject, as it affects all of us as businesspeople, as workers, and as citizens with a stake in the future of our domestic economy.

Unfortunately, we cannot count on the generosity of other nations to afford us access to their markets, even if they will gain also from freer trade. We must seek further liberalization. This can only come in the form of future negotiations by the administration with the authority granted by Congress.

Thank you. I look forward to working with you in the future on international trade and financial services issues and policy.

[The prepared statement follows:]

Statement of Robert E. Denham, Chairman and Chief Executive Officer, Salomon Bros., Inc.

Thank you, Mr. Chairman and Members of the Committee. It is a pleasure to appear before you today. I am honored and very much appreciate the opportunity to discuss U.S. international trade policy objectives and future trade initiatives. International trade liberalization benefits U.S. workers, U.S. businesses and creates markets for U.S. exports. I would like to discuss today the benefits of international trade to the U.S. economy and U.S. jobs in general and the benefits of international trade in the financial services industry, in particular. I would also like to emphasize the importance of the United States in maintaining its political and economic role as the leader of international trade liberalization.

Salomon Brothers ranks among the world's foremost global financial firms, and is one of the largest securities dealers in the world. Salomon Inc., the parent company for Salomon Brothers and Phibro. Salomon Brothers has one of the largest capital bases in the industry. The firm makes markets in securities and provides a broad range of underwriting, research, financial advisory and investment management services to governments, corporations, and institutional investors. Phibro is one of the world's leading commodity trading organizations. We are truly a global company with over 8,500 employees located in 34 offices on five continents.

As the Chairman of Salomon Inc., international economic liberalization and trade are integral to our strategic planning as we and our clients seek new and emerging markets for growth. We currently do over 50 percent of our financial services business abroad. Our continued growth, expansion plans and ability to compete throughout the world will require new free trade commitments and the thorough implementation of prior agreements to achieve a level playing field in the global marketplace. It is important that our financial service competitors, others in international business, and the host governments of the countries in which we do business all play by the same rules.

Salomon Brothers' position in the financial system gives us a comprehensive view of trends in the U.S. economy and in the global economy. I have personally examined some trends and the forces driving these trends. I have observed how our capital goods producers depend upon investment flows to sustain demand for construction equipment, power generators and other products that are made by American workers. These investments are instrumental in building an infrastructure using financial, communications and technology services; all basic needs for economic growth in emerging markets and key U.S. export leading sectors.

As the other distinguished panelists have discussed today, the United States has the world's most liberal and open economy. This has made the United States the leading economy of the world. The export and movement of capital, goods and services support millions of jobs in the United States. More than eleven million U.S. jobs now depend on exports—1.5 million more than just four years ago. Wages in jobs supported by goods and financial services exports are 13 to 16% higher than in non trade-related jobs. Over the last four years, roughly one quarter of our economic growth has come from exports. Service exports alone are up 26% in the last four years.

We are now at a crossroads. Our fundamental interest is in moving others toward markets that are as open as ours. In this increasingly competitive global environment, the question is no longer should the U.S. continue to seek new trade liberalizing initiatives. The questions are now when, with whom, and how should we pursue the next course of trade liberalizing negotiations. Specifically, U.S. leadership must play a key role in influencing regional trade pacts that are currently under negotiation. This is important to ensure that these arrangements are favorable to U.S. businesses and workers. We cannot afford to be left out.

As this Committee is well aware, in 1993 and 1994, the United States was the leader in furthering global economic liberalization with the final passage of the North American Free Trade Agreement (NAFTA) and the success of the Uruguay Round of GATT. These major trade initiatives created a set of rules and obligations for the member countries to follow that have led to increases in our exports throughout the world. These exports have directly resulted in more and higher paying jobs for U.S. workers.

Recognizing the benefits of freer trade, many of our trading partners, especially those in our own hemisphere, have now started to band together to form regional trading arrangements such as the Common Market of the South (Mercosur) and the Andean Community. This gives us an historic opportunity. If we join in negotiations, we can then benefit from the market opening that will result. Otherwise, the negotiations will proceed without us and preferential arrangements available to countries that do participate will mean that U.S. firms are disadvantaged. This would do tremendous damage to our economic future. It is no fanciful concern.

The United States continues to strengthen its trading relationship with our trading partners around the world. These partnerships include specific initiatives in the Western Hemisphere with the Free Trade Area of the Americas (FTAA) and in Asia with the Asia Pacific Economic Cooperation (APEC) forum. Without clear international trade policy goals and a clear road map, we will at best be a follower of the considerable progress being made by other nations through new regional trade initiatives.

The European Union right now seeks membership in MERCOSUR, the South American trade alliance anchored by Brazil and Argentina. MERCOSUR has completed an association agreement with Chile that provides free trade between the participating nations. MERCOSUR has also undertaken highly visible commercial initiatives towards Asia—the ASEAN nations as well as Korea and Japan. Negotiations will begin soon between MERCOSUR and Colombia, Venezuela and Mexico—countries which are eager to remove trade barriers faced by their competitive domestic companies. Even our own NAFTA partners, Canada and Mexico, have made side trade liberalization deals with Chile—a nation with an economic outlook and profile that should qualify it to be the first nation to accede to NAFTA.

Unfortunately, the United States stands to lose trade and investment opportunities as a result of these arrangements. If we do not join in, we will be at an insur-

mountable disadvantage in these markets. The U.S. is already seeing the impact of these arrangements as importers who can realize significant tariff savings source their supplies from countries that benefit from these free trade agreements. The FTAA seeks to put our firms on an equal playing field within the hemisphere, but currently, important partnerships are being formed without us.

The vision for APEC includes a long time frame for achieving new market-opening initiatives in the region. This region is a challenge because of the countries' disparate sizes, prosperity and disposition toward trade liberalization, but the size and rapid growth rate of the region make it extremely important to our economic future. It is thus particularly important that the United States remain the leader in setting the trade liberalization rules for this important region.

In 1996, President Clinton appointed me to the APEC Business Advisory Council (ABAC). ABAC is comprised of senior business leaders from the APEC economies reporting to the Asia-Pacific Economic Cooperation forum. The APEC economic ministers asked for the creation of the ABAC in 1995 to advise and make recommendations to the APEC economic leaders. Last year, ABAC made recommendations to the APEC leaders in Manila. This year recommendations will similarly be made at the APEC summit in Vancouver, British Columbia. The ABAC recommendations focused on investment measures needed to liberalize cross-border investment flows and to accelerate the implementation of member economies' commitments under the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Investment Measures (TRIMs).

My experiences in Asia as a member of ABAC along with the expansion of Salomon Brothers into the emerging marketplaces of Asia and Latin America have demonstrated to me the importance of pursuing market-opening initiatives on behalf of United States workers and U.S. goods.

The General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Investment Measures (TRIMs) in the Uruguay Round have alleviated many of the major trading and business impediments of the past. Because of these pacts and the fact that the United States has the lowest tariffs and market-access barriers in the world, foreign direct investment now accounts for nearly six percent of total private direct investment in the United States, at slightly over $60 billion in 1995.

Foreign direct investment in the United States and abroad is one of the greatest sources of cross border international trade today. It has become imperative to encourage foreign direct investment if we are to pursue market-opening initiatives on behalf of United States workers and to further continued increases in U.S. exports. Foreign direct investment in our economy is an essential element for strengthening growth and improving living standards in the United States.

The United States was the world's largest recipient of foreign direct investment in 1995 at slightly over $60 billion, which is nearly one-fifth of the world total foreign direct investment of $315 billion. Foreign direct investment is important for U.S. jobs—nearly 4.9 million jobs were provided by non-bank affiliates of foreign companies in the United States during 1994, the latest year for which data is available. Foreign direct investment in the United State was more than 60 percent greater than the world's second largest recipient of foreign direct investment, China ($37 billion).

Unfortunately, even with NAFTA and GATT, most of the critical markets for the future still maintain market-access barriers that can prohibit exports from entering. We have a stake in market opening around the world—in Asia, in Latin America, in the former Eastern European bloc, and in Africa, where trade restrictions have contributed to the complete failure of economies. But we have special interests in seeing trade barriers come down in this hemisphere, where American firms tend to have strong market positions.

Without a clear international trade vision, whether we want to or not, the United States will sit on the sidelines as growing regional trading pacts create increasing interdependence of their participating economies by lowering tariffs and breaking down market-access barriers. Congress must show our partners that the United States is ready to move forward. This is why fast track authority is so essential. Without a signal from Congress, others will not take U.S. interest in market opening agreements seriously.

To conclude, trade liberalizing measures directly affect business, jobs, and consumers each day. The opportunities and protections created by the pacts such as NAFTA and the Uruguay Round enable firms such as Salomon Brothers to be more globally competitive in committing capital and delivering financial services.

I would again like to thank the Committee for holding a hearing on this important subject, as it affects all of us as business people, as workers, and as citizens with a stake in the future of our domestic economy. Unfortunately, we cannot count

on the generosity of other nations to afford us access to their markets even if they will gain from freer trade. We must seek further liberalization and this can only come in the form of future negotiations by the Administration with authority granted by Congress.

Thank you and I look forward to working with you in the future on international trade and financial services issues and policy.

Chairman CRANE. Thank you, Mr. Denham.

Mr. Pepper, we got this piece about making Pringles in the various locations. Do you export Pringles outside of the country?

Mr. PEPPER. Yes, we do. About one-third of our current production goes outside the country, and as I indicated, we are expanding our Jackson, Tennessee, facility with a $185 million investment. We will be hiring 200 more people. We only produce Pringles in two places in the world right now, most of it in Jackson, Tennessee, and some of it in Mechelen, Belgium. We are essentially doubling capacity in Jackson, the great bulk of that to be shipped all around the world.

Chairman CRANE. But you indicate on this brochure the various towns and companies that participate in the production of Pringles, including one in my home State of Illinois. It is located in Herrin, a small town down State, and there, the enrollment in the Herrin plant is 130. Some of these, one in Kansas City is 25. Others are in the hundreds, exclusive of the potato growers, but they are also parts of—some of them—large corporations hiring as many as 19,000 people, while one, International Paper, 70,000.

Let me ask you a question. If the Trade Subcommittee—and I ask this of all of you, but, Mr. Pepper, I would like to hear from you first—if we visited Kansas City, Missouri, and toured the Omega Plastics plant with the 25 enrollment in Kansas City in production of Pringles and asked trade questions, would the employees know their role in production of Pringles for export in the world markets?

Mr. PEPPER. I have not been there, but I am certain they would. They are seeing the growth of this business. They know that a large part of it is coming from outside the country.

The reason I particularly wanted to show this to you is because it is often said these trade pacts are good just for big business. People can look at a can like Pringles and think, Procter & Gamble produces this without seeing all the suppliers, a thousand farmers, and all the truckers who support us in our business.

The cap you mentioned is being produced at Omega Plastics. We are producing a half a billion of those little caps each year by the 25 people at Omega Plastics and the 200 people at Plastic Enterprises in Missouri. I think a lot of people don't realize all the other businesses, the smaller businesses that are benefiting and depend upon the expansion of trade in just one product like this.

Chairman CRANE. Well, I asked the question, and I will ask all of you to respond, too, only because one of the concerns I have experienced back home, and I am sure my colleagues, many of them, have, too, is when you start to talk about trade at a town meeting, you put the people to sleep. Yet, Illinois, my home State, is the fifth largest export State in the Nation, and we are the fourth larg-

est exporter to Mexico, and our exports went up 35 percent last year, to Mexico alone. Yet, the worrisome thing is whether the employees in these businesses—and most of them are small businesses—understand the importance of trade to their jobs. These companies are not giants. Most of them, by far, are businesses that have 500 or fewer employees, and something I have been trying to get across to chief executive officers for some time is to make sure your employees know the essentiality of expanding market access beyond our borders. This is vital to our economy.

I am curious whether you have an unrelenting program of communication going with employees around the country.

Mr. GORMAN. I might respond to that. About 50 percent of our total costs are purchased goods costs. In all of our automotive products, we export steering gears, rack and pinion power steering gears out of Tennessee to Wolfsburg, Germany, to be put on Volkswagens. We have virtually 100 percent of their rack and pinion steering gear business worldwide, and 50 percent of that steering gear comes from smaller suppliers to TRW, including the basic raw steel, but many of the parts, formed parts, as well.

We work very hard at educating our employees regarding the customer that they are servicing, and indeed, when we sent out paychecks to our employees, it says brought to you by TRW's customers, and we tell our employees if the product is going to Tokyo to be put on a Toyota or if it is going to Germany to be put on a Volkswagen. There is a great deal of export in all of our products.

Chairman CRANE. Mr. Jordan, do you have any comments?

Mr. JORDAN. Yes. While we have done quite a bit of that, certainly, in our company and some of our supplier companies, I think it is an area that probably could be mined much more intensively. I say that in terms of some of the debates that have arisen on U.S. trade sanctions, whereby people think there is no cost to our economy or to workers from voting for these.

I think we need to strengthen within the business community and among employees regarding the costs of lost business from trade sanctions. We lost one-third of our work force in the nuclear business, but that will cascade to probably five times that, 15,000 or 20,000 jobs lost throughout the country.

One of the issues we need to press very strongly is increasing export awareness in the work force and not just with the supplier company management. That is an area in which we should put stronger efforts, and is one of the initiatives that we have discussed within the business community.

Chairman CRANE. Mr. Denham.

Mr. DENHAM. Mr. Chairman, I think you are raising a very important issue. I do believe that as the world's economies become more globally connected, it gets increasingly obvious to workers just how connected their jobs are to liberalization.

In our business, it is not just the investment bankers in New York who are flying around the world and perceive their connection to the global economy, but we have about 400 people working in Tampa that handle the clearing and settlement, the processing of transactions that we do around the world.

We operate that facility 24 hours a day because they are working with all time zones around the world. They are working real time with transactions around the world.

They are traveling to Mexico, to Brazil, to other countries to deal with settlement and processing problems that get created.

I know that our clients, when I meet with them to talk about capital raising, a few years ago, they were interested mostly in distribution capability in the United States, how well can we distribute securities in the United States. Today, of course, they are interested in that, but they want to know about our Asian distribution. They want to know about our European distribution.

The concern that you have is a good one, but it is being addressed, I think, as these connections become increasingly obvious.

Chairman CRANE. As you are aware, Mr. Denham, there were some politicians in the last cycle who endeavored—well, the cycle before, too—to establish a linkage between NAFTA and the peso devaluation in Mexico. Had there not been a NAFTA Agreement preceding that peso devaluation, what in your estimation would have been the consequence?

Mr. DENHAM. I believe we were very fortunate when the Mexican economic problems arose that we could deal with them in the context of a NAFTA. Because of NAFTA, the United States stake in the Mexican issue was more obvious. I think that encouraged more rapid action by the United States, so that we dealt with the problem before it became much more critical.

It also is clear that the Mexican economy has been able to adjust much more rapidly to their changed economic circumstances because of NAFTA. The Mexican economy has been much more flexible. So the recovery time has been much, much more rapid than it would otherwise have been.

There are some things in the world you can change, and there are some things you can't change. One thing you can't change is that border with Mexico. They are going to be our neighbors for a long time, and an ability to cause more flexible economic adjustment when that economy gets into trouble is extremely valuable to our economic interest and our political interest in the United States.

Chairman CRANE. I don't know whether you were at Salomon Bros. back with the peso devaluation in 1982, but that took us, my recollection is, almost 5 years before we recovered. Here, to be sure, we suffered a setback in 1995, but by 1996, our exports were surging again. It is not that we don't have a negative trade balance with Mexico, but if all of a sudden all the people only have 50 cents on the dollar left in their pockets, their consumption rates are going to be scaled back somewhat.

Well, I appreciate everything you have contributed, and I would like to yield now to our distinguished colleague, Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Before I ask the gentlemen questions, I know this morning you very properly acknowledged Sam Gibbons, the Chairman of the Committee and Chairman of the Trade Subcommittee for about 14 years, and the gentlemen here that are testifying, I just might mention that Mr. Gibbons is over to my left over here. He has been one of the ardent supporters of free trade over the years and prob-

ably one of the leaders in the Congress over the past decade and a half.

[Applause.]

Mr. MATSUI. Today was the first day, I believe, since you have retired that you have testified before our Subcommittee. Is that right?

Mr. GIBBONS. Yes, it is, and I will come back any time you want.

Mr. MATSUI. Let me thank the four of you for your testimony.

I might just follow up on what Chairman Crane has said, Mr. Denham. I think that, frankly, if we did not stabilize the peso, that is the President along with the Treasury Secretary, Mr. Rubin, and the United States stabilize the peso, we could have seen a free-fall of the peso, and that could have affected investments elsewhere throughout the world, particularly in emerging countries such as the Eastern European countries at the time. I think that was a very critical decisions that, obviously, the President and the Treasury Secretary did make back in 1995, I guess, January 1995.

You are absolutely correct. If it were not for the NAFTA, I don't believe we would have been able to get in there and work with the Mexicans as we were able to.

I am just going to make a few observations, besides thanking you. I think Chairman Crane said it. He said most constituents begin to fall asleep when they hear discussion on trade issues, and I find that to be the case as well, but I also find it to be even more of a case when we talk about fast track because it is a procedural issue, one that doesn't really have any tangible results. So, for that reason, I particularly appreciate the fact that the four of you are here talking about fast track, and it is my hope that from this hearing we will be able to inform more of the public and also many of the companies, the chief executive officers, and the employees of the companies how important fast track is.

Again, it is not tangible in the sense that the most-favored-nation status for China is or the issue of the NAFTA, Canadian Free Trade Agreement, because you can see tangible results should they become law, but when you talk about fast track, it seems years and years away before anything might happen.

I had breakfast one morning with the chief executive officer of a major company in California. He had not talked about fast track. We talked about a few other trade issues, and I suggested to him that fast track should be high on our agenda. He said, Well, I am assuming fast track would pass, and I said, Well, I am not too sure, I think we have some work to do. He paused for a moment, and he said, I can't imagine what would happen if we didn't have fast track, it would be horrendous, and I think all of us feel that way. We always assume we are going to get it, but we haven't had it for the last 2 years.

I suppose if we can't put it together this year, if we don't get the right political support for it, we could have a problem this year as well. Then I am afraid in 1998, 1999, and the year 2000, being either congressional races or Presidential races, it might not be possible at all. I really hope we can really focus on fast track over the next 4 or 5 months because, in order to get a majority of votes, both the House and the Senate, and send it to the President, it is going to take a great deal of effort on all of our parts.

That leads me to the second observation, and that is, I hope and I know the business community intends to be—and I know that my colleagues on both sides of the aisle tend to be—flexible on the issue of labor and the environment, and I know that raises major problems and concerns on both sides, whether they are environmentalists or organized labor or the business side on the other hand. But if we really want to get fast track this year, I think everybody will have to be reasonably flexible in order to achieve the kind of results we want, because the goal is to get this process so the President will have a negotiating tool.

Some of the side issues, such as labor and the environment, are important, but on the other hand, it pales compared to the issue of having that ability to negotiate with many of our trading partners.

Last, I would like to just make the final observation that whatever we do will have to be bipartisan. I think we have been so critical in the area of trade policy in the United States because we have been bipartisan, we have been so successful, I should say, because it always has been bipartisan, and if we have one party passing the legislation with the other party and the loyal opposition, a consensus will be lacking, and every time the President attempts to negotiate a new agreement under the fast track, you will hear the party that didn't vote for fast track complain. Obviously, we don't want that kind of result.

I think a lack of a national consensus would result in, perhaps, an erosion in the U.S. support for free and open trade, as time goes on.

It is my hope that we can be flexible and also have a bipartisan consensus, and it really will take leadership in the private sector to achieve, that among others as well, but particularly in the private sector because, undoubtedly, we look to you for the real leadership on the whole issue of international trade.

I want to thank you for your testimony and thank you for your leadership in this area, one which will not show tangible results overnight to all of you, but in the long term will probably be one of the most important issues we will take up in this Congress.

Thank you.

Chairman CRANE. Thank you.

Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman. Thank you, gentlemen.

I don't think I have anything profound to say. I would probably echo many of the things which Chairman Crane and Mr. Matsui have mentioned, but the fact is, there are only four of us here, and maybe we represent in total a little less than 3 million people. There are a lot of people out there who are getting different vibes.

Now, we can tell all the horror stories. We can say what we ought to do, what we should do, and so forth. The question is, What do we do, because it seems to me it is almost a little bit like the story with technology.

I remember the company which I used to be associated with. Technology was a threat to employment. It took away jobs, and it was a very great learning process. The same thing is in terms of export business. You understand that the wage rates are higher.

You understand that exports are important, but you think it is a basic threat to the employment in this country. That somehow must be changed.

I think there are three areas here. First of all is the administration, and I think we ought to really understand that somehow we have got to do this thing together, and I would appreciate your reactions here.

The administration is being led, I really think, by Ambassador Barshefsky doing a terrific job. I don't see the real commitment to the administration to this thing, really laying down some political lines, and I think you can help there.

The other thing is in terms of labor. When you talk to labor leaders, many times they understand this, but they are so committed and they have been so out on the line that it is very difficult for them to contract, but long term, this is going to benefit their position if they can find some way of getting off that springboard.

Then the third area, I think, is our own cohorts. There are people who really believe in the Ross Perot or Pat Buchanan approach to this thing. It is better to pull back and look inward rather than looking outward and looking at a world which is going to exist in 10 years rather than the one that existed in 1987.

It seems to me that it is what we do about it. It is not the issue. We know what the issue is. All of us agree with this. How do we work together on this thing? The administration, the labor unions, and also our own associates. You have plans in different areas that have different representatives. What can you do? What can we do to help you? This must be a joint effort because somehow, some way, we are not cracking this thing the way we should.

I would doubt—and I don't know whether my colleagues would agree—that NAFTA would pass today. It is that serious. Yet, we know that the single most important thing with all our international trade relationships is to pass fast track. Everything else pales in comparison, and how do we get that done? Maybe you would have some reactions.

Mr. GORMAN. May I comment from a Business Roundtable point of view. Again, representing over 200 companies that make up the membership of the Business Roundtable, we have recognized this year that one of our most important tasks, indeed, has to do with educating and making the general public, as well as our key constituents, aware of the importance of free and open trade, and not only in connection with our exports and in connection with NAFTA-type agreements, but also in terms of opening markets that still, in many ways, are closed around the globe, opening those markets to our companies and to the workers involved in those companies. So what we have done is put together, under my committee at the Business Roundtable, a task force that is working hard to educate, on the one hand, all the key constituent groups of our companies, that is to say, our employees, our customers, our suppliers, our local communities in which we operate and the like.

Indeed, we have recruited George Fisher of Kodak, the chairman of Kodak, to lead that effort, and we have had over 100 companies sign up to do that, learning how to send out publications, how to hold seminars, how to send out mailings in support of the kind of trade efforts that we support.

We have also asked Phil Condit of Boeing, and he has graciously agreed, to lead the task force that educates the general public, trade associations, Members of Congress, of course, as well as administration officials, and in addition to the general public.

We have got a massive effort underway with 107 or so companies signed up, and we are adding companies every week to that. I think you can count on our help there.

We paid a visit to the Hill not long ago. We had 28 separate visits on that 1 day, again, trying to get the trade message out. We work hard for all of you and with all of you on bringing this about.

Mr. PEPPER. I would like to make a couple of comments on this point. I think as we talk free and open trade, there is a real danger of this being here they come again, an old record. As you say, people go to sleep.

To me, there are two real differences in what we are talking about today versus the past. Free and open trade has always been right, and it has been an opportunity. What is realized today is that other people have caught onto trade, and not doing it has become a bona fide threat. I really mean that, and particularly in Latin America.

If we aren't part of these free trade agreements, we are going to lose big. It will be much worse, in my judgement, over the next 5 years than in the previous three. Why do I say that? Massive foreign investments are being made in Brazil and Argentina. There will be huge production bases there, and if the trade barriers are not as favorable for the United States as within that unit, this difference I just cited of 40 percent growth there, 20 percent for us, is going to become even larger.

The tenor of the conversation is wrong. People can say it is the same message as before, but it isn't. The first difference is there is a threat here. We must do it because other countries are, and that wasn't the case before, certainly not in Latin America.

The second difference is we are having a harder time showing this is good. I don't think people are looking at the facts behind NAFTA in Canada and Mexico accurately. In our business, we live and die by market share. We have built a share of exports into Mexico.

Mr. HOUGHTON. John, could I interrupt just 1 minute? We all agree with you. We all agree. We are all on the same time. The question is how do we get it done, and it seems to me there are two phrases, "export jobs" and "fast track."

There is a terrific competitive problem with MERCOSUR, and if we don't get fast track, there is a chance we could be frozen out of that South American market.

Now, that is sort of an intellectual argument for somebody who is working in the steel mill or a glass plant or something like that, but if we could link more jobs, better paying jobs, export jobs with this one issue in fast track and drive it home to a lot of our constituents, those are the things that we have got to do, and right now, because if we miss this window, we may not have it again.

Mr. PEPPER. I agree with you, but as you said, the administration doesn't seem to have it as a high priority. There are only four Members in this room right now.

I spent 2 days preparing for this hearing, and we are activating an education program to our employees. We need to get to suppliers better, as the Chairman indicated, but I would agree that you and your associates also have a role to play in this. If this is as high a priority as we are talking, this is guts ball.

Mr. HOUGHTON. And we agree.

Chairman CRANE. Mr. Portman.

Mr. PORTMAN. I am going to pile on here, preaching to the choir, but let me just focus on two aspects of it because, as you all were giving your testimony, of course, this is what came to mind, what the Chairman mentioned. Bob Matsui, I heard your comments. I had to step out for a moment, but I couldn't agree with you more than fast track is critical and we need to get the business community to work in a closer partnership with those of us who are free trade oriented.

I think John Pepper may be on to something, and that is this notion of appealing to American competitiveness and the spirit of competitiveness; that it is not just us opening foreign markets and expanding trade, as we did argue so, I think persuasively finally with regard to Mexico, but it is this notion that if we don't get in there, someone else is.

Having been down in Chile with the Chairman and a Trade Subcommittee group and being in some of the MERCOSUR countries, Argentina in particular, it is clear to me that between the EU and the Japanese, we are getting pushed out.

One specific suggestion I would make is that companies like Procter and other companies represented here today—I don't know if General Electric could have stories like this in the MERCOSUR countries, but could come up with specific stories of actually losing market share.

I know this has to do with investment, as well as exports, but I assume the liberalization of investment law is causing you problems down there. You say you live and die by the market share. You all do, even all of the Salomon Bros. clients and others who are being forced out of markets or at least their market share is being reduced because of more liberal arrangements with other countries, the Europeans, the Japanese, and others.

I think we need to appeal to that a little bit and get those competitive juices flowing, and then the second one I think we need to continue to hammer on is open markets. This is not about losing jobs to foreign countries. This is about changing the imbalance.

We had a great argument with that with Mexico because we had the 3 or 4 to 1 imbalance, but their tariff barriers are much higher than ours. Our country is relatively open already. We allow people to trade freely here with a few exceptions, some of those we are trying to knock down still, but it is really about just leveling that playingfield, but let me ask a specific question, if I could, to the group with regard to the WTO and the new Uruguay round arrangements with regard to dispute settlement.

I am, to be frank, very hopeful about the new dispute settlement procedure. I know we are going to have a banana decision maybe momentarily, Mr. Chairman. I don't know. Maybe today, maybe tomorrow. I don't know how it is going to come out, but I feel as though it will probably be in our interest, to the United States in-

terest, not just to the banana producers, but I think it is going to be a liberalizing effect because it is binding, and in the past, you used to be able to block these decisions, but on the other hand, some have argued—and at my town meetings, Mr. Chairman, they don't fall asleep. They usually take me on, on trade and tell me that we are exporting jobs and it is so terrible, but I have heard the argument that this new dispute settlement technique methodology and procedure, because it is so expedited, has caused some U.S. companies some disadvantage, and also, of course, the fact that it is binding might come back to haunt us as U.S. exporters.

Do any of the panelists have thoughts on the new WTO dispute settlement mechanism?

Mr. JORDAN. Let me just make one comment. We have been introduced to some of the dispute settlement mechanisms in NAFTA which are quicker than previous dispute settlement mechanisms. It is clear that the strengthening of the WTO as an institutional body is very important and that we have to learn to live with the negatives, as well as the positives.

The Buchanan, sort of Perot argument, fails to recognize that the reason this country has the most vibrant economy in the world is simply because we were exposed to greater competitive forces than was any other place, including Japan and the European Community. We have grown employment—grown high-tech employment and high-pay employment—because we have succeeded in becoming more competitive.

I think we in this country have to learn that we lose some of these disputes when they go to settlement. We as a country have survived and prospered since the seventies because we have become much more competitive. Having the most open economy, it has actually done the best of any economy in the world. I think that is a message that is often lost in the debate with Fortress America groups, but it is one that is very, very important. The statistics all show that our work force has become more educated and our economy more productive.

Mr. PORTMAN. Do you link that back to the WTO dispute settlement?

Mr. JORDAN. I think that is a positive.

Mr. PORTMAN. You think that is a positive because it will result in competition, plus protection?

Mr. JORDAN. It will result in a faster resolution of issues and help ensure that we are competitive in any market. We can compete in any market in the world. Yes, sometimes there is something in our system that inhibits foreign competitors, however, I think we are going to win in dispute settlements much more often than not.

Mr. PORTMAN. Mr. Gorman, do you have thoughts on that?

Mr. GORMAN. I would comment briefly. I do believe that a strengthened WTO is very important in terms of making certain we have a comprehensive, transparent, predictable, open, common trading practice around the globe.

I think it will help us, including the dispute resolutions in Asia, where we have particular bilateral issues, and it does not preclude our continuing to work some of our most frustrating problems in a bilateral fashion.

I think, on balance, while there are tradeoffs, there is no question it is a favorable development.

Mr. PORTMAN. Mr. Denham.

Mr. DENHAM. I think you won't find many businessmen who are troubled by a speedy dispute resolution system. As fast as business changes today, unless disputes are resolved quickly, the resolution is likely to be fairly irrelevant when it comes. I think most businesspeople very much favor seeing disputes resolved through a mechanism that is very speedy, and as people have said, sometimes we will win, sometimes we will lose. Sometimes we will deserve to lose, and sometimes we will deserve to win, and the real question about WTO dispute resolution mechanisms will be do they provide a fair process so that we win those that we deserve to win and only lose those that we deserve to lose.

Mr. PORTMAN. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Well, gentlemen, I want to express again my appreciation for your willingness to give up your time so generously. I am sorry we did not have a bigger turnout for your presentations because you all have perceptions and understandings that vastly transcend what those of us who serve on this Subcommittee have, but we will appreciate getting input from you on a continuing basis, and any way in which we can more constructively try and get the message out, please don't hesitate to let us know that, too. We appreciate what you have done. With that, I thank you for your time and effort.

Our next panel of witnesses include Bruce Cowen, president of TRC Companies, on behalf of the U.S. Chamber of Commerce; Daniel Seligman, senior fellow of the Sierra Club's responsible trade campaign; Alan Holmer, president of the Pharmaceutical Research and Manufacturers of America; and Lori Wallach, director of Global Trade Watch, Public Citizen.

Again, let me ask you please to try and confine your oral presentations to no more than 5 minutes, but any written printed documents you may have will be made a part of the permanent record.

With that, we will proceed in the order I introduced you: Bruce Cowen, Daniel Seligman, Alan Holmer, and Lori Wallach.

STATEMENT OF BRUCE D. COWEN, PRESIDENT, TRC COMPANIES, INC.; ON BEHALF OF U.S. CHAMBER OF COMMERCE

Mr. COWEN. Mr. Chairman, I am Bruce Cowen, president of TRC Companies, Inc., a U.S.-based international environmental engineering consulting company, headquartered in Windsor, Connecticut. I am pleased to testify before you today on behalf of the U.S. Chamber on whose board of directors I sit.

TRC is a publicly owned company traded on the New York Stock Exchange, with 20 offices throughout the United States and offices in Chile and Poland. TRC currently employs approximately 650 employees, and we operate as a small business and consider ourselves a small business.

For over 30 years, we have been serving our clients by providing engineered solutions to complex environmental problems, including

air quality, hazardous and solid waste management, remediation, and water and waste water treatment.

TRC currently has active projects outside the United States in Argentina, Chile, Colombia, Guatemala, Mexico, Peru, Poland, and South Korea, among others. We are a relatively small U.S. firm, active in global markets.

We are creating and implementing solutions to environmental problems in the developing world, and we are employing U.S. workers in the process. There is no question that a more liberal trade environment with a more level playingfield will permit us to do more, but from the broader U.S. business perspective, the U.S. economy is heavily and increasingly dependent on international trade for business and jobs.

U.S. trade has grown much faster than the U.S. gross domestic product over the last few decades. Therefore, we must elevate our attention to trade issues to a level commensurate with trades importance.

Congress and the executive branch should work together to accomplish several U.S. trade policy objectives this year. They include, number one, reauthorization of trade agreement negotiations. Speedy renewal of fast track trade-negotiating authority without linkage to social agenda objectives is critical to preservation of U.S. leadership in world economic affairs. Once granted, fast track authority should be used to negotiate mutually beneficial agreements in the Western Hemisphere and elsewhere. The price for fast track must also include regular good-faith consultation with Congress and the private sector.

Number two, continuation of normal China-United States commercial relations. Ending China's MFN status will not advance United States interest, but it will assure less United States influence in that huge and rapidly growing market, as well as new commercial advantages for our competitors who are not contemplating similar action.

Number three, elimination of unilateral U.S. economic sanctions. Such sanctions almost invariably produce the same adverse results, further isolation of U.S. foreign policy, reinforced rather than weakened hostile regimes, and reduced economic opportunity for U.S. firms and their workers who lose markets to foreign competitors whose governments do not impose such restrictions.

Number four, leadership in World Trade Organization accession issues. China and Russia have begun to embrace market principles relatively recently and with very different results. Given their potential for growth, both economies should demonstrate their commitment to the world trading system with market-orientated policies and acceptance of WTO discipline.

Number five, reauthorization of trade development programs. In an ideal world, the government would play a very limited role in global commerce. However, the realities of the global mixed economy require the U.S. Government to support its private sector against foreign government-backed competition to maintain as level a playingfield as we can.

I want to thank you, Mr. Chairman and Members of the Subcommittee. I will be happy to take questions from the Subcommittee.

[The prepared statement follows:]

Statement of Bruce D. Cowen, President, TRC Companies, Inc.; on Behalf of U.S. Chamber of Commerce

Mr. Chairman, I am Bruce Cowen, a member of the U.S. Chamber's Board of Directors and its International Policy Committee. I am also President of TRC Companies, Inc. in Windsor, Connecticut. TRC is a 650-employee international environmental engineering and consulting company operating here in the U.S. as well as in Latin America, Central Europe and elsewhere. TRC has over 30 years of in-depth, environmental problem-solving experience and is recognized for its expertise in a wide range of air quality and waste management problems, as well as regulatory compliance, pollution prevention and control and strategic environmental planning. It is on the Chamber's behalf that I am testifying today.

As you suggest in your hearing advisory, a maturing U.S. economy and an increasingly dynamic and competitive global economy demand U.S. engagement and leadership as never before. The U.S. economy is heavily and increasingly dependent on international trade for business and jobs. Trade's share of U.S. GDP grew from 13% in 1970 to 30% by 1995. Between 1985 and 1994, U.S. exports rose 112% while U.S. GDP only increased 25%. According to a 1996 study by the Institute for International Economics, during that same period, exports generated one-third of America's economic growth and about 5 million new jobs. U.S. firms which export have greater productivity and wages that are 20% and 15% higher, respectively, and are 9% less likely to go out of business in an average year. And these companies also experience almost 20% faster employment growth than those who never exported or ceased exporting.

As other economies grow more rapidly than our own, our own influence in global markets will diminish, even as we grow in absolute terms. For this reason, the U.S. national interest requires a renewed emphasis on efforts to attain a level playing field for U.S. business in global markets. In pursuing this level playing field, the U.S. must:

- negotiate and enforce trade agreements that require the reduction or elimination of unfair foreign trade barriers and distortions;
- use access to the U.S. market as leverage to obtain access to foreign markets;
- enforce U.S. trade laws to remedy the adverse effects of foreign dumping, subsidization and other unfair trade practices;
- provide appropriate export development services and advocacy to counter foreign government-supported competitors; and
- limit the imposition of export and other trade controls to those absolutely necessary to achieve legitimate U.S. national security objectives.

None of these goals are new. All of them have been codified or otherwise established in one form or another over many years. However, in some cases, statutory authority to continue their pursuit has lapsed, while in other cases, new challenges require new tactics and strategies. In either case, to accomplish these ends, the U.S. must seek in earnest several key objectives over the next few years and commence action on them this year. They include:

- *Reauthorization of trade agreement negotiations*. Fast-track trade negotiating authority expired in 1993, which means negotiating initiatives launched after that time will not receive the benefit of fast-track consideration unless Congress expressly renews such authority. Speedy renewal of fast-track trade negotiating authority without linkage to social agenda objectives is critical to preservation of U.S. leadership in world economic affairs. Once granted, fast-track authority should be used to negotiate new trade and investment agreements in the western hemisphere and other areas. In particular, creation of a "Free Trade Area of the Americas" (FTAA) by 2005 remains an invaluable opportunity for the United States to consolidate its trade leadership in an economically vibrant hemisphere of over 725 million consumers. Yet, while we sit on the sidelines, other western hemisphere nations continue to negotiate market-opening agreements within the region, such as Chile's free trade agreement with the Mercosur countries. Both the Mercosur region and Mexico are also negotiating with the European Union and Asian nations. Absent U.S. engagement and leadership in negotiating market-opening agreements in the western hemisphere, American companies are at real risk of being denied access to commercial advantages that are being granted to non-U.S. companies.

The price for fast-track must include regular, good-faith consultation with Congress and the private sector. Fast-track does not mean abdication of Congressional prerogatives, as it entails waiving Congressional rules and can be revoked at any time, with or without Presidential objection, by either the House or Senate.

• *Continuation of "normal" China-U.S. commercial relations.* China's "most-favored-nation" (MFN) status has been subject to annual review by Congress every year since 1989. Later this spring, Congress will again consider whether or not to maintain China's MFN status. It is critical that Congress ensure its continuation, preferably through permanent renewal. So-called MFN status (which is a misnomer in that virtually all nations enjoy it) constitutes the basic fabric of China-U.S. trade relations. Simply put, MFN status ensures that all nations will treat commerce with any other single nation the same way it treats all other nations. There is in fact nothing "most-favored" or preferential about it. Failure to continue China's MFN status will assure less U.S. influence in that huge and rapidly growing market, as well as new commercial advantages for our competitors, without advancing U.S. interests. Termination of China's MFN status would also amount to a singularly devastating attack on the basic underlying economic relationship between the two nations, causing massive tariff increases on goods from China, and would virtually guarantee a similar response from China. Moreover, none of China's Asian or European trading partners is contemplating similar action. The result, therefore, will be not to obtain changes in China to our liking, but rather to curtail U.S. access to the Chinese market and positive U.S. influence over China's economic and political evolution, while our Asian and European competitors reap the windfall benefits of a newly advantageous position vis-a-vis U.S. firms in that market.

• *Moderation and eventual elimination of unilateral U.S. economic sanctions.* In the increasingly competitive, economically multipolar world of the 1990s and beyond, U.S. efforts to economically isolate objectionable regimes cannot work unless those efforts also enjoy the active support of other major trading nations. For decades, U.S. policymakers have sought to use trade and economic leverage as a tool to achieve a host of foreign policy objectives often bearing little or no relationship to U.S. commercial objectives. However, for some time, the U.S. has lacked the ability to control world economic affairs and work its will on its unwilling trading partners. Not only are our trading partners not acquiescing to these sanctions, they are formally protesting their use directly and in multilateral fora, and crafting "mirror" measures targeted at U.S. interests. As a consequence, unilateral economic sanctions almost invariably produce the same adverse results: further isolation of U.S. foreign policy, reinforced rather than weakened hostile regimes and diminution of economic opportunity for U.S. firms and their workers who stand to lose markets to foreign competitors who are not so encumbered. The U.S. Chamber's Board of Directors has long recognized this and in November 1996 reaffirmed its opposition to unilateral economic sanctions against any country for any reason other than to counter direct threats to the physical security or territorial integrity of the United States.

• *Leadership in World Trade Organization (WTO) accession issues.* China and Russia, the two great Cold War-era "alternatives" to capitalism, have begun to embrace market principles relatively recently, and with very different results. China clearly poses the greater challenge at present. However, both nations pose major competitive challenges to U.S. commercial interests worldwide, in terms of foreign competition within their markets and their own current and future competitiveness in world markets. Given both nations' potential, both economies should demonstrate their commitment to the world trading system through implementation of market-oriented policies and acceptance of WTO discipline. The U.S. Chamber fully supports both countries' accession to the WTO but only under protocols consistent with commercial principles and their status as major trading powers. Both countries must also agree to adhere to the market principles assumed of all GATT/WTO signatories. This includes, but is not limited to, commitments to improved market access, nondiscrimination, effective intellectual property protection, amelioration of often arbitrary tariff and customs burdens, and forsaking of performance requirements (local content, technology transfer, export requirements) on foreign investors.

• *Reauthorization of trade development programs.* In an ideal world, government would play a very limited role in global commerce. However, the realities of the global mixed economy require the U.S. government to support its private sector against foreign government-backed competition to achieve a level playing field. The charters of the Export-Import Bank (Eximbank) and the Overseas Private Investment Corporation (OPIC) expire this summer and need to be renewed. As Congress considers charter renewal, it should keep in mind that these institutions should provide competitive financial services, e.g., financing and insurance that are not otherwise available but are required to help U.S. companies remain competitive and penetrate foreign markets. To maintain a broadly competitive position, the United States must preserve or expand the contribution of those federal agencies that help U.S. exporters compete and prosper. In addition, as part of the U.S. government's strategic plan to selectively match the subsidization assistance offered by our major

competitors, the U.S. government should also be prepared to fund project-related feasibility studies and planning activities, such as administered by the Trade Development Agency.

Mr. Chairman, this concludes my testimony. I will be happy to try to answer your questions. Thank you.

Chairman CRANE. Thank you, Mr. Cowen.

Mr. Seligman.

STATEMENT OF CARL POPE, EXECUTIVE DIRECTOR, SIERRA CLUB; AS PRESENTED BY DANIEL SELIGMAN, SENIOR FELLOW, SIERRA CLUB

Mr. SELIGMAN. Thank you, Mr. Chairman. My name is Dan Seligman. I am a senior fellow in charge of the Sierra Club's Responsible Trade Program. I am here today representing the Sierra Club's executive director, Carl Pope, who was unable to be here today. And, I am here representing the 600,000 members of the Sierra Club nationwide.

I think I can speak confidently for virtually the entire environment community in the United States when I say that we have been deeply disappointed with the delivery of commitments made by the Clinton administration and even by Congress on trade and environment issues over the last 3 to 4 years.

In essence, from our standpoint, the trade agenda is imposing a theoretical model designed by economists on a very complex set of biological and physical systems, the global environment, and the social systems that are underguarded by that global environment. So doing, trade is provoking a set of changes that are unpredicted, unintended, but often quite damaging, not only to communities and the environment here in the United States, but to communities and the environment abroad as well.

We see three major impacts from what we call the free-for-all free trade agenda.

First, we see pressure to reduce environmental protections, as countries and communities compete for advantage in the global economy by weakening or ignoring environmental protections.

Second, we see pressure from international trade bureaucracies to weaken environmental standards in the name of reducing barriers to trade and investment.

Finally, we see erosion of democratic and community values as power to decide environmental and public health issues shift from National Governments to unaccountable international trade bureaucracies and to the private sector, especially the transnational corporations that seem to benefit so much from the current free trade regime.

I won't go into each of these issues in great detail. The body of my testimony elaborates in some specificity each of the points I outlined. I would focus, however, on two points that relate to the NAFTA.

First, in entering a trade agreement with our northern and southern neighbors, the Clinton administration sought to create mechanisms to avoid the downward pressure on standards that comes from increasing competition in the global market.

A NAFTA environmental side agreement was created for the express purpose of bringing complaints when countries weaken their environmental laws in the name of free trade or to attract investment. That commission has been virtually useless in applying pressure to each of the NAFTA countries as they have gone about weakening fundamental environmental laws over the last 3 years.

The second issue I would like to point to is the United States-Mexico border because it symbolizes so much about what the environment and trade are all about. This Congress made a firm commitment when they voted and adopted NAFTA that $2 billion would flow from the North American Development Bank to clean up the environmental mess on our southern border. So far, that fund has generated about $10 million in cleanup money. That is about 1 percent of the funding promised. Yet, at the same time, partly because of the peso devaluation, the maquiladora sector has boomed. Employment has boomed on the United States-Mexico border, the maquiladora zone.

The situation on the border reflects conditions that are fairly endemic throughout the developing world. Specifically big companies, major transnationals, take advantage of the lax standards in these countries to avoid shouldering basic responsibilities to provide environmental infrastructure, a decent wage, or decent working conditions to the people whom they employ.

We have heard a little bit of discussion about fast track this afternoon. I would direct your attention to a letter that was sent from the National Wildlife Federation and the Sierra Club to Vice President Gore explaining the environmental community's position on fast track.

Because of the disappointment we have experienced, groups on both sides of the NAFTA divide have come together and demanded that tough, specific environmental negotiating objectives be built into any fast track authority.

Second, an issue not so much addressed here, is the multilateral agreement on investment. For reasons I outline in my testimony, we think that this agreement, if anything, has much worse implications for the global environment than the NAFTA does or the World Trade Organization.

The idea of willy-nilly freeing large corporations to invest in environmentally sensitive sectors like mining, timber, what have you, in countries without the environmental standards to ensure that that investment is done responsibly, this simply doesn't make good sense. We see important international environmental values at stake in this kind of agreement, and again, my testimony would provide some examples of our concerns in that area.

So, in conclusion, I would ask that Members of the Subcommittee actually look hard at what free trade policy has implied for the United States, for our environment, for our trading partners and their environment. I would also ask Subcommittee Members to think very hard about how to redo the way we conduct trade policy so that we are not looking at the kind of harmful consequences that I think are beginning to stare us in the face.

I would conclude by saying that a responsible trade agenda is not one that bores the American public. I was in Kansas City, 10 days ago, with a colleague of mine from Public Citizen, Lori Wallach's

organization. We spoke at a rally of citizens of that town, very concerned about NAFTA expansion, and what is implied for their jobs and for the environment. I will share with you a letter of inquiry that they have sent to their congressional delegations asking why, seriously, we cannot conduct trade policy in a more responsible way.

Thank you very much.

[The letter of inquiry and prepared statement follow:]

March 8, 1997

Letter of Inquiry on Corporate Globalization
to the Kansas and Missouri Congressional Delegations

Dear Senators and Representatives:

We are citizens of Missouri and Kansas and of neighboring states and countries gathered in Kansas City for a conference on "NAFTA at 3 Years: Exploring the Impact of Globalization." We represent diverse interests and perspectives -- labor, environment, religious, political parties, and conservatives. Yet we are united today as never before.

Our overriding concern is the loss of democratic, community-focused, family-based values to the process of corporate globalization. The North American Free Trade Agreement (NAFTA) ushered in an era of "free-for-all" free trade that daily violates workers rights, erodes a living wage, damages the environment, fosters an ethic of financial greed, and shatters the communities that Americans need to raise their families. Fast on the heels of NAFTA came the World Trade Organization/General Agreement on Tariffs and Trade (WTO/GATT), the Asia Pacific Economic Cooperation forum and other agreements which further expand corporations' rights to trade and invest globally -- but do not enforce the corporate responsibilities necessary for good jobs, a clean environment, healthy communities, or a prosperous, secure, and meaningful future for our families.

Now we are shocked to learn that the United States government is actually considering expanding NAFTA into South America, starting with Chile. How can we do so after the debacle NAFTA has produced in Mexico? We are even more troubled by a proposed Multilateral Agreement on Investment (MAI) in the Organization for Economic Cooperation and Development (OECD), scheduled for completion in May, and a proposed Multilateral Investment Agreement (MIA) in the WTO. Negotiated in secret in the OECD, a club of the world's richest nations, the MAI would offer corporations vast new rights to invest globally, draining the resources on which our future well-being depends.

Please, therefore, respond to our concerns:

1. Do you support or oppose expansion of the failed NAFTA?

2. If so, how do you propose to correct NAFTA's enormous defects in order to guarantee corporate accountability, workers' rights, and environmental protection? In particular, shouldn't the "fast-track" trade negotiating process be

reformed to be democratically accountable and to require strong labor and environmental standards as core parts of trade agreements?

3. Do you support or oppose the MAI and the MIA?

4. If so, will you permit these agreements to be completed in secret without a thorough public debate of their terms?

5. Also, how would you justify to your constituents two international investment agreements that (a) vastly expand corporate rights to shift investment to foreign countries, (b) jeopardize American jobs, (c) pit community against community and nation against nation in a competitive 'race to the bottom' in labor, environmental, health and safety standards, and (d) create new international investment rules that will undermine the sovereign, democratic rights of US local, state, and federal governments to protect communities, health, safety, and the environment as they see fit?

Negotiations on the MAI are now coming to a close. Congress may consider new "fast-track" trade negotiating authority to expand NAFTA this month. We need to move from the current free trade "free-for-all" to a responsible trade policy that protects, jobs, the environment, our families, and our future.

We look forward to your prompt response.

Sincerely,

Name	Address	Organization	Cong'l Rep.
[illegible]	408 C St NE Washington DC 20002	Sierra Club	Eleanor Holmes Norton
[illegible]	14 E 17th St #5 Hendrickson, MO 63003	People [illegible] Democracy Forum	Carolyn Maloney
[illegible]	215 Pennsylvania Ave. Washington DC 20003	Public Citizen	Eleanor Holmes Norton

Letter of Inquiry on Corporate Globalization
to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
James D Belkin	1401 North River Ind. MO 64050	Chairman UAW 249 Retiree Chapter	Karen McCarthy
Margaret Thuynette	1606 No. 43rd St St. Joseph, Mo.		Pat Danner
[illegible]	603 N 72nd St KCK 66112	Sierra Club KC Group	Vince Snowbarger
Bill Onasch	600 E 8th St #510 KCMO 64106	ATU 287	J. McCarthy
Nedrene Saunders	1300 Massachusetts St. #3 Lawrence KS		Snowbarger
Mary Hendrickson	P.O. Box 362 Columbia MO 65205		Kenny Hulshof 9th Dis.
June Holte	3904 Forest Ave KC MO 64110	(self)	
[illegible]	722 Walnut #910 K.C., MO 64106		K. McCarthy
[illegible]	5121 Troost KCMO 64110		Karen McCarthy
Mike Fromm (Fromm)	1709 S.E. 4th Lee's Summit MO. 64063		Karen McCarthy

Letter of Inquiry on Corporate Globalization
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Name	Address	Organization	Cong'l Rep.
Gary Kemp	9217 Oakland KC MO	Gr. K.C. Bldg & Const. Trades Council	Mo 5th
Kevin BÖDill		Labor Beacon	Ks 3rd
Jeffery Hunsfeld		Carpenters Local 61	Vince Snowbarger Karen McCarthy
[illegible]	3536 Baird KCMO 64109	Self	Karen McCarthy
Bruce Warnick	1770 S. Rock Rd #713 Wichita, Ks. 67207		Todd Tiahrt
[illegible]	10734 W. 116th St Overland Park 66210		Vince Snowbarger
Hudson Luce	7335 Wabash KCMO 64114		Karen McCarthy
Stephanie Fischer	1020 Bristol Way	Liberty MO 64068	Pat Danner
John A. Young	424 Takkevicw	Blue Springs MO 64014	Ike Skelton
[illegible]	1412 Ruby K.C. KS. 66103		
[illegible]	3613 N Wayne K.C. Mo. 64115		Pat Danner
Mary Erickson	3927 Kenwood KCMO 64110		Karen McCarthy
Vince Boudreaux	6550 Scenic Dr KCMO 64133		[illegible]
Mary Jo Stumpf	6100 NW Cookingham DR KCMO 64164		Karen McCarthy
Agustina Molleni MD PhD	8028 West 81st Place. Prairie Village, Kansas 66208		

Letter of Inquiry on Corporate Globalization
to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
[illegible]	1807 16th St Menlo, Ia 50266	UE	[illegible]
Ben Kjelshus	7121 Park Rd Kansas City, MO 64134	Alliance for Democracy	Karen McCarthy
Kim Sixta	3622 E 104 St. KC MO. 64137	Avila College	Karen McCarthy
[illegible]	4128 E 122nd St KC MO 64145	Unem	Karen McCarthy
Joel Rosenblatt	3004 Lynwood Dr Columbia, Mo	Univ of Mo.	Ken Hulshof
S. LAXSON	811 R.D. Mize Grain Valley Mo 64029		Jim Matthews
Adam Rottenberg	990 E. Rawhide Ln Gilbert, AZ 85296		
Mary Soetting	221 W 48 #1004 KCMO 64112	Retired	
Judy Ancel	4014 Metropolitan Kansas City, KS 66106	Institute for Labor Studies	Vince Snowbarger
Bob Storm	P.O. Box 1045 Mission, KS 66222	Retired	"
Don Fairbanks	17805 E. 25th St. Ct Indep MO. 64057	UAW #31	
[illegible]	10139 Glenwood Ln Olathe Ks	UAW	

Letter of Inquiry on Corporate Globalization
to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
Tony Quevedo	1396 St. Paul Ave St. Paul, MN 55116	UAW 879	Vento
Chris Kittenauer	Route 1 Box 94 EASTON MO		Pat Danner
Chad Ingram	401 Boulder St. Lawrence KS 66049		Vince Snowbarger
Mike Scidaro	P.O. Box 286 Lawson MO 64062 080 3147	UAW local 249	Pat Danner
Roberta Vogel	3904 Forest KC MO 64110 816 5318096		Karen McCarthy
Carmen Chiriani	4416 Tomahawk Prairie Village, Ks 66208		Pat Roberts
Todd D Wiech	3445 138th CT NW Andover MN 55304		Bill Luther
Harold V. Smith	2921 S. Ralston Independence MO. 64052		

Letter of Inquiry on Corporate Globalization
to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
Joe Farrington	P.O. Box 1044, Lawrence KS 66044	Univ. of Kansas	~~Brown~~ Sebelius
Franklin W. Neff	12646 Glenwood Overland Park, KS		
Steven L. Frog	10259 US Hwy 59 Atchison KS 66002	AFGE CPL 917	Ryan
Ben Foreman	1001 3rd Lawrence Ks	"	
Dr. Mary McClone	11901 Wornall Rd K.C., MO 24145		
Barbara Jennings	1919 E. 58 St. 64130		McCarthy
Susan Lee	2100 N. 13th St. Kansas city, Ks		Brownback
MARTHA A. Ojeda	3120 W Ashby SAN ANTONIO TX 78210		
Dale Mooney	3732 Paseo Kc MO 64109		
Jackie McEnaney	3743 E. 104th MO 64137		
David Bellamy	5110 W Kaw Rd Riverside MO 64131		
Jerry McEnaney	3743 E. 104th	K.C. MO. 64137	
Jerry Hernandez	2783 S. 32nd	K.C. KS 66106	

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to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
Clem Rottman	1201 NE Phase Way Lee's Summit, MO.	UAW	Karen McCarthy
Glen Swearinger	P.O. Box 45366	Self	Karen McCarthy
Karen Wright	5700 W. Platte Rd Platteville, MO 64150	Heartland Labor Forum	Pat Danner
Ken Kessler	P.O. Box 33122 KC MO 64114	KC Fair Trade Coalition	Karen McCarthy
THOMAS KERR	3646 TROOST KCMO 64109	UMKC	KAREN McCarthy
Carlyn Ferrell	1320 S 32nd St. KC, Ks 66106	Catholics for Justice	Sebelius
Mark [illegible]	2500 W 7th St Lawrence, Ks 66049	Graduate Teaching Asst. Coalition U.A.U. Kansas	Sebelius
Sr. Susan Mika	2302 Whitehall San Antonio, Tx 78216	Benedictine Sisters	

Letter of Inquiry on Corporate Globalization
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Name	Address	Organization	Cong'l Rep.
Marie L. Pickett-Inman	16003 E 28 Ter, #402 Indep. Mo. 64055		Danner
Robert Brown	12000 Prairie Ln Lenexa Ks	Concerned Citizens	Vince Snowbarger
GEORGE E. MAYER	200 W 77 TERR KANSAS CITY, MO 64114	REFORM PARTY OF MISSOURI	KAREN McCARTHY
BOBBIE J CAMPBELL	3333 CHESTNUT K.C., MO. 64128	"	"
Kathleen Austin	2003 S. Liberty Independence, MO 64055	GOEU Loc. 235-M & SEIU Loc. 196	Karen McCarthy
Byron Austin	2003 S. Liberty Indep. MO 64055	GOEU 235-M	Karen McCarthy
Phillip L. Pence	4224 Sunrise Drive KANSAS City, MO. 64123	Representative/UAW & Senators Northeast Area KANSAS CITY, MO.	
BILL CLARK	6117 ROCKHILL KANSAS CITY MO 64110	AFSCME Local 1336	KAREN McCARTHY
David Bradsby	7908 Reeds Rd Prairie Village, KS 66208	KC Progressive Network	
Patricia Bradsby	7908 Reeds Rd. Prairie Village KS 66208	KC progressive network	
Edward R. Cunningham	74 La Fiesta Drive Park Hills, MO 63601	Retired Dupont Union	
Ronald L. McLinden	3236 Coleman Road KC MO 64111	Sierra Club	Karen McCarthy

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to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
Marion Anderson	968 Roxburgh Ave, E. Lansing, MI 48823	Employment Research Associates	Debbie Stabenow
Wendell J. Burns	5735 Garnett, Shawnee, KS. 66203	Business Writer	Sam Brownback
Barbara Ross	PO Box 417, Jefferson City MO 65102	Social Concerns Office, Diocese of Jefferson City	Dick Gephardt
Donna Dobson	1260 WE 69 HWY LOT 96, Liberty MO 64068	UAW LOCAL 249 FORD MOTOR	
JERRY PKINE	RT. 2 BOX 310C, EXCELSIOR SPRINGS MO 64024	UAW Local 249	Pat Danner
James R. Anderson	968 Roxburgh, E. Lansing, MI 48823		
Robert [illegible]	2336 Forest, Denver	Denver Justice + Peace Committee	Diana DeGette

Letter of Inquiry on Corporate Globalization
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Name	Address	Organization	Cong'l Rep.
MARIE J. Smith	8606 Chestnut Circle #3 Kansas City, MO 64131	K.C. Green.	Karen McCarthy
Barbara Mayer	451 N. 17th Kansas City, Ks 66102		Vince Snowbarger
Paul Davidson	4400 Booth KC KS 66103		Vince Snowbarger
Colleen Deckerhoff	8537 Rosa Prairie Village, Ks 66207	—	Snowbarger
Jerold Hubbard	R.R. #2 Box 268 Johnson, Kansas 67855		
[illegible]	1855 E. Division Springfield, Mo	Teamsters Local 245	Roy Blunt
Myra L. Burch	422 E. Prospect Aurora, Mo 65605		Roy Blunt
Vince Boudreaux	6550 Scenic Dr KC mo 64133		Karen McCarthy
Don Kellogg	4925 Blue Jay Rd Shawnee Ks 66203		Snowbarger
[illegible]	5316 Switzer St Shawnee Kansas 66203		Snowbarger
Susanne M. Pittman	630 E. 63rd Terrace Kansas City, MO 64110		Karen McCarthy
Ed Alan Fisher	4455 Jefferson, Apt. I Kansas City, MO 64111		Karen McCarthy

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Name	Address	Organization	Cong'l Rep.
Jack C. Paulson	2317 E. Wilma St. Wichita, KS 67211-1239	UWSA	Todd Tiahrt
Violette S. Paulson	2317 Wilma Wichita Kas. 67211 316 264-5674	UWSA	Todd Tiahrt
John Wright	5700 W Platte Rd Parkville, Mo 64150 (816) 587-6993		Pat Danner
Bill Meador	5939 Outlook #5 Mission KS. 66202 (913) 432-8345		
ROBERT L. NICHOLS	12814-12TH ST. GRANDVIEW, MO. 64030	(KAREN MCCARTHY	
CHARLES REITZ	2 E 56 ST KC, MO 64113		

Letter of Inquiry on Corporate Globalization
to the Kansas and Missouri Congressional Delegations

Name	Address	Organization	Cong'l Rep.
Dorothy T. Nelson	4301 [illegible] Dr. [illegible] 66105		[illegible]
George W. Baker	84 MISS ELLIE BELTON MO 64012		SKELTON
Wanda Brunell	10225 Lamar Overland Park KS 66207	Leagues of Women Voters	Rep. Snowbarger Senators Pat Robert Sam Brownback
Virginia Hamill	10000 W. 73rd St Overland Park, KS 66212	Sierra Club Independent Kansans	Rep. Snowbarger Sen. Pat Roberts Sen. Brownback
Francoise Sherman	P.O. Box 6913 Leawood, KS 66206	Sierra Club	Pat Roberts Snowbarger
Ray Ahlen	1831 N.W. Waldo Rd Amity, Mo. 64422		Danner
Elizabeth Dulaney	204 W. 53rd St. KCMO 64112	individual	McCarthy, Karen Sen. Bond Sen. Ashcroft
Paul L. Conner	5301 Barton, Shawnee, KS	NAACP	Snowbarger - KS - 3rd KS.
Larry A. Betts	2612 OAKGROVE	NAACP	
Mary J. Nichols	12814 12th St Grandview MO 64030		K McCarty

Statement of Carl Pope, Executive Director, Sierra Club;[1] as Presented by Daniel Seligman, Senior Fellow, Sierra Club

On behalf of the Sierra Club's 600,000 members, I wish to thank Chairman Crane and members of the committee for offering me the opportunity to testify today on a critical topic—the future of America's international trade policy.

Current free trade policy gives corporations new rights to trade and invest globally but fails to define responsibilities to communities, to working families, or to the environment. By granting broad new economic rights without commensurate environmental or social responsibilities, US trade policy is eroding a host of community, social, and environmental values both here at home and around the world.

As this subcommittee reviews the future of US trade policy, I hope you will reconsider the current "free-for-all" approach to international trade. Instead, the United States should shift toward what Sierra Club calls a "responsible trade" policy which anticipates and avoids the unintended harmful side affects of corporate globalization.

Threats to the environment from "free-for-all" free trade include:

1) pressure to reduce environmental protections as countries and communities compete for advantage in the global economy by weakening or ignoring environmental protections;

2) pressure from international trade bureaucracies to weaken environmental standards in the name of reducing barriers to trade and investment; and

3) erosion of democratic and community values as power to decide environmental and public health issues shifts from accountable national governments to unaccountable international trade bureaucracies and to the private sector, especially to transnational corporations.

I will touch on each of these issues during my testimony.

But first, let me underline that the environment is not a side issue or irrelevant to trade policy. Literally everything produced in the global market originates in the environment as natural resources and returns eventually to the environment as waste or pollution. With the accelerating scale and speed of global economic change, we see growing evidence that unplanned and unintended environmental destruction is overwhelming the economic benefits that current trade policy is meant to achieve.

To understand why this is so, we must understand what the environment really is. The environment is not just the pretty photos we took on our last trip to Yellowstone or the Grand Canyon. The environment is the infinitely complex web of life which supports and sustains not only the national and international economy but also the local communities that we need to provide a decent, healthy place to raise our families. A basic principle of conservative philosophy holds that human meddling with complex systems which we did not create can provoke more unintentional harm than intentional good. Many people learned that lesson by watching governments attempt to engineer large-scale social change. But the same holds true when powerful international organizations, such as the World Trade Organization, and powerful private institutions, such as transnational corporations, attempt to reshape the global economy to suit the abstract theories of free trade economists.

A responsible trade policy would anticipate and avoid unintended harm to the environment from economic globalization. Doing so is not protectionist; it is simply prudent.

The environmental impacts of trade are of special concern because trade is now the principle engine of global economic growth. And impacts of the global economy are arguably now the leading source of damage to the global environment. Major trade agreements having important environmental impacts include the North American Free Trade Agreement (NAFTA) and the World Trade Organization/General Agreement on Tariffs and Trade (GATT/WTO). We can anticipate that new agreements now under negotiation, especially the Multilateral Agreement on Investment (MAI), scheduled for completion in May 1997, could have even more significant impacts.

But our concern about economic globalization is not confined to trade agreements. Trade policy reinforces the growing tendency of corporations to "go global" in search of markets, resources, and cheap labor. Just 100 large companies control half of US

[1] The Sierra Club no longer accepts grants or awards from the federal government. Prior to adoption of the Lobbying Act requiring disclosure of such grants or awards for organizations lobbying the federal government, the Sierra Club received a small amount of contract money as well as reimbursement for service trips from the federal government.

exports. The top fifteen exporters—including GM, GE, Boeing, and IBM—control one-quarter of all US exports. The largest companies command resources greater than good-sized countries. Globalization, as we shall see, plays to the strengths of the biggest corporations—increasing their profits, and adding to their political influence. The result, I fear, is diminished control for the average citizen and diminished autonomy for democratic institutions such as the United States Congress.

Together, trade policy and transnational corporations are fusing the global economy into a single market for the first time in human history. While environmental harm from economic globalization cannot be easily measured in dollars and cents, the evidence suggests that the benefits of the current free trade policy could be overshadowed by losses to the environment. A responsible trade policy would not ignore the warning signs. Just consider these examples:

I. Racing Toward the Bottom

A. Relaxing Environment Protection

When corporations gain rights to trade and invest wherever they wish, those rights are not matched with strong, well-enforced responsibilities to working families, communities, or the environment. Countries compete against each other for economic advantage by waiving the enforcement or adoption of strong environmental laws or by offering breaks on taxes needed to pay for clean water and clean air.

Recognizing this risk, the NAFTA deal included institutions designed ostensibly to prevent a competitive "race to the bottom." An environmental side agreement was written to ensure that each of the NAFTA countries (the United States, Canada, and Mexico) maintain and enforce high environmental standards. NAFTA Article 1114 allows for government-to-government consultations if countries compete for investment by weakening their environmental laws. As United States Trade Representative Mickey Kantor promised in September 1993, "[The side agreement] ensur[es] that laws and standards continue to provide high levels of environmental protection and that those laws are enforced."

Unfortunately, these environmental agreements lacked teeth and have completely failed to deliver on their intended purpose. Instead, NAFTA trade and investment rules have made it easier for US companies to blackmail communities and workers by threatening to move jobs abroad. The result has been downward pressure on environmental standards across North America. Did NAFTA "cause" the weakening of environmental laws described here? Obviously, not by itself. But it added to pressure already building from other trade agreements and from economic globalization.

• In the United States, timber giant Boise Cascade closed mills in Joseph, Oregon (1994) and Council, Idaho (1995) and moved operations to the impoverished state of Guerrero, Mexico, taking advantage of new investment protections under NAFTA. Before moving, the company exploited job insecurity in the United States to wrest more timber from U.S. national forests. A company spokesman told The Idaho Statesman, "How many more mills will be closed depends on what Congress does.... The number of timber sales will determine our decision to move south." The 104th Congress was all too eager to heed such pressure. It passed a law that mandated a vast increase in logging in our national forests, but suspended all environmental laws and the citizen's right to seek redress in court.

• The "War on the Environment" spilled over into Canada and Mexico. Contrary to arguments often heard during the NAFTA debate that environmental protection rises as countries grow richer, Canada has actively weakened its environmental laws by turning over environmental responsibilities to the provinces. Investors can more easily play subnational units of government against one another, so the Canadian provinces have weakened important environmental protections. For instance, the Province of Alberta adopted legislation in May 1996 prohibiting citizens from suing environmental officials to enforce the law. Ironically, Alberta was the first of only two Canadian provinces to bother singing the NAFTA environmental side agreement. When Canadian environmentalists declared their intention last summer to complain to the NAFTA environmental commission about the new gag law, Alberta's environment minister, Mr. Ty Lund, simply threatened to withdraw Alberta from the side agreement. Apparently, Alberta is willing to abide by its NAFTA's environmental commitments only as long as they are not enforced. Instead, Alberta authorities advertise the province's lax regulatory climate as the "Alberta Advantage." In so hospitable a business climate, it is little wonder that Pittsburgh's Consolidation Coal, Shell Oil, and other international mineral companies have flocked to Alberta.

• Mexico also has backed away from commitments to adopt and enforce strong laws made during the NAFTA debate. In October 1995, Mexico announced it would no longer require environmental impact assessments (EIAs) for investments in such

highly polluting sectors as petrochemicals, refining, fertilizers, and steel. Mexican officials said they were eliminating the requirement for EIAs to "increase investment"—an apparent violation of a NAFTA provision that prohibits weakening laws to attract investment. Of course neither Canada nor the United States will take Mexico to task because each is guilty of the same violation.

B. Erosion of Corporate Responsibility

Those who supported creation of the NAFTA environmental commission argued frequently that a tough agreement was not necessary because US corporations take their good practices with them when they invest abroad. Many felt that the unregulated market would increase environmental protection all by itself. After three years of NAFTA, experience shows, however, that once companies gain international mobility, they can play jurisdictions off against one another to gain breaks on their environmental responsibilities. Surprisingly the pattern is true even when US companies invest in advanced developed countries like Canada.

1. The Cheviot Mine—For instance, Alberta, Canada has attracted nearly $250 million in investment from Pittsburgh-based Consolidation Coal (CONSOL), a 50 percent partner in the Canadian firm Cardinal River Coals, by waiving important environmental protections,. Cardinal River plans to dig twenty-six coal pits in a 14 mile corridor near Cheviot Mountain, just one mile from Jasper National Park. The Cheviot Mine would destroy prime habitat necessary for survival of grizzly bears, wolves, moose, elk, cougars, and wolverines inside Jasper, according to the Canadian Park Service. Since Canadian habitat now serves as a reservoir to restock wildlife populations depleted across the border in the United States, the Cheviot mine could prevent the recovery of bear and wolf populations as far south as Yellowstone. Unfortunately, a proposed Canadian Endangered Species Act is far weaker than the US ESA, and would not protect the wildlife habitat now threatened by the Cheviot Mine.

In addition, to save Cardinal River the costs of hauling waste rock, Alberta environment officials might not require the company to refill 14 of the 26 opens pits. Reclamation of excavated coal pits is normally required in the United States. Instead, Cardinal River will dump rock wastes into pristine alpine valleys and streams, destroying trout habitat in apparent violation of Canada's Federal Fisheries Act, which prohibits degradation of fish bearing streams. Cardinal River promises to turn the unfilled pits into artificial lakes and stock them with trout. But Mike Bracko, a retired plant manager at Cardinal River's Luscar Mine and the leader of local opposition to the Cheviot mine, doesn't believe that artificially stocked coal pits can ever replace the alpine streams that he fished as a boy. As Bracko recently told The Edmonton Journal, "I haven't personally seen a man-made lake that can compare with a natural one. I don't believe Cardinal River is above the Creator."

Unfortunately, thanks to the legislation adopted last May in Alberta, Mr. Bracko would be denied legal recourse if the Alberta environment ministry approves Cardinal Rivers' permit application in violation of provincial environmental law. In the globalized North American economy, wishes of ordinary citizens must take a back seat to the power of giant transnational corporations like Consolidation Coal.

2. The US-Mexico Border—The site of 2,500 mostly foreign-owned maquiladora assembly plants, the US-Mexico border became a symbol during the NAFTA debate of the disparity in environmental protection between the United States and Mexico and a key test of the ability of free trade to protect the environment. Today the border is worse off than ever. The number of maquiladoras has gown by 15–20 percent since NAFTA took effect while the maquiladora workforce has surged by nearly 50 percent. Yet no additional resources have been made available for environmental protection. A recent article in *Texas Business* calls the border "one of the most polluted regions on the globe.... By most accounts, the border environment is getting worse, with millions of gallons of raw sewage a day pouring into the [Rio Grande] waterway and tons of garbage stacking up on the Mexican side of the border. Hundreds of thousands of people on both sides of the border live in colonias, which lack adequate water and wastewater treatment and solid waste disposal."

To tackle these problems, the NAFTA deal created a new funding institution, the North American Development Bank (NADBank) to provide $2 billion of loan guarantees for environmental infrastructure, mostly water supply, sewers, and municipal waste facilities. Rather than simply tax the maquiladora owners to make them shoulder their responsibilities to the families who work in their plants, the NADBank set up a shaky funding scheme that relies on government guarantees to attract private investment for clean up projects. However, Mexico's December 1994 peso crisis shook investors confidence in NADBank, so they are reluctant to finance projects. Mexican border towns hard hit by the peso's collapse also won't borrow

from NADBank because its rates are actually higher than already unaffordable market rates. As a result only about $10 million has actually flowed to the border from the NADBank, less than one percent of the promised funding.

Carlos Melcer, an economist who helped design the NADBank, summed it up this way: "People are very unhappy and people are very disappointed." Actually the border's working families are more than disappointed. The suffer from hepatitis at more than three times the rate of their US neighbors, as well as from such preventable diseases as typhoid, amoebic dysentery, and parasitic infections.

Some argue that the NADBank's failures were caused by the peso's collapse, and had nothing to do with NAFTA. In fact, political pressure from the United States on Mexico to run a trade deficit with the United States in the run-up to the NAFTA vote laid the basis for the peso's overvaluation and eventual collapse. Given its obligations to make payments in dollars on its massive foreign debt, Mexico must run a trade surplus with the United States as a matter of course. While more timely intervention by Mexico's Treasury to reduce the peso's value might have avoided a crisis, the underlying pressure on the peso was, in fact, closely related to the politics of NAFTA passage in the United States.

II. Attacks on environmental protections

The new trade rules enshrined in trade agreements and institutions like the NAFTA and the WTO/GATT attempt to attack increase trade flows by eliminating so-called "non-tariff barriers" to trade (NTBs). Under current trade rules, NTBs can be any law or practice that has the effect of interfering with trade. Challenges to our environmental standards as trade barriers are heard by tribunals of trade experts operating behind closed doors. The public has no right to participate. If laws are judged trade-illegal, they must either be changed—or the guilty party could face trade restrictions. Of perhaps even greater concern than the formal trade dispute resolution process, trade lawyers and lobbyists have taken a cue from the new trade rules to seek preemptive changes by congress and by regulators to US environmental, safety, and health standards before those standards become an issue in international disputes. The effect has been to give hand industry insiders new levers to complicate, slow, and potentially derail the difficult task of protecting public health and the environment. Here are just two examples.

A. Clean Air Threatened

In its very first ruling in early 1996, the World Trade Organization ruled that a key part of the US Clean Air Act must be changed to square with international trade rules. EPA is now rewriting the challenged Clean Air Act rules for reformulated gasoline (RFG) to comply with the WTO decision, raising the possibility of reducing the effectiveness of the RFG program and increasing ground-level ozone pollution in some of our most polluted cities. Ironically, the EPA has now proposed toughening ozone and soot standards to eliminate respiratory problems in 250,000 children each year. The WTO could help undo tougher public health protections that EPA backed by 3,000 health studies thinks are necessary.

The RFG rule attempts to improve gasoline cleanliness by 15 percent over 1990 standards. In creating the rule, EPA faced a difficult question about international enforcement. US refiners are required to document the quality of gasoline they produce year by year. Their data tend to be highly reliable because/ companies know EPA can take them to court for infractions. In contrast, foreign refiners are outside US jurisdiction, so their data on gasoline quality cannot be easily verified or enforced. As a result, the RFG rule allowed individual US refiners to reduce pollutants from the baseline of their own 1990 production. Importers, in contrast, had to reduce gasoline pollutants from the baseline for the same pollutants in all gasoline sold in the United States in 1990. As a result, foreign refiners producing gasoline that is dirtier than average had to clean up their gasoline relatively more than a similar US refiner. However, those foreign refiners whose gasoline was cleaner actually had less cleaning up to do than the typical US refiner.

Venezuela, a producer of dirtier gasoline, successfully challenged the RFG rule in the WTO, charging trade discrimination. In re-writing the RFG rule to eliminate the disparate treatment of dirty-gas producers, US air quality may suffer. Already EPA has demonstrated it can be persuaded to do so. In early 1994, the EPA drafted new RFG rules under pressure from State Department officials seeking to head off a trade challenge. The draft rules would actually have reduced the effectiveness of the RFG program in major cities like Boston and New York by 10 to 25 percent, in order to accommodate imports of dirtier gasoline.

The EPA's decision to comply with the WTO RFG ruling implies that the federal government is willing to square all domestic environmental, health, and safety

standards with WTO rules. No doubt, scores of Washington, DC lawyers will use the leverage they gain from international trade rules to slow down, change, or stop public health standards which their clients consider burdensome. Attorney Carole Stern recently made the point abundantly clear in The Washington Times. After the RFG ruling, US regulators, she stated, "may need to coordinate with the U.S. trade representative or Commerce or other departments in review of these regulations to make sure they're not inadvertently giving an opportunity for economic challenge [in the WTO], because if the result of that is that it makes the regulation unenforceable, it will have a negative effect."

In plain English, new international trade rules and institutions throw a wet blanket over the ability of federal and state government to protect the environment and public health. We should not increase constraints on democratic government from additional international trade and investment rules until we fully understand the implications of those rules now in place.

B. The Consumers Right-to-Know Jeopardized

Largely thanks to the WTO, independent, third-party ecolabeling programs, whether private or governmental, have come under attack in a variety of domestic and international fora. The attacks have gained new intensity during the last year. If effective, these attacks would sharply curtail the right of consumers to know about the environmental impacts of products and services they buy. In addition, citizens organizations could lose an important, voluntary, market-based mechanism to encourage environmentally and socially preferable practices in a wide variety of industries. The stakes for the environment are especially high in an increasingly global marketplace, where production processes are frequently beyond the reach of strong domestic regulations and consumer choice provides one of the only incentives for environmentally sound production.

The attack on ecolabeling has been mounted quietly by a sophisticated, well-funded coalition of industry lobbyists. Those lobbyists have carried their campaign into a broad array of domestic and international fora. The industry coalition is comprised of eleven trade associations in the paper, electronics, packaging, and cleaning products industries (among others) purportedly representing 2900 companies with more than $1 trillion in annual sales. The ostensible purpose of this coalition, which calls itself the Coalition for Truth in Environmental Marketing Information (CTEMI), is to promote the marketing of objective, factual information about environmental aspects of products so that consumers may make informed purchasing decisions.

In fact CTEMI is dedicated to doing away with third-party seal of approval programs, which it considers "fundamentally flawed." Its campaign accuses seals of being barriers to trade, obstacles to innovation, subjective and unscientific, and ineffective at educating consumers.

CTEMI has taken these and other arguments to many U.S. Federal agencies and international organizations over the past year-and-a-half. Perhaps its greatest success so far was nearly convincing the U.S. Trade Representative last June to propose general principles of ecolabeling before the Committee on Trade and Environment of the World Trade Organization. These principles, which, for example, called for ecolabeling to be based on "sound science,"appeared under the guise of a code of good practice but would clearly have been used to suppress ecolabeling programs around the world.

Also on the international level, the International Organization for Standardization (ISO), an industry-dominated international standard-setting body, is now developing rules for ecolabels that would sharply constrain the way labeling systems operate. Proposed rules would dictate ecolabeling standards, the way in which standards are developed, and the form of the label itself. Perhaps the most insidious provision in the draft standard is a requirement to achieve consensus in developing criteria. Given that ecoseal programs represent environmental leadership in the market, a mandate for consensus with industry is tantamount to blocking or devaluing the standards on which ecoseals are based.

While ISO standards themselves are nominally voluntary, the ISO is recognized as an official international standard-setting body under the World Trade Organization (WTO). The WTO could ultimately require adoption of ISO standards by both governments and independent labeling programs. Even in the absence of formal WTO requirements to adopt ISO standards, the huge advertizing budgets of industries that might subscribe to ISO-based ecolabeling standards could be used to flood markets with claims about the environmental benefits of ISO-certified products, overshadowing the presence of independent, third-party labels in the marketplace.

In addition, the WTO itself is now debating new guidelines for ecolabeling programs. The application of current WTO rules to ecolabeling programs is ambiguous.

A range of interests, including several developed nations and an overwhelming number of developing nations, as well as members of the international business community, are pushing for a strict interpretation of these rules in order to constrain ecolabeling programs, including private, voluntary programs. Such a restrictive new interpretation of WTO rules may arise through any of a variety of channels: through an interpretive declaration by the WTO trade ministers, through an opinion issued by a formal WTO dispute settlement panel, or through adoption of new rules or interpretive language by one of the WTO's standing committees.

In addition to these generalized attacks on ecolabeling through international and domestic institutions, specific industry actors who fear that their poor environmental performance will become a competitive disadvantage, are using both international and domestic fora to wage battles against individual ecolabels programs. For instance, certain paper and textiles companies are lobbying to have the United States, and/or other third party nations bring a WTO challenge to the ecolabels being developed by the European Union. Given the inherent pro-trade bias of the WTO, and because the party bringing any such challenge would pick a case with the most trade-egregious facts, such a challenge offers another way in which broad new constraints could further weaken the consumer's right to obtain environmental information through ecolabels.

The attack on the consumers' right to know jeopardizes independent, third party labeling programs covering a host of products that affect an enormous array of environmental and social values. Examples include timber and wood products from well-managed forests; fruits and vegetables produced under conditions that attempt to preserve local environmental and social values—such as limits on the use of artificial pesticides and fertilizers, clean water, soil conservation, decent labor conditions, and preferences for family farmers; consumer products such as paints and cleaners which limit toxics in the home and in production; milk produced from cows treated with bovine growth hormone (BGH), a product linked by preliminary scientific data from Europe to elevated rates of breast cancer and other health problems, and; coffee produced under traditional "shaded" conditions which eliminates the need for artificial pesticides while preserving wildlife and traditional, small-farmer communities in developing countries.

Ultimately, other types of consumer labels, such as those indicating products made with good labor practices, could also be undermined. Jeopardized labels include the "rugmark" label indicating oriental rugs made without child labor, and good labor practice labels indicating that clothing was not made under sweatshop conditions.

III. The Future of US Trade Policy

Rather than address squarely the failures of the current trade policy, policymakers seem intent on adding fuel to the fire. The Clinton Administration will soon request fast-track authority from Congress to negotiate expansion of the NAFTA to Chile and possibly beyond. In addition, the Organization for Economic Cooperation and Development (OECD) might complete negotiation of a Multilateral Agreement on Investment (MAI) in May.

Both agreements are fraught with environmental peril.

A. NAFTA Expansion—Approval of the NAFTA by Congress in the fall of 1993 was based on assurances that each of the NAFTA countries had strong environmental laws, but only enforcement was lacking in the case of Mexico. As indicated above, the NAFTA environmental side agreement was negotiated to encourage effective enforcement by offering the opportunity for citizen complaints for persistent patterns of failure to effectively enforce environmental laws. In addition, NAFTA Article 1114 allows for consultations between governments if any country waives its environmental law to attract investment.

The principle of "good laws, well-enforced" enshrined in the NAFTA environmental side agreement and in NAFTA Art. 1114 is relevant to any US trading partner even if we do not share borders—and therefore a high risk of cross-border pollution. If actually implemented, the principle of "good laws, well-enforced" could help prevent countries from competing with each other in the international market by weakening their laws or relaxing enforcement. As we have seen, the NAFTA deal did not provide the teeth strong enough to make this good idea a practical reality.

Even so, Chile—and other potential NAFTA partners in Latin America—do not meet the basic test applied to the original NAFTA members. Chile does not have a strong system of environmental protection. It lacks regulations to implement its framework environmental law. And it lacks any protection whatever for its Native Forests. As a result, Chile's Central Bank now predicts that logging for export will destroy all of Chile's native forests within thirty years.

While adding Chile to NAFTA may have relatively small overall environmental and economic impact, Chile will also set the pattern for proposals to expand NAFTA to additional countries. It makes little sense to expand a failed agreement without substantially improving it. In particular, readiness criteria should be established to ensure that any potential NAFTA partner adopts and enforces strong environmental laws. The obligation to effectively enforce strong domestic environmental laws must be enforceable through a binding international dispute mechanism. That mechanism should be a core part of any trade agreement, and not relegated to a side bar. Finally, NAFTA should establish a secure, dedicated source of funding for environmental enforcement and infrastructure.

B. The Multilateral Agreement on Investment

The (MAI raises even greater cause for concern than NAFTA expansion. Originally negotiated in the OECD, a "club" of the world's richest nations, the MAI will be offered to developing countries who agree to its terms on a "take it or leave it" basis. The MAI will open all economic sectors to foreign investment, strip countries and states of the right to adopt laws and regulations which have the effect of discriminating against foreign investors, and allow foreign investors to directly challenge our laws in domestic courts under the MAI's rules. In addition, increased capital mobility under the MAI will further increase investors' ability to play countries off against one another for tax breaks, low wages, and concessions on their environmental obligations.

1. Threats to US Environmental Laws—A number of US environmental laws are already considered vulnerable under the MAI. Examples include:

- Recycled-content laws which tend to favor domestic firms better able to source production inputs locally;
- the Community Reinvestment Act (CAR), which requires banks to lend a portion of their deposits to the communities where they are based. The CAR could be vulnerable under the MAI on grounds that it puts a competitive handicap on foreign banks which chose to operate in lower income communities. The CAR is important environmentally because it helps concentrate investment in inner city neighborhoods, reducing the tendency for urban sprawl, and
- Land-use restrictions around parks and protected areas, which could be interpreted under the MAI as partial expropriations of private property.

2. Racing Toward the Bottom, Again—Moreover, increased flows of foreign investment to developing countries with inadequate environmental laws could jeopardize environmental resources of international significance. Developing countries desperate for foreign capital will be tempted to ignore environmental impacts, exacerbating the international "race toward the bottom."

To cite just one example, thanks to relaxation of investment restrictions, mining investment in Brazil leapt to $2.5 billion last year from an average of only $40 million per year over the previous five years. According to The Wall Street Journal, the catalyst for the investment surge was elimination of a 49 percent cap on foreign participation in mining ventures. It is precisely this type of discrimination between foreign and international investors that the MAI will eliminate globally.

Due to both geography and size, Brazil holds South America's richest deposits of gold and other precious metals. Unfortunately, many of the deposits lie under the Amazon rainforest, a region of incalculable biological richness and a vital sink for carbon emissions that would otherwise accelerate global warming. Indeed, Brazil's rainforests are in deep trouble if the interests of transnational investors prevail. According to The Journal, "The most notable challenge is obtaining reliable geological data in a country that is still largely unsurveyed and covered by great swaths of inhospitable jungle. 'The country isn't mapped in detail, and you've got all those darn trees in the way.' says Ross Lawrence, a Toronto-based mining consultant." Destruction of the Amazon rainforest is already accelerating with the influx of mining investment, road construction, and commercial logging as timber companies gain access to trees along roads often built for miners. If Brazil's case is any indicator, the world's rainforests will come under increasing pressure should the MAI go forward.

IV. The Environment Community says "Enough is Enough"

In response to the growing evidence that US trade policy does not respect environmental realities, environmentalists have joined together across the NAFTA divide to call for an "environmentally responsible trade policy."

1. MAI—On February 13, Sierra Club, National Wildlife Federation, and the World Wildlife Fund joined six other organizations in calling for a one year postponement of the MAI. In addition, our organizations called for a) an environmental

review of the MAI consistent with OECD and Clinton Administration policy, b) the promulgation of environmental "readiness criteria" to ensure that MAI members have and enforce strong environmental laws, c) mandatory, enforceable requirements to prevent weakening of laws to attract investment, d) measures requiring investors to operate under the stronger of host or home country environmental laws, e) guarantees that the MAI could not be used to weaken or eliminate legitimate environmental protections, f) measures updating the 1976 OECD guidelines on Multinational Enterprises, and g) measures to open up dispute resolution under the MAI to the public and to environmental experts.

The long list of demands reflects our concern that the MAI slips well below even the inadequate NAFTA in its sensitivity to environmental concerns.

2. Fast-track.—On February 27, Sierra Club and National Wildlife Federation joined four other environmental organizations in calling on the Administration to seek fast-track authority with specific environmental negotiating objectives. To put US trade policy on an environmentally responsible path fast track needs to include negotiating objectives to (a) safeguard US environmental laws, b) ensure that international corporations comply with high environmental standards no matter where they operate, c) ensure that our trading partners have strong environmental laws consist with their sovereign rights to establish appropriate domestic development policies, and d) require environmental assessment of new trade agreements.

We believe that the proposals in these two letters are the minimum necessary measures to ensure an environmentally responsible trade policy. I hope the Committee will take them seriously under consideration. So doing, you will be in step with the wishes of US voters, 73 percent of whom believe that environmental and labor issues should be addressed in trade agreements, according to a recent BankBoston survey.

So doing, you will also address the disquiet growing among a broad range of globalization advocates, from Thomas Friedman on the op-ed pages of The New York Times to the 1,000 corporate executives recently gather in Davos, Switzerland for the World Economic Forum. These voices of the establishment have now begun to wonder whether willy-nilly globalization can really achieve its aims. As this subcommittee considers the future of US trade policy, I would in particular urge you to consider the words of Harvard Professor Michael Sandel, recently quoted by Mr. Friedman. As Sandel writes, "Democracy today is not possible without a politics that can control global economic forces, because without such control it won't matter who people vote for -corporations will rule."

For the sake of our democratic ways, if for nothing else, let's get off the "free-for-all" free trade merry-go-round. Let's seek a path to a responsible trade policy.

Chairman CRANE. Thank you.

Mr. Holmer.

STATEMENT OF ALAN F. HOLMER, PRESIDENT, PHARMACEUTICAL RESEARCH AND MANUFACTURERS OF AMERICA

Mr. HOLMER. Thank you very much. My name is Alan Holmer. In the mideighties, I ran the dumping and countervailing duty program at the Commerce Department. During the second Reagan administration, I was Clayton Yeutter's general counsel, and I was Deputy U.S. Trade Representative for the last 2 years of the Reagan administration.

I was here with the Subcommittee and the Full Committee for the 1985 trade bill, which went nowhere; the 1986 trade bill, that died in the Senate; and the 1988 trade bill and the United States-Canada Free Trade Agreement, both of which became law.

I know about the challenge of establishing a trade policy and renewing fast track in an environment where you have a President that is of one party and a Congress of another party.

I am pleased to testify this afternoon on behalf of the Pharmaceutical Research and Manufacturers of America, including companies like Searle in Illinois; in California, companies like Amgen,

Genentech, and Alza; in New York, companies headquartered there like Pfizer and Bristol-Myers Squibb. These are the pioneer companies, the companies that develop over 90 percent of all new medicines that are made in the United States. Our business is biomedical innovation. Our mission is to discover and develop new medicines to prevent and to cure disease.

When we succeed, everyone succeeds. Americans and people all the world over lead longer, happier, healthier, more productive lives. Last year alone, we brought 53 new medicines to market, covering 40 different diseases, including heart disease, cancer, Alzheimer's, asthma, glaucoma, and multiple sclerosis. Our companies don't plan to stop there. In 1997 our companies will invest $19 billion on research and development, over 21 percent of sales.

The issue before this Subcommittee this afternoon is of vital importance to biomedical innovation. Our innovation suffers from inadequate pharmaceutical patent protection in markets around the world. The TRIPs agreement that was negotiated in the Uruguay round under fast track moves us very much in the right direction, but not fast enough and not far enough. That is why the Uruguay Round Agreements Act calls for acceleration and improvement of TRIPS.

More generally, the United States needs new fast track authority. First, we need fast track authority to stimulate economic growth and job creation. In today's global market, we need access to customers, suppliers, goods, services, and markets all over the globe. If we regress from or stall on trade liberalization, the United States will fall behind. Our economic growth will be suboptimal, and we will have fewer new jobs.

You have heard all the reasons about that in the testimony that has been presented this morning and this afternoon, and I won't try to repeat it here, but I would like to focus on two issues that you, Mr. Chairman, and Mr. Matsui raised earlier.

The first relates to NAFTA. Obviously, there was a financial crisis recently in Mexico. The last time they had a comparable crisis, as you mentioned, was in 1982, and what they did was they increased the tariffs on U.S. exports going to Mexico, and our exports fell by one-half.

This time, they had a financial crisis, and what did they do? Well, Mexico raised tariffs on all sorts of countries around the world, but not against United States exports because they couldn't. They couldn't do it because we have NAFTA. The NAFTA protected U.S. interests. As a result, U.S. exports are already back now at record levels to Mexico.

Second, an issue that both you, Mr. Chairman, and you, Mr. Matsui, raised about the lack of attention from the public and the fact that there is not uniform support in the United States for free trade. I think that is right, but I don't see anything that has occurred as being really a seismic shift.

I can remember being at USTR back in 1985, back when we had a $170 billion trade deficit. You will remember this, Mr. Matsui. Remember the Rostenkowski-Gephardt-Bentsen bill, the one that was going to establish a mechanical way of addressing the trade deficit with Japan? I can remember your former staff director, Rufus Yerxa, calling me up down at USTR saying, ''Alan, there is

just no constituency up here for free trade." That was 12 years ago, and those were difficult times, but the answer is not to retreat. The answer for all of us—including the private sector to do a better job of educating the American people on the benefits of open markets, the benefits of strong intellectual property protection, and the benefits of free trade.

Engagement will not solve all of our problems, but retreating won't solve any of our problems.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Alan F. Holmer, President, Pharmaceutical Research and Manufacturers of America

Good morning, Mr. Chairman and Members of the Subcommittee. I am Alan Holmer, President of the Pharmaceutical Research and Manufacturers of America, or PhRMA. PhRMA represents the country's major research-based pharmaceutical and biotechnology companies, which are leading the way in the search for new cures and treatments that will enable patients to lead longer, healthier, and more productive lives.

There is no industry in America that is more committed than ours to innovation, and the ability to innovate depends, in turn, on strong protection of intellectual property rights in the United States and around the world. That is why I appreciate this opportunity to discuss PhRMA's views and objectives on U.S. trade policy, which we hope to achieve by working with this Subcommittee, Congress, and the Administration.

The Committee's announcement of this hearing touched on several issues directly relevant to innovation, and, specifically through biomedical innovation, to improved healthcare and better lives for patients all over the world. If U.S. industries, such as pharmaceuticals, are to capitalize on their strengths, U.S trade policy must focus on breaking down trade barriers, including lack of adequate intellectual property protection for American products. Open overseas markets are critical to the continued success of the U.S. research-based pharmaceutical industry, which generates almost one-half of its sales in foreign markets.

SUMMARY

This testimony, after providing a brief background discussion of the intellectual property provisions in the North American Free Trade Agreement (NAFTA) and the Uruguay Round Trade Agreements that established the World Trade Organization (WTO) as well as some pertinent data about our industry, will focus on several areas that raise concerns and present opportunities for U.S. trade policy. It will consider:

- Bilateral Trade Problems and Opportunities
- China's Accession to the WTO
- Multilateral Agreements/Issues
- Transatlantic Business Dialogue (TABD)

The following are among the major points made in the testimony:

- Three countries present special problems because of their total failure to provide adequate intellectual property protection—Argentina, India, and Egypt.
- China is negotiating to join the WTO, but the pharmaceutical industry has grave concerns about whether the U.S. should support China in this effort in view of its intention to impose price/profit controls on drugs and its lack of effective enforcement of its patent law.
- PhRMA strongly supports the granting of "fast-track" negotiating authority to begin the process of expanding NAFTA.
- The Transatlantic Business Dialogue presents another important vehicle for pursuing U.S. trade objectives.

BACKGROUND

As noted by the Committee, the 103rd Congress passed two landmark trade agreements, NAFTA and the Uruguay Round Trade Agreements that established the World Trade Organization. Both of these agreements were pushed by the United States to open foreign markets to competition, trade, and investment.

Both agreements contain important sections on intellectual property protection that have wide-ranging regional and global effects. The NAFTA, specifically Chapter

17, represents the highest standard of intellectual property protection ever achieved by the United States in an international agreement. NAFTA provided effective legal protection for pharmaceutical patents, including pipeline protection that enabled U.S. inventors to obtain patent protection for medicines already patented in the United States but not yet marketed (or patented) in Mexico. The Mexican patent law implementing these NAFTA provisions took effect immediately for all fields of technology, including pharmaceuticals. *PhRMA strongly believes that the NAFTA intellectual property provisions should be the model for future trade agreements.*

Regrettably, the intellectual property section of the WTO Uruguay Round Agreement, the Trade Related Aspects of Intellectual Property, or TRIPs, falls short of the NAFTA standard. Although the two agreements contain similar substantive provisions, TRIPs, at the insistence of a number of developing countries, allows such countries to delay pharmaceutical patent protection until 2005.

Furthermore, unlike NAFTA, TRIPs provides no pipeline provision, leaving many life-saving, breakthrough new medicines subject to patent piracy in such important markets as Argentina, India, and Egypt. Because of these two major flaws in the TRIPs agreement, when the 103rd Congress approved the Uruguay Round Agreement Implementation Act, it stated that the United States will seek both an acceleration of TRIPs implementation and enactment of laws in foreign countries to strengthen TRIPs standards.

Patent piracy reduces the amount of revenue that companies can invest in research and development. Pharmaceutical R&D is costly, lengthy, and risky. On average, it takes more than $500 million and 12–15 years to discover, develop, and obtain approval of a new medicine. And only one in 5,000 compounds ever makes it to market. The political risks are steep as well. Throughout the world, cost-containment pressures and regulatory impediments inhibit the industry's ability to continue its high level of investment in new products.

Despite these disincentives, PhRMA companies continue to lead the world in pharmaceutical innovation. This year, these companies are investing a record $19 billion in research and development—21 percent of sales. But to maximize the benefits of biomedical innovation, the U.S. Government must pursue a trade strategy that builds on our national and industrial strengths.

The issues discussed below present our views on important U.S. trade problems and challenges.

BILATERAL TRADE PROBLEMS AND OPPORTUNITIES

Argentina

Unlike its neighbors Brazil and Mexico, Argentina has not attempted to halt flagrant pharmaceutical patent piracy. Despite repeated assurances by Government officials over the past eight years, Argentina still does not protect pharmaceutical patents and Argentine pirates continue to expand their business in other Latin American countries, exporting pirated pharmaceutical inventions and obstructing initiatives to improve the level of protection in the hemisphere.

In March 1996, Argentina approved a new patent law, which, due to its deficiencies, ambiguities, and contradictions, fails completely to provide protection for pharmaceutical patents. The new legislation falls far short of the commitment made by President Menem in 1989 to enact a patent law in Argentina that would afford product protection for pharmaceuticals immediately, provide protection to products in the pipeline, and severely limit the compulsory licensing of patents.

Under the 1996 legislation, pharmaceutical product patent protection is deferred until October 2000. Due to the lack of protection for medicines in development (the pipeline) and other severe deficiencies, however, effective pharmaceutical product protection cannot be expected even after that date. Deficiencies in the law include restrictions on biotechnology; exceptions to patent rights and open-ended compulsory licensing; ambiguous language on exhaustion of rights; lack of protection to health registration data, and ineffective enforcement procedures.

Consequently, the new legislation does not fulfill several minimum mandatory standards to protect intellectual property included in the multilateral WTO/TRIPs Agreement. Thus, it is clear that patent protection will not be effectively enforced even after TRIPs is fully implemented. Further, extensive litigation is likely to attempt to resolve the many ambiguous and contradictory provisions in the patent law.

On December 18, 1996, the Argentine Congress approved legislation on trade secrets that also falls far short of international standards and TRIPs. The law does not provide any protection to the proprietary data that pharmaceutical companies submit for registration. Article 5 compels the Ministry of Health to approve similar products (i.e., copies) in a maximum of 120 days based on the submission of minimal

information. By not providing a term of protection (as is the case with similar legislation in other countries), a competitor does not have to submit its own data during that term and, thus, can be in the market in less than four months.

The lack of effective pharmaceutical patent protection is ultimately detrimental to Argentina. Argentine patients suffer because the country's capability for innovative biomedical research has been stifled without intellectual property protection, and foreign investment continues to flow to other countries. For example, following Brazil's passage of a strong intellectual property law, U.S. pharmaceutical companies announced investments in that country of about $1 billion.

In 1995, PhRMA estimated that its member companies lost $540 million to Argentine patent pirates. Current market trends show losses running at the same level. However, exports by Argentine pirates to other Latin American countries increase this figure by millions of dollars due to the loss of potential U.S. exports to other countries.

India

India remains one of the world's worst offenders of patent rights. Under the Indian Patent Act of 1970, the country provides no effective protection for pharmaceutical patents. As a result, India is becoming a haven for bulk pharmaceutical manufacturers that pirate the intellectual property of companies from other countries.

While India has a few immediate TRIPs obligations, notably to provide a statutory basis for implementation of the mailbox requirements and the five-year marketing exclusivity provisions in the TRIPs Agreement, it has failed to comply even with these minimum requirements. To attract foreign direct investment and join the growing group of developing and newly industrialized countries that have decided to offer first-rate patent protection, India should adopt a patent law that offers immediate product patent protection for pharmaceuticals, including pipeline protection.

USTR has filed a formal complaint in the WTO against India, asking for a panel to be convened to consider the country's refusal to provide minimum protection for pharmaceutical products under TRIPs. While this is a positive step, PhRMA urges a stronger U.S. Government effort to obtain effective intellectual property protection in India.

Significantly, after the Indian Government changed its copyright law several years ago, both local and foreign investors proceeded to create a Silicon-valley style industry in the Bangalore region, employing thousands of skilled computer specialists who no longer had to leave the country to find gainful employment.

Egypt

Egypt is a significant market—indeed one of the largest—in the Middle East/Africa region, but it does not provide any meaningful patent protection for pharmaceuticals. This not only harms our industry, but also leaves Egypt behind many other countries, such as Mexico and Brazil, that have enacted effective intellectual property regimes that benefit their patients, their healthcare systems, and their economies.

A draft law has been prepared by the Government and is now awaiting two key Government recommendations before it is submitted to the Parliament—on the length of any "transition" period before which product patent protection will be effective, and on whether pipeline protection will be included. Most of the substantive provisions reflect the standards established by TRIPs. However, a draft prepared more than two years ago did not contain a clause for delayed implementation and included a pipeline clause. Due to the influence of companies opposed to patent protection in Egypt, as well as efforts by anti-patent forces in Argentina and Canada, these two crucial issues are now undecided.

The United States, with its large foreign aid commitment to Egypt and numerous other bilateral programs, has many channels of communication with the country, including the Gore-Mubarak Partnership. We urge that Congress ensure that all possible courses of action are identified and used to persuade Egypt to improve its intellectual property regime.

CHINA'S ACCESSION TO THE WTO

There are few trade issues that will be as important this year as China's accession to the WTO. We understand that the Administration wants these negotiations to proceed smoothly, but also wants China to remove the impediments to accession before the U.S. supports its bid.

PhRMA has identified "pharmaceutical price and profit controls" and "administrative protection" of pharmaceutical patents as the two principal issues affecting our industry's interests in China and our priorities in the WTO accession negotiations.

The proposal to impose price controls is a critical recent issue that raises serious questions about China's commitments to open trade. The details of such controls have not been disclosed by the Chinese Government. In a meeting in early March with industry representatives, however, officials of the State Pharmaceutical Administration of China (SPAC) and the State Planning Commission made it clear that price controls will be implemented by the end of this year.

Price controls would seriously compromise existing investments and the willingness of foreign pharmaceutical firms to continue to invest in China. These controls would create enormous market distortions and would undermine the spirit of the WTO, depriving foreign firms of many of the benefits conferred through Chinese accession.

Another area of great concern to PhRMA companies is the lack of compliance with the United States-China Memorandum of Understanding (MoU) on Intellectual Property Protection, with specific reference to "administrative protection" of qualifying pharmaceutical patents. The SPAC, mentioned above, is responsible for administering provisions for "pipeline" or marketing exclusivity. These provisions have been implemented unevenly and with stringent and cumbersome requirements. In several cases, a Chinese company has been able to register a copy of a U.S. original product even though the U.S. company has been informed that it has been given marketing exclusivity under the provisions for "administrative protection."

If China's Government does not comply with the provisions of the MoU, it is difficult to believe that it will comply with its accession provisions to the WTO. Certainly, if China does not adequately address these problems, our industry will not be able to support China's accession.

MULTILATERAL AGREEMENTS/ISSUES

Free Trade Area of the Americas (FTAA)

The Free Trade Area of the Americas (FTAA) provides an opportunity for the US Government to negotiate increased trade liberalization in the Western Hemisphere. NAFTA was a landmark agreement that lowered many barriers, eliminated many tariffs, and significantly upgraded the terms of intellectual property protection. PhRMA supports the granting of "fast-track" negotiating authority to begin the process of expanding NAFTA. By establishing NAFTA's standards, particularly in intellectual property, as regional standards, important bilateral objectives may be achieved, such as stopping Argentine patent piracy.

Asia-Pacific Economic Cooperation (APEC) Forum

PhRMA strongly supports the 18-member Asia Pacific Economic Cooperation (APEC) forum and the principles of free trade on which it was founded. Specifically, we support APEC's efforts to develop more transparent trade and investment systems, streamlined approval and registration processes, and lower tariffs. APEC also reinforces the WTO's commitment to ensuring the development of free and fair international trade practices. Finally, we believe that our industry's active participation in, and support for, the APEC forum will foster goodwill and strategic connections in the region.

Doing business in the Asia-Pacific region is fraught with difficulty and ambiguity, especially for the research-based pharmaceutical industry that depends heavily on high standards of intellectual property protection and is heavily regulated. It can be difficult to determine what tariffs and commercial regulations apply to particular transactions or what government agency is responsible for granting licenses. The result often is costly legal entanglements, time wasted, and bad business decisions.

APEC seeks to ameliorate some of these problems. For instance, the APEC Committee on Trade and Investment is developing a tariff database that will list each member's tariff structure and customs process. The Subcommittee on Customs hopes to publish a customs guidebook with information on current regulations and non-tariff barriers. Additionally, APEC's efforts to harmonize members' regulatory and approval processes across a wide-range of industry sectors, including the pharmaceutical sector, will facilitate business transactions and reduce the time and money spent on launching a new product in the region.

Although many of our member companies doing business in the APEC area expect eventually to manufacture regionally much of what is now being exported there, APEC's efforts to reduce tariff rates will make it less costly for PhRMA companies to import necessary raw materials and to export regionally manufactured products throughout the Asia-Pacific region. For example, China, at the prodding of fellow

APEC members, agreed at the 1995 Osaka Ministerial meeting of APEC to reduce tariff rates by 30 percent on more than 4,000 items, many of which are pharmaceutical-related.

PhRMA also supports APEC because it serves to bolster the WTO. Thus, it appears that China may use APEC as a vehicle for implementing certain measures that fulfill WTO obligations or for discussing possible implementation of measures that suit APEC's aims and WTO's obligations.

TRANSATLANTIC BUSINESS DIALOGUE (TABD)

The TransAtlantic Business Dialogue (TABD) is another important vehicle for pursuing U.S. trade objectives. The TABD aims to facilitate closer economic relations between the U.S. and the European Union to contribute to the creation of a TransAtlantic marketplace. We have been involved with the TABD since its inception. In the pharmaceutical sector, the TABD is addressing mutual recognition of manufacturing laboratory and clinical practices, acceptance of clinical trials, expert reports, and exchange of assessment reports. It also is seeking to adopt common harmonized technical requirements to avoid conflicting trademarks.

PhRMA supports the speedy development of a Mutual Recognition Agreement on Current Good Manufacturing Practices (CGMP) between the U.S. and the European Commission. Any understanding that may be reached between the two parties, however, must be based on the need to ensure that predetermined quality requirements for drug products are met, EU and U.S. inspectors have a common level of qualifications, CGMP harmonization is facilitated, and clear and uniform interpretations are provided on compliance.

We note that, until such time as an MRA is concluded, exports by our member firms from the U.S. to the EU are subject to batch testing for quality assurance at point-of-entry in the EU. This not only poses practical and immediate problems to our members, but also creates a possible non-tariff trade barrier because U.S. imposes no such requirement on imports into this country from the EU.

Negotiations are moving slowly despite a call by industry in both the U.S. and Europe that the parties enter into a confidence-building phase to overcome mutual misunderstandings and distrust. At a time of scarce resources, the MRA negotiations hold the promise of achieving greater economies-of-scale without sacrificing standards of quality assurance.

Finally, the TABD is urging stronger patent protection in Europe by calling for avoidance of amendments to weaken patent laws in Europe and for the adoption of the EU Biotech Patent Directive, which would harmonize patent protection for biotechnology-derived products throughout Europe. It is also urging that price controls be replaced by market-driven competition, and that parallel trade be curtailed as long as drug price controls exist with differing levels of patent protection.

CONCLUSION

In conclusion, Congress has several opportunities to improve the trade environment for American industry. To capitalize on our comparative advantages, as a nation and as individual industries, the Subcommittee and Congress must continue to provide active leadership. Intellectual property protection, as a key to innovation, needs to be improved in several important emerging markets, such as Argentina, India, and Egypt. And, even where there has been improvement, as in China, important issues of implementation and enforcement remain. Regionally and multilaterally, economic liberalization, resulting in increased trade and investment, can be realized through the FTAA, APEC, and TABD initiatives that involve many of our major trading partners.

Chairman CRANE. Thank you, Mr. Holmer.

Ms. Wallach.

STATEMENT OF LORI WALLACH, DIRECTOR, PUBLIC CITIZEN'S GLOBAL TRADE WATCH

Ms. WALLACH. Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to testify. My name is Lori Wallach, and I am the director of Public Citizen's Global Trade Watch. Pub-

lic Citizen is a consumer group founded by Ralph Nader in 1972 that now has 125,000 members nationwide.

Past witnesses in today's hearing have called for more of the same in U.S. trade policy. In my testimony, I am calling for a time to pause and study the outcomes of the status quo U.S. trade and investment policy. Specifically, I propose establishing a blue-ribbon commission comprised of diverse representatives of business, labor, environmental, and other sectors involved in the trade and international investment debate to study the real-life outcomes of the U.S. trade and investment policy. For the past approximately 20 years, we have been heading in one direction, and it has taken decades of planning and since the early eighties, also negotiations. Ultimately, that design, that model has been locked in with NAFTA and the World Trade Organization.

Now the question that is posed is the one that Mr. Rangel stated which is, What are the effects on people of that policy?

Today, we have heard from a variety of different corporations and from some former government officials who now represent business—their constituencies think the status quo is a good thing, but what about the broad public interest?

I find it very interesting that USTR Barshefsky repeatedly says the current trade debate about fast track is not about NAFTA. Actually, it is exactly about NAFTA because the fundamental question is the NAFTA model.

The recent NAFTA and GATT negotiations have culminated in one set of rules that integrate services and goods, trade and dispute resolution that include investment rules. It is one way of doing business. It is one set of rules.

However, when a President asks for fast track authority to expand NAFTA, we are no longer talking about negotiations in a vacuum. It is about adding more countries on to one set of rules. The question is, Did that version work? We have had 3½ years of NAFTA to see. We will have more data under the World Trade Organization. It is on this basis of factual inquiry of outcomes for which we call for such a blue-ribbon study.

If one studies now the real-life outcomes of NAFTA in 3½ years, NAFTA has not measured up to its proponents' promises. In fact, the question now is more about whether it has broken.

The whole issue is in what outcomes this set of rules, if applied to other countries, will result. NAFTA is the set of substantive rules we have adopted, and fast track is the process we have used for negotiations, but only recently. Fast track has only ever been used on five trade agreements. In fact, there are a lot of Members of Congress who now live with the political liability of today's trade agreements expanding into a lot of issues beyond traditional tariffs and quotas who are rethinking the fast track version of sharing of authority over international commerce.

The fast track process also gets to the issue that Chairman Crane has raised about whether there is misinformation or a lack of information about trade.

I would say the contrary to lack of or misinformation is true as it pertains to: For the first time the U.S. public is actually quite aware of what the personal implications are for their jobs, for their

communities, for their futures of international trade and investment policy.

The defenders of the status quo, the set of rules we have now with NAFTA and the WTO, suggest that anyone who is a critic, such as my organization, is antitrade. But, it is really not a question of "trade or no trade." It is about what rules we trade by.

We have now a set of rules that I think has been properly called corporate-managed trade. For instance, we subsidize investment risk insurance. Chapter 11 of NAFTA provides at no cost to a company, insurance for their investments backed by the U.S. Treasury. But, is that the best way to go?

Thus, we pose five questions in the testimony that should be reviewed, not the least of which is the geopolitical assumptions under which our trade policy has been framed.

Finally, why we think it is very important for this blue-ribbon panel we have proposed to be diverse goes to the issue of environment and labor that has stalled new trade negotiating authority. Witness after witness today has tried to say these issues are external to trade policy, but indeed, they are a core part of trade policy. What a blue-ribbon panel would have to review is: Will U.S. trade policy recede back to a narrower set of issues such as traditional tariff and quota terms. Or, will it, like NAFTA, have whole chapters on food safety standards, environmental standards, and so forth? There is no way to deny that environment and other nontraditional issues are in the center of today's trade policy. Today's trade pact sets rules about these areas. The real question is, Will the treatment of these issues be balanced, or will our trade policy be pulled back to no longer cover extraneous areas?

In conclusion, either on the substance or on the politics, it doesn't appear the exact status quo of our current trade policy will last. The question is, Do we plan for changes that make an inevitable change beneficial to the public interest, or will we stand by mired in the status quo and let those changes occur randomly?

Thank you very much, and I look forward to your questions.

[The prepared statement follows:]

Statement of Lori Wallach, Director, Public Citizen's Global Trade Watch

Mr. Chairman and members of the committee, on behalf of Public Citizen and its members nationwide, thank you for the opportunity to testify. My name is Lori Wallach. I am the director of Public Citizen's Global Trade Watch. Public Citizen is a consumer advocacy group with 125,000 members nationwide founded in 1974 by Ralph Nader. Public Citizen is a member of the Citizens Trade Campaign along with hundreds of other consumer, labor, religious, environmental, family farm and other progressive citizens' groups across the country. The combined membership of the Citizens Trade Campaign member organizations is over 7 million. The issue raised by today's hearing is very broad one: the future direction of U.S. trade policy? This question could be the basis—and has been the basis recently—of long books, including some to which I and others in my organization have contributed.

Indeed, the committee should be praised for considering that broad topic. In the past decade, U.S. international trade and investment policy has careened speedily down one path leading to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and its World Trade Organization (WTO) and to the North American Free Trade Agreement (NAFTA).

Some argue we should continue straight along this old policy path—pushing for a NAFTA for Asia through the Asian Pacific Economic Cooperation, for NAFTA-plus global investment rules with strong WTO-style enforcement through the Multilateral Agreement on Investment and for expansion of the NAFTA's rules to the entire hemisphere. Many of those supporting the expansion of the old status quo of substantive international trade and investment policy also promote a continuation of

the old process for making international trade and investment policy. Thus, we see negotiations on an expansive, powerful Multilateral Agreement on Investment underway since 1995 at the OECD of which virtually no Members of the U.S. Senate or House of Representatives are aware, including those with jurisdiction over banking and other industries directly targeted by the pact. As well, the millions of families, pensioners, small investors, small and minority businesses and others who would be directly impacted by the proposed pact have no idea it is being negotiated. Under the current trade advisory committee, the handful of environmental and labor representatives sprinkled into the 800 security-cleared industry advisors are the only non-business interest representatives allowed official access to draft texts of the agreement. Indeed, the negotiations of this proposed far-reaching international investment agreement which is planned to be completed by mid-May have been so secretive, that state attorney generals and many high-level agency officials in the federal government have no idea that the U.S. position in the negotiations is to push for "investor-to-state" dispute resolution—the right of private investors to be able to sue governments in binding dispute resolution to charge that the governments have broken their obligations under the international agreement.

Others now argue that the time has come to pause, and in the name of prudence, to review the outcomes of our past policy decisions and the policy-making processes that led to this status quo.

Unlike gravity or death, the system we now have in place of corporate economic globalization with its engines of NAFTA and the WTO is only one choice. This system developed in the vacuum left by unregulated corporate behavior and the unregulated flow of billions in global financial markets. It then took years of planning and careful strategy by the interests who are benefitting from the status quo to lock it in via international agreements such as the 1994 GATT Uruguay Round.

However, just as this set of rules and incentives is resulting in one set of outcomes, a different set of rules and incentives would provide different outcomes.

For instance, the World Trade Organization and NAFTA do not target all "fetters" on commerce for elimination. Rather, the agreements promote the elimination of restrictions that protect people, while increasing protection for corporate interests. For instance, the regulation of commerce for environmental, health or other social goals is strictly limited. Labor rights, including prohibitions on child labor, which were to be included in the Uruguay Round under congressional orders, were entirely left out as inappropriate limitations on global commerce. But the protection of corporate property rights—such as intellectual property—received expanded monopoly power. The right for capital to invest in any country in any area absent conditions was also strengthened.

The small minority of interests that are benefitting from this particular system have tried to convince the world that either the changes and their negative outcomes are not significant, or alternatively, that this system and its effects are inevitable. It appears that this public relations campaign cannot counter the reality of these policies outcomes: There has been growing public protests—from Korea to France to Germany to India—against implementation of these policies as required in developed countries through compliance with trade pacts and in developing countries through compliance with structural adjustment plans from multilateral development banks. As well, public opinion polling in the United States shows deteriorating public approval of our trade policy—not because the public does not know about it, but on the very basis of what the public knows about the outcomes of NAFTA and the WTO.

My organization falls into this second category of those who believe the time has come for a careful review of the goals and outcomes of trade and investment policies. We believe it is vital to examine several key questions in forming the direction of our future policy in the areas of international trade and investment:

1. What are the specific goals we want our trade and investment policies to obtain and what pitfalls must we avoid?
2. How does our status quo policy objectively measure up to these goals and potential problems?
3. Are we making our trade and investment policies based on current and accurate geopolitical, social and economic data?
4. Is our policy forward-looking to include likely future scenarios we will encounter?
5. Is the processes for making our trade and investment policies designed to serve the broad public interest?

Each of these questions merits careful consideration by thoughtful people representing a wide variety of interests and qualified in a wide variety of disciplines. Thus, we believe the time is overdue to create a national blue-ribbon commission—comprised of a truly diverse set of large and small business representatives, labor

and environmental representatives, experts in public health, natural resources and food security and agriculture and more. This blue ribbon commission would be given a time line to prepare a report. A moratorium on further major international trade and investment commitments should be adopted until we have available the guidance such an intensive study would provide.

What goes by the name of trade and investment policy today inherently shapes—by incentive or regulates by law—almost every aspect of what we have traditionally considered our domestic social, labor, economic, health and environmental policies. Consequently, such a diverse panel of experts is required to consider future U.S. trade and investment policy.

Recent attempts by U.S. business organizations and some Members of Congress to argue that environmental and labor issues have no place in trade policy are bewildering. These issues are clearly essential to our current trade and investment policies. Indeed, those who now want to deny that today's trade and investment policies directly include and affect labor, environmental, social and other noncommercial matters are the very individuals and industries who pushed for trade policy to leave the realm of tariffs and quotas and invade for the purpose of deregulation the entire breadth of health, environmental, social and economic policies that had been previously areas of domestic jurisdiction. This outcome was promoted through the imposition of the NAFTA and the GATT Uruguay Round rules.

A simple review of the chapter headings of the actual NAFTA and WTO texts reveals that both recent pacts have moved significantly beyond their traditional roles of setting quotas and tariffs to institute new and unprecedented controls over domestic environmental and safety and other product standards, over regulation of industries from banking to transportation to communications to insurance, over intellectual property and investment rules, and even domestic administrative procedures, to name a portion of their new, expansive jurisdiction.

The real question is not whether today's trade agreements include labor and environmental rules. The questions is about what sort of rules they contain. Indeed, a closer review of the voluminous rules contained in those 700-page long agreements shows that the rules taken as a sum elevate maximization of trade and international investment flows above other potentially competing social, political and economic goals.

As a practical matter, the pacts accomplish this goal by requiring the democratically-elected governments that are NAFTA and WTO members to accept strict legal limitations on what domestic policies they may pursue. The World Trade Organization text is quite clear on this matter, stating: "Each member shall ensure the conformity of its laws, regulations, and administrative procedures with its obligations..." The agreements we have now apply the "least trade restrictive" test to environmental, health, labor and other domestic standards. This legal standard means domestic laws must be reviewed to ensure that they do not hinder the maximization of trade flows. Maximization of trade flows—not job creation, wage increases, or other economic goals—is elevated as the highest value under these rules.

A blue ribbon panel might expose this inherent conflict in the status quo and suggest some resolutions. For instance, either:

Trade and investment policy can be pruned back to the realm of tariffs and quotas and not take into account other policy questions relating to the environment, human rights, development, food security and labor right which could be determined in other international pacts, or, alternatively, if trade and investment policy continue to encroach on these others issues, they must be considered and balanced in the policy formation process.

My organization would advocate limiting the scope of international trade and investment policy so that it is not the default impetus of the making of our human rights, social, and environmental policy. Domestically, we do not put food safety or forestry conservation standards in the middle of tax legislation aimed at promoting business development. International agreement concerning these other issues need to be given equal footing with international commercial rules, with disputes settled in an open, unbiased setting—not the secretive dispute resolution bodies of international commercial pacts.

The American public, according to a November 1996 poll conducted by Wirthlin and Associates for the BankBoston, wants environmental and labor policies integrated into trade policy. While 75% of Americans cannot agree on much of anything and less than 50% elected recent Presidents, the Wirthlin poll found 75% of Americans think we must put labor and environmental measures into future trade agreements.

These are only some of the opinions that should be taken into consideration in thinking about our trade and investment policy as we approach the millennium.

We constantly hear that the core of U.S. post cold war foreign policy is international commercial policy. This is an odd supposition in a number of ways: it directly contradicts the notion of trade and investment policy being free from other issues. Trade has become the basis of our decisions on nuclear proliferation, human rights and international environmental matters. Be it by default or with intent, we now regularly put maximization of trade and investment deregulation ahead of these other values.

Moreover, putting trade and investment policy in the realm of foreign relations blurs the reality that these polices first and foremost mean real life effect on jobs, wages and communities here in the United States. Promoters of the status quo pushed for NAFTA and still occasionally defend it arguing that such economic engagement is good for our relations with our southern neighbor, Mexico. As the $1.7 trade surplus the United States had with Mexico in 1993 crashed into a $16.3 billion deficit in 1996—an all time record breaking the previous record trade deficit with Mexico in 1995—defenders of the status quo argue that this meant jobs for Mexico and only the loss of bad, low paying, menial jobs for the United States.

Of course, the Commerce Department data shows that a major part of the new NAFTA trade deficit is in autos and auto parts and high end electronics, like televisions. These are the high wage, high tech jobs U.S. workers are supposed to find in the new global economy. Meanwhile, the majority of the modest growth of U.S. exports to Mexico one can find swamped under the massive flood of new imports from Mexico, are parts going to Mexican assembly plants to make goods for re-export to the United States and capital equipment for setting up new factories to produce good to re-export to the United States. Only 12 percent of U.S. exports to Mexico consist of consumer goods.

Even as this shift was occurring, the Washington Post and Wall Street Journal were reporting about how U.S. service-related jobs including computer programming, insurance actuarial work, medical record keeping, airline reservations were being shifted overseas to English-speaking developing countries like Jamaica, Barbados, India or low-wage regions like Northern Ireland. As far as relations with Mexico go, polling data shows Mexican public opinion of the United States is significantly lower than before NAFTA. As well, the assorted international relations issues—which NAFTA promoters had used to justify the loss of some low-paying U.S. jobs—have actually deteriorated in the three years of NAFTA including issues of border health and the environment, illegal drug trafficking, and poverty-drive emmigration of Mexican families unable to support their families at home.

Finally, to the extent there is a logic to the status quo trade policy—considered the core of our post-cold-war international policy—it is premised on geopolitical, economic and technological basis that disappeared with the end of the cold war.

The diverse segments of the U.S. society that have opposed more of the same old trade status quo—and who now argue for forward-looking new policies to replace the old status quo represented by NAFTA—are accused of being unwilling to accept "new realities." It is actually those locked into the status quo who are failing to take into account significant global changes.

First, whether it ever had merit, the U.S. cold war policy of providing the U.S. as a market-of-last-resort to all comers as a lure for building alliances and reliance to contain the "Soviet threat" no longer has a basis. Yet the old policies and the trade deficit they it created continue. Second, this status quo denies the fundamental transformation of the world's economies inherent in the new entry into one global "capitalist" system of literally several billion educated, skilled and low paid workers in China and the former Soviet bloc. (As scholars and policy-makers in developing countries point out, we cannot forget the implications on those populations that forcing western, intensive agriculture practices and mandatory open food trade will have in the developing world where the majority of citizens are farmers.) Of course, in the long term, the combination of these factors, and the relentless downward pressure of this strategy on wages, means fewer and fewer people will be able to buy goods, causing a global crisis in effective demand.

Third, those clinging to the status quo fail to recognize that the new computer and communications technology now operating under the old rules guarantee enormous instability in financial flows. The globalization of finance has occurred in a vacuum of corresponding safeguards and regulations. Missing today are international or national policies appropriate to this reality. For instance, computer and other communications developments now allow for the daily transfer of over one trillion dollars around the globe daily in nonproductive trades, such as currency speculation. In this chaos, what happened to Mexico in December 1994 will happen again in Mexico and elsewhere over and over absent new rules premised on the reality of the new technological capacity. It is only matter of time before the run is on the

U.S. dollar and we experience the same domestic economic catastrophe that this rampaging financial river has wrought on others.

What are we doing in response to this inherent instability? Recognizing the scope of the problem and taking systematic steps to counter it? No, instead we are trying to force countries, to eliminate such safeguards and adopt the thorough deregulation that contributed to Mexico's meltdown. One example of such a safeguard is in Chile where the U.S. is trying to eliminate its "speed bumps" to limit withdrawal of certain portfolio investment for set time periods after investment.

Finally, we need rules that recognize perhaps the starkest reality of all: the limited ecological capacity of this planet to literally survive the impacts on water supplies, natural resources, food production, and absorption of waste and toxics. The scientific data on each of these questions is growing and needs to be reviewed as a basis for informed policy-making for the future. Just to pose one question in this vein: Have those now pushing the existing NAFTA rule be expanded to Chile considered that the Chilean federal government recently completed a study showing that if current logging practices are continued—and NAFTA would intensify logging in Chile—Chile will be without forests in ten years. Logging is just one of four natural resources extraction industries that are the basis of 80 percent of Chile's exports.

The implications for other natural resources industries comprising the 80 percent of exports would be devastating: without trees to hold soil and help with rain absorption, agriculture and salmon fish farming would be harmed. The social and health impacts would be even more broad and would have hemispheric implications. A growing movement in Chile, including small businesses and the church, is now asking this question of Chile's business and political elite who are pushing for NAFTA expansion.

CONCLUSION

It is increasingly evident that the status quo of trade and investment policy cannot hold. If we ignore for the moment the crisis in effective demand and the dangerous instability in global capital flows that the status quo promotes, the public's disapproval of the outcomes of this system will force changes.

As a political matter, polling continues to show a growing "anxious" class. President Clinton may be able to brag about the new jobs created by the U.S. economy in the past four years, but consider the types of jobs the economy under the status quo trade and investment rules is creating. The U.S. Department of Labor's Bureau of Labor Statistics reports that the top four occupations having the largest numerical increase over the next decade are: waiters and waitresses, retail clerks, cashiers and janitors.

U.S. wages have failed to grow significantly including, for the first time in recorded economic history, during this time of economic recovery. With expenses rising, a major swath of the population is working harder to earn less.

Meanwhile, as the stock market and CEO compensation swells to untold record levels, massive layoffs continue. The sense of despair and loss of control this situation breeds is at least part of the explanation for the tumultuous electoral behavior of the past two U.S. federal elections.

The anxious class is newly politicized and looking for answers—in the Perot movement, in the ultra-conservative nationalist presidential candidacy of Patrick Buchanan, in a liberal third party and in fearful isolated groupings.

As a nation, we must deal with this situation with thoughtfulness and care, studying what changes are necessary in our trade and investment status quo to obtain policy goals we choose.

Or, we can ignore the building discontent with the status quo and wait for more random changes, which almost certainly will occur haphazardly, piece by piece.

My organization would certainly prefer the former, thoughtful model of designing our future trade and investment policy. Indeed, we would look forward to playing a role in constructing such a forward-looking international trade and investment policy for the next millennium.

Chairman CRANE. Thank you for your testimony.

Ms. Wallach, you call for the moratorium on new trade agreements, and for all practical purposes, we have had that now 2 years in a row. But given that other countries continue to move forward in the absence of U.S. trading negotiation authority, wouldn't

such a moratorium exclude the U.S. from this global process, and wouldn't a moratorium limit our ability to shape the new trade rules so that they support U.S. interests?

Ms. WALLACH. Actually, the United States is in a unique position to truly take a leadership role in a forward-looking trade policy because we are the consumer market of choice. We have a unique leverage, and unfortunately, a huge trade deficit that represents that great consumer market, that many other countries want access to.

Whereas some smaller consumer markets might be in the situation you have described, the United States is the market everyone wants. We are in a position to actually promote a new thoughtful policy and demonstrate leadership, and it will be to our great detriment not to do so. The long-term implications of the current status quo don't suit the public interest.

Chairman CRANE. Well, one of the concerns I have in that area is that the absence of our negotiating authority has caused Brazil to consolidate its MERCOSUR relationship with our South American neighbors, with the exception of Chile, but the European Union and the Japanese and others are moving in to fill the vacuum created by an absence of our presence, and I think that would be injurious rather than beneficial to the very things you are concerned about.

Ms. WALLACH. All of those countries are currently members of the GATT. The United States has guaranteed MFN market access into those countries already under the GATT. The United States is not experiencing dropping export levels with those countries. The question is, What in the long term are a set of trade rules that guarantee market access, which is good for U.S. jobs and business, but also set rules for products coming back into the United States.

This seems to be the half of the formula that is missing. What are the terms from market access into the United States? Now they are solely commercial, but there are key issues that will implicate the wages of people in Illinois what happens to small family farmers there.

For instance, will we have some basic environmental and labor standards, or will we have a race to the bottom? And those are the set of issues, what the terms are for trading as far as market access that are very vital, and untouched now.

Chairman CRANE. Mr. Holmer, could you speak to that point, especially with regard to your industry and Argentina?

Mr. HOLMER. Mr. Chairman, your question is right on the mark. If the United States does not act, clearly, the world is going to leave us behind.

Canada and Mexico, they both negotiated free trade agreements with Chile. The EU is looking at an FTA with the MERCOSUR countries. China has targeted Mexico, Argentina, Brazil, Chile, and Venezuela. Japan has undertaken all sorts of trade initiatives throughout Asia and Latin America.

This morning Ambassador Barshefsky talked about the fact that with respect to Chile, there are real-world consequences that United States companies are facing. We are trying to sell telecommunications equipment into Chile. What is the effect? Chile has an 11-percent tariff. For Canada, that has gone down to zero. What is the impact on United States exports going to Chile? United

States exporters essentially have an 11-percent penalty compared to our competitors in Canada. That is a real impact on U.S. exports and U.S. jobs.

Regarding Argentina, we need to get stronger patent protection. For 8 years Argentina Government leaders have made commitments to the Bush administration and the Clinton administration that they will have strong patent protection. They haven't delivered.

If we were able to have an expanded NAFTA or a free trade agreement in Latin America, we believe we could get Argentina to come across and provide the kind of patent protection law we need. But without that fast track authority, we will have a devil of a time trying to get them to come to the table.

At an earlier time, we had the same problems with Mexico. We couldn't get Mexico to provide a strong patent law. What happened? We were going to have a NAFTA. Mr. Rostenkowski had a number of very serious conversations with the leaders of Mexico. They produced a world class patent law, and the NAFTA Agreement now on intellectual property is the finest intellectual property agreement that the United States has ever negotiated. That is the kind of leverage you can have with fast track negotiating authority.

Chairman CRANE. Now, Mr. Cowen, could you comment on penetrating that South American market?

Mr. COWEN. Well, our largest growth area within TRC is South America.

We have heard comments that environmental standards in foreign countries are actually decreasing. We are a U.S. company, strictly in the environmental services market; that the U.S. market is flat to down. If we don't go overseas, our business is deteriorating, similar to what is happening in our industry, because of a lack of reauthorization of Superfund, among others.

Let me give you a couple of real examples of what we are doing. We designed and built a state-of-the-art, $25 million landfill in Santiago, Chile, for a United States client. It is based on U.S. environmental standards.

We are working in Peru for the mining industry, improving air pollution relating to the copper industry. We have designed a hazardous waste cell to contain hazardous waste within Argentina.

Now, environmental standards in Latin America are basically emerging for many reasons exclusive of United States trade agreements. As their economies are improving, citizens are looking for better environmental standards.

I think a lack of trade policy will only hurt us. We are competing against the Europeans. We are competing against the Japanese. I think whatever we can do to enhance with a trade agreement by, first of all, bringing Chile as our next NAFTA partner, will only improve the United States selling of environmental technology and doing work within Latin America. It is probably the largest growth market, but if we don't do something on trade, like you said, we could be edged out of that market.

Chairman CRANE. Thank you very much.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Ms. Wallach, we have had a number of discussions on a number of issues such as these over the years, not recently, but over the years. Let me say this. I don't necessarily take issue with the goals you are trying to achieve in some of the areas you are discussing.

The problem I see is that about two-thirds of the world population right now is in many of these less-developed countries, maybe even a little more than that, but I am just thinking about India, China, parts of Latin America, parts of Eastern Europe, and parts of Russia, and that being the case, if we basically impose a moratorium and then attempt to use as leverage our markets with these countries, I wonder whether or not we would be starting trade wars all over the world with approximately two-thirds of the world population.

I think the real problem is how do we handle these things in a practical way. Obviously, in order to keep our economy running, with the slow growth that we have, 2.3, 2.5-percent growth, about 30 percent of our GDP is based upon trade and exports. What would you suggest? I would think we would have some severe economic problems in this country if, in fact, we followed the model you are suggesting.

Ms. WALLACH. You are asking what should be the relations with those countries that are not now under, for instance, the WTO?

Mr. MATSUI. I am assuming you are suggesting that with respect to Mexico, we perhaps roll back the tariffs or increase some of the tariffs. I don't want to put words in your mouth, but I am suggesting you favor the pre-NAFTA situation. Obviously, China would be a problem to you for labor reasons and otherwise.

What are you suggesting we do? What are you suggesting would happen in terms of our trade relations with these countries?

Ms. WALLACH. I personally and my organization and others I work with, including a lot of people in those other countries, have some very specific ideas of what kind of international rules are different than these status quo rules that you would set up as international global commercial terms. Obviously, negotiating international standards versus putting in place unilateral ones are highly preferable. The reason why we believe it is very important to have a broad indepth commission includes some of the very issues you have raised. For instance, what you do about trade with China, a country of 1.2 billion people. These questions go to the assumptions that currently underlie our status quo trade policy. Our old assumptions do not take into account all of those potential workers there in Vietnam, China, and the former Soviet Union, for instance, who were previously excluded from global markets by their political and economic systems.

There are some arguments that, for instance, insiders like Mr. Soros and Sir James Goldsmith have been raising about how you take the current set of rules and you apply them to what is a very different set of realities about the global work force and potential markets. Market size is way behind the work force size. Thus, the question becomes what rules do you put in place that actually establish markets versus just very low worldwide wages because of the labor surplus. Those kinds of big questions are why I think it is very important we stop now and review. We have a set of rules. They have been applied to a large portion of the world's economy.

We have data coming out of those rules, and now we face huge questions about how to proceed—the biggest one being China.

Mr. MATSUI. This morning, Ambassador Barshefsky testified, and I have great hopes that over the next 4 years or so, she will make significant progress in some of these areas at the WTO and perhaps the administration and other international organizations, but particularly the WTO.

She was able to get the issue of labor on the table, and it is going to take time. There is just no question, because these countries obviously don't have the same standards as we do.

Some of them go all the way back to the 1890's when we were not having particularly strong labor standards ourselves. The problem is you have different stages of development of countries that we are trading with. Obviously, we would like to have some symmetry, but it is a very, very difficult problem, and I don't know how you really address this problem except to engage these countries and trade with them and hope that you, through trade, affect their behavior somehow and affect some of the standards they might have.

Ms. WALLACH. May I just address this issue of labor rights?

Mr. MATSUI. Yes, please. Yes.

Ms. WALLACH. When I saw the actual language coming out of the Singapore Ministerial, frankly, I found it to be one of the most depressing turn of events at the WTO, given that while the word "labor standards" was mentioned, it was in the context of dismissing the propriety of those issues being dealt with in connection to trade rules and that rather, the ILO should be the body of jurisdiction.

So, to the extent there are some people who think what you do is, if you will, "green the GATT," "blue the GATT," by putting labor and environmental and other rules in parallel to the trade rules, what seems pretty apparent is that actually the direction of that body is just to the contrary. There was a vacuum before Singapore about whether or not those issues would be considered appropriate. The Singapore Ministerial Declaration gave the first political signal that no, in fact, they weren't appropriate to include in trade terms.

Mr. MATSUI. In fact, you are right. They did suggest to go to the ILO. On the other hand, we did get this on the table, and obviously, we are going to continue to discuss this with them. I think, over time, perhaps we are going to make some changes, but this is a matter that is going to take, in my opinion, significant time. We are not going to be able to solve this problem in 1 month or 2 months or 10 months or even 5 or 6 years, perhaps, but obviously, we have to make a start.

Again, I don't disagree with your goals. I think this is a very serious environmental issue, obviously the whole labor issue. I just don't know how we can address these issues in any other context except in the WTO. Obviously, using sanctions, trade sanctions on many of these things could just result in an escalating trade war that we would lose control over.

I know we have had these discussions in the past. On the other hand, I appreciate what you are doing in the sense of raising these issues.

Ms. WALLACH. And turning it into a big discussion is why the idea of the blue-ribbon panel—because what you just bring to mind is a saying, one of my Malaysian colleagues often repeats: If you have your whole family packed into a car and you are going really fast on a road, but you are not quite sure where it is going and you have heard there could be some cliffs, before you just keep going straight on at full speed, you slow down or you stop and look and see where you are going. That is the point of taking a review now.

We have made a lot of steps in one direction. Now the question is, What are the outcomes?

Mr. MATSUI. Mr. Seligman.

Mr. SELIGMAN. Thank you, Mr. Matsui.

To carry Lori's metaphor one step further, actually, I am a little bit perplexed, given the fact there have been a number of questions raised about the NAFTA and the WTO, why we are rushing ahead so rapidly with this new investment agreement with implications that are so great, the multilateral agreement on investment.

Mr. Matsui, you ask about a practical step to begin to insert, if you will, different kinds of rules into these agreements. The MAI, multilateral agreement on investment, as it is being negotiated right now, in the Organization for Economic Cooperation and Development, is really among the wealthier countries of the world. It is not a question of north-south trade or north-south investment. It is not a question of bridging standards between developed and less-developed parts of the world. And yet, there are absolutely no provisions whatever in this agreement to deal with the environmental issue, or labor issues for that matter.

It is particularly troubling because the Organization of Economic Cooperation and Development actually has a policy on its book requiring or calling for—it is nonbinding, of course—calling for environmental assessment of major trade and investment agreements.

Now, it would seem to me a fairly simple matter for the United States, which represents conceivably 30 or 40 percent of OECD production, to simply call on its trading partners to live up to the policy on the books. Why don't we find out what the environmental implications of that agreement are before rushing ahead and implementing it?

I would call your attention to one example I cite in my testimony of investment liberalization in the country of Brazil, which has been mentioned here, and that investment occurred principally in the mining sector, which as you know is very sensitive, in particular because many of the ores in Brazil lie beneath the Amazon rain forest, otherwise known as the lungs of the world.

There is a particularly amusing, from my standpoint, remark by a Toronto investor bemoaning the fact that there are all those darn trees in the way that the mining companies have to get rid of before they can make good on their investment.

I am just pointing this out as an example of the kind of conflict, unintentional, we may be getting into when we are rushing ahead with trade and investment liberalization without looking down the road and seeing that a cliff lies ahead that we should be paying attention to.

Mr. MATSUI. Thank you. I thank all four of you. I appreciate it.

Chairman CRANE. Well, I want to thank you all, too, and remind you again that your printed statements will be made a part of the permanent record, and thank you for participating.

And now our final panel which consists of Sidney Weintraub, William E. Simon Chair in Political Economy at the Center for Strategic and International Studies; John Sweeney, a policy analyst for International Trade and Latin American Issues at the Heritage Foundation; and Mitchell Cooper, counsel to the Rubber and Plastic Footwear Manufacturers Association.

Gentlemen, if you will try to confine your oral presentations to no more than about 5 minutes, your printed statements will be made a part of the permanent record. And with that, we will start with you, Mr. Weintraub.

STATEMENT OF SIDNEY WEINTRAUB, WILLIAM E. SIMON CHAIR IN POLITICAL ECONOMY, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. WEINTRAUB. Thank you, Mr. Chairman. I am going to talk primarily about free trade in the Western Hemisphere. I want to introduce some comments at first on NAFTA, but I don't want to dwell on NAFTA. Many of the points I am going to make, you have already heard. I heard some of them, and I haven't been here all day, but I will go ahead and make them very briefly, in any event. Repetition won't hurt too much.

First, my own background. I am now at the Center for Strategic and International Studies. I had been a professor at the University of Texas at Austin for about 20 years. I spent about 25 years before that in the U.S. State Department, much of that working on trade and financial issues. That is my background.

I want to make one or two points about NAFTA, and then I will go on to free trade in the hemisphere. The big fear when NAFTA was being debated in the United States was that it would cause great loss of jobs because of the low wages in Mexico, the runaway investment, and the resultant imports back into the United States.

I have written about this in a book that just came out, but let me just sort of summarize my main point. Since NAFTA has been in effect, the United States has been creating about 2.5 million jobs a year. Every time employment seems to go up too much, not only does Wall Street go bonkers, but Alan Greenspan and the Federal Reserve try to slow down the job creation.

The problem, as we have had it, as the Feds sees it, is not that we are losing jobs, but that we are creating too many jobs. Therefore, the argument that NAFTA would lead to massive job loss just isn't so. It just hasn't been brought out.

Every 2 weeks we create as many jobs as have been certified as lost as a result of increased imports from Canada and Mexico. I don't want to make light of the fact of the people who are losing those jobs. They need assistance. That is a real issue, but the issue of massive job loss in the United States has proved to be quite false. Just the reverse is going on.

Many of your previous witnesses talked about the growth in trade with Mexico, despite the financial collapse at the end of 1994 and 1995. I won't repeat that, but the existence of NAFTA and the way Mexico went about its recovery was really quite remarkable.

There is also an argument that we lose jobs when imports occur. You can't very well be losing jobs when imports occur if you are already at full employment. If you are already at full employment, any additional jobs would just lead to greater inflation. I suggest that many of the criteria which people use to attack NAFTA won't stand up to careful investigation.

I also have great problems, as most economists do, and that is my discipline, with looking at bilateral trade balances to represent a global picture of what happens in the U.S. trade.

Let me make 10 points about free trade in the Americas, and many of those, these points, have already been made by others, and therefore, I don't think I have to spend too much time on them.

The first one is that our tariffs are already lower than everybody else in the hemisphere, and second, we are facing discrimination in these markets. These points were made over and over again by many of your other witnesses, and therefore, I just find it incomprehensible that we would not try to level the playingfield in our competition in Latin America.

Second, if you look at the United States share of exports into Latin America, we capture about 40 percent of the Latin American market. We capture, by contrast, about one-half as much or less, of the markets in other continents, of the European market or the Asian market. The failure to enter into hemispheric trade in this market really means that we are going to sacrifice the very market where we have the greatest natural advantage, and it is very hard for me to understand why we would want to do that.

The third point is, a lot of the discussion really revolves around merchandise trade. Many executives came here. These chief executive officers are involved not only in merchandise trade, they are involved in the export of services, and the export of services, in a way, it is far more dynamic than the export of goods.

All of the antifree trade arguments seem to leave out that this is one of the great competitive advantages of the United States. Telecommunications, videos, insurance, banking, transportation, you name it, and the best way to open up other markets which are even more closed, relatively, to services than they are to goods.

A point made by others, U.S. tariffs now average about 3 to 4 percent. Latin American tariffs average from about 10 to 25 percent, or 11 percent if you pick Chile. It is a good deal for us to negotiate. We give up much less than we get back in return.

One of the important things to keep in mind is that the whole development model of Latin America went through a profound transformation in the eighties, from being a closed area, highly dependent on import substitution, not too concerned about exports. The model has changed completely. Latin America is now opening. The countries are depending on exports. In other words, we are now negotiating, or would, if we could negotiate, with a group of countries that do not look inward, but with a hemisphere that is now globally engaged.

Several of your previous witnesses made the point that other countries are now entering into talks with Latin America. The European Union is there. Jacques Chirac just made a trip to South America. The German Chancellor has been there recently. The Japanese Prime Minister has been there recently.

All countries are engaged in the globalization taking place. Many of the people who are advising us not to go ahead with a free trade area in the Americas, not to go ahead with further negotiation are really saying they don't want globalization. That is understandable, but globalization is a force beyond anything we can do in this room, and it is almost childish, I think, to sort of say let's withdraw from the world. We can't do it. We can't do it at all.

Two other quick points and then I will quit. The hemisphere is now largely democratic. Some of the democracies are weak, but it is all there. For the first time in the modern era, maybe the first time ever, what exists in Latin America are two conditions that should be very important to us, open markets and democratic dominance. I think this is the moment to take advantage of these two phenomena which we should and do deeply believe.

Let me make one economic point that I would like to close with. The United States is going to have a deficit in the current account of its balance of payments, in its trade in goods and service, and as long as we invest more than we save. This must be so because of the way we keep our balance-of-payments accounts. Since we generally have a surplus with the world in our exports of services, this means that the deficit is going to have to be in the trade account. There is no way to avoid a global deficit in the trade account if our savings don't increase enough to cover our investment. That is just the double-entry bookkeeping of the balance of payments.

What I am saying is that protectionists, even if they were to succeed, would not eliminate the merchandise deficit, unless they were willing to give up a lot of the investment now being made, or unless we were able to save more than we are saving now. I think this point ought to be kept in mind as this debate goes forward.

Thank you.

[The prepared statement follows:]

Statement of Sidney Weintraub, William E. Simon Chair in Political Economy, Center for Strategic and International Studies

The United States, under the North American Free Trade Agreement, already is moving to eliminate trade barriers between Canada, Mexico, and the United States. My emphasis, therefore, will be on U.S. trade policy toward the rest of the Western Hemisphere.

PERFORMANCE OF NAFTA

First, however, a few words about NAFTA because its progress has influenced thinking about hemispheric free trade. Those who opposed NAFTA at the outset are continuing a drumbeat against the agreement. As is generally known, the opponents of NAFTA point to the collapse of the Mexican economy in 1995, the alleged loss of jobs due to direct investment in both Mexico and Canada, and the large U.S. merchandise trade deficits with each of the two countries.

I do not wish to engage in a lengthy discussion of NAFTA here, but I have done so in a book published recently by the Center for Strategic and International Studies, entitled "NAFTA at Three: A Progress Report." I wish to make just a few points. The massive loss of jobs alleged to have resulted from NAFTA is made against the backdrop of record job-creation in the U.S. economy of some 2.5 million a year since the agreement has been in effect. The U.S. "problem," as the Federal Reserve sees it, is too much job-creation.

The total documented U.S. job loss due to increased imports from Canada and Mexico is about 120,000 for the three plus years NAFTA has been in place. The United States has created as many jobs every two weeks as have been documented to be lost because of imports from Canada and Mexico over the entire existence of NAFTA. And this does not count the jobs created by increased exports to those two

countries. The reality is that job-creation in the United States depends overwhelmingly on developments in the domestic economy.

Looking just at Mexico, two-way trade was $81.5 billion in 1983, the year before the agreement went into effect. Last year, 1996, two-way trade was almost $130 billion. All of the increase was not due to NAFTA, but much of it was. U.S. exports to Mexico in 1993 were $42 billion and last year they were $57 billion. Canada and Mexico are our first and third most important trading partners.

The United States did have a large deficit in merchandise trade with Mexico last year, amounting to $16 billion. The merchandise trade deficit with Canada was $23 billion. The argument that this led to the loss of jobs is belied by the facts of U.S. job-creation. The U.S. Federal Reserve Board has conducted monetary policy since NAFTA has been in place on the assumption that the United States has full employment. This, in essence, means that the U.S. economy as a whole could not have created more jobs without stimulating inflation. Under these circumstances, the imports from Canada and Mexico provided greater choice to consumers without overall job loss.

Some people lost jobs in competing industries. Some workers were unable to take advantage of the job-creation of the U.S. economy. But the way to deal with these problems is through better adjustment programs, not to deny choice to 260 million consumers.

The U.S. merchandise trade deficit with Mexico can be explained mainly by the combination of U.S. economic growth and economic decline in Mexico in 1995. By now, the Mexican economy is recovering. A bilateral merchandise trade balance is not normally a meaningful measure. It omits trade in services, which is about 20 percent the size of merchandise trade; the United States generally exports more services than it imports from the two NAFTA partners, but this also depends on income growth. Looking at trade with a single country uses a shifting bilateral measure instead of the global picture of U.S. trade. And, most important, focusing on the merchandise trade balance, whether bilateral or global, shifts blame to others for outcomes produced at home.

The United States inevitably will have a deficit in the current account of the balance of payments as long as it invests more than it saves. We must, under these circumstances, import capital to finance the investment and, the way the balance of payments is measured, this translates into a current account deficit to compensate for the capital account inflow. The largest single element of the current account is merchandise trade. Those who believe that the sky is falling because the United States has a bilateral or global trade deficit (and it is not clear to me why they believe this) should focus on the real causes (inadequate U.S. saving) and not blame foreigners for our own shortcomings.

FREE TRADE IN THE AMERICAS

Enough on NAFTA. I would like to turn to the rest of the hemisphere. In the interest of brevity, I will limit myself to ten reasons for seeking free trade in the Americas.

1. As the United States dawdled on taking steps toward negotiating a Free Trade Area of the Americas, facts were being created on the ground by other countries. Argentina, Brazil, Paraguay, and Uruguay formed and deepened MERCOSUR, the Common Market of the South. Other subregional economic groupings were reinforced in the Andean countries, Central America, and the Caribbean. Many countries entered into bilateral and plurilateral free-trade agreements. Chile and Bolivia associated themselves with MERCOSUR. MERCOSUR is flirting with the idea of a free-trade agreement with the European Union.

This means that U.S. products already are facing discrimination in exporting to South and Central America, and will face even more in competition with products from other countries in Latin America, and perhaps even in Europe. This can be significant for many products and can affect U.S. agricultural and manufactured exports. The only way to overcome this handicap is by entering into free trade ourselves. There is no other realistic option. Members of this Congress who oppose free trade must explain to exporters in their districts why they must compete in the hemisphere under a handicap.

2. This is our hemisphere. U.S. exporters capture more than 40 percent of the Latin American and Caribbean market, compared with proportions one-third to one-half as large in other hemispheres, such as Europe and Asia. Thus, as hemispheric countries grow economically and suck in imports, the effect is considerably greater for U.S. traders than is similar growth in Asia or Europe. The failure to enter into hemispheric free trade sacrifices this natural advantage in what has been our most favorable market.

Omitting Canada and Mexico, for which free trade already exists, U.S. exports to hemispheric countries were almost $53 billion in 1996. The merchandise trade balance with this region was positive by about $3.5 billion, but this, in my view, is not in itself an important consideration. What is worth keeping in mind is that as Latin America prospers, and it inevitably will in light of the responsible economic policies being followed in the main countries of the region, its large population represents a significant and growing market. Why would we want to give it away?

3. The United States exports more than goods; we also sell services. When the anti-free traders make their arguments, they invariably omit U.S. exports of telecommunication services, movies, videos, insurance, banking, transportation, and a host of other services. These service sales are estimated to be about 20 percent the value of merchandise exports. The most dynamic U.S. exports are related to services, such as those deriving from the information revolution that is largely a U.S. creation. The precedent for inclusion of services in trade agreements was established in NAFTA and carried over, although less comprehensively, in the Uruguay Round of the General Agreement on Tariffs and Trade. The best way to assure an open market for U.S. service exports to Latin America and the Caribbean is through a hemispheric free-trade agreement encompassing these activities.

4. A modern free-trade agreement does not stop at trade in goods and services, but goes beyond that to examine internal measures that impede trade. Trade negotiations no longer are limited to tariff reduction, as is evident from the 11 working groups set up in the hemisphere after the Miami Summit meeting of December 1994 to deal with other issues.

NAFTA includes provisions on investment, government procurement, the protection of intellectual property, standards for industrial goods, sanitary and phytosanitary standards, customs procedures, and dispute settlement, among other matters. The NAFTA parallel agreements contain understandings on environmental and labor protection and, while I realize that these are controversial, the disagreement relates primarily to the use of trade sanctions for carrying them out, not to the underlying desire to deal with these issues internationally. I hope that persons of good will on both sides of the aisle in the Congress do not hold up the benefits of hemispheric free trade by their inability to resolve their differences on these issues.

5. The Uruguay Round brought U.S. tariffs down to about 3 to 4 percent on average, while those in Latin America and the Caribbean range from 10 to 25 percent. Even the 3 to 4 percent range is overstated because of the many nonreciprocal tariff preferences granted by the United States to developing countries generally, to nations in the Caribbean Basin, and to those in the Andean region. The price for the United States to obtain access to Latin American and Caribbean markets in a hemispheric free-trade negotiation is a bargain. There are, of course, higher U.S. tariffs and other barriers on sensitive products, just as there are prohibitive restrictions on the importation of many products elsewhere in the hemisphere. The most arduous negotiations will be on these products, but this does not negate the conclusion that the United States would get more trade-barrier reductions than it would have to give up in hemispheric free-trade negotiations.

6. The prevailing economic development model in Latin America and the Caribbean changed radically during the 1980s, from closed markets based on an import-substitution model, to open markets that stress the imperative of exporting. These changes were urged for many years by the United States. Nations largely closed to foreign direct investment now actively seek such investment from the United States and other industrial countries. We are no longer negotiating with countries that look inward, but rather with a hemisphere that has become globally engaged.

The idea of hemispheric free trade, which would have been rejected out of hand 15 years ago, was greeted with enthusiasm when first proposed by President Bush in the Enterprise for the Americas initiative in 1990. There is now less enthusiasm in the hemisphere, largely because the United States has given little indication that it really intends to follow through. Negotiation for hemispheric free trade requires the granting of fast-track authority to the administration and the failure to achieve this raises skepticism in the hemisphere about U.S. trade intentions.

7. Those who oppose an open U.S. market in exchange for open markets elsewhere in the hemisphere are, in essence, modern-day Luddites. They reject the reality of globalization under which investment moves out of the United States as well as into it. They would prefer that the United States produce all kinds of products, those that require low skills and provide only low wages, rather than emphasize those industrial and service activities that require skilled personnel and new technologies. They can no more succeed than could the Luddites and still retain a vibrant, high-wage, productive U.S. economy. U.S. companies are not alone in seeking opportunities for foreign investment and coproduction as the way to enhance trade competi-

tiveness. Western European countries and Japan are doing the same. U.S. companies have a long history of investment in Latin America and the Caribbean and this is one reason why they dominate most hemispheric markets. The United States cannot close itself off from the imperatives of globalization and still remain prosperous; and there is no region where this reality is more germane than in our own hemisphere.

8. Today, almost for the first time in the history of the Americas, all countries in the hemisphere, save Cuba, are democratic. Many of the democracies are frail. Many have electoral and other flaws. Many countries in the hemisphere lack universal educational opportunities, have weak judicial systems, and tolerate excessive corruption. But the essential building block is there in the form of democratically elected governments and legislatures and the conviction that further development of their democracies is the path of the future. This situation does not exist in widespread fashion in other regions, other than Western Europe. Hemispheric free trade can thus take advantage of two features that hardly existed earlier, economic policies based on market principles and political structures based on democratic aspirations.

9. Two points mentioned earlier in the discussion of NAFTA should be emphasized, one on jobs and the second on merchandise trade deficits. There is no evidence that an open market prejudices U.S. job creation. We have witnessed this in recent years, when jobs were created at record levels in the United States at the very time of maximum U.S. openness to imports and during the three years of NAFTA's existence. There is now examination among U.S. economists as to whether and how much an open market prejudices the wages of low-skilled U.S. workers, but there is little disagreement on the point that U.S. job-creation depends overwhelmingly on domestic economic policy. The argument that hemispheric free trade would lead to massive job losses in the United States has as little basis as the contention that NAFTA would lead to substantial net job losses.

10. The United States must have a current account deficit as long as it invests more than it saves at home. There are two key parts to the current account of the balance of payments, trade in goods and trade in services, and the United States today exports more services than it imports. This makes it inevitable that the deficit will show up in the merchandise trade account. Blaming government negotiators, or open markets, or the unfairness of other countries, or whatever, will not change this reality. The corrective is straightforward—to save more, if we do not wish to reduce investment. Raising U.S. savings by eliminating the budget deficit should help reduce the merchandise trade deficit.

The United States is a global trader. It will have bilateral deficits with some countries and surpluses with others. The United States now has a modest surplus in merchandise trade with Latin America, other than Mexico. However, these bilateral and regional numbers are subject to change, almost year by year, depending on the relative strengths and weaknesses of economies. Protectionism does not get at the root issue of trade balances, the cries of protectionists notwithstanding.

Chairman CRANE. Thank you, Mr. Weintraub.

Mr. Sweeney.

STATEMENT OF JOHN P. SWEENEY, POLICY ANALYST, INTERNATIONAL TRADE AND LATIN AMERICAN ISSUES, HERITAGE FOUNDATION

Mr. SWEENEY. Mr. Chairman, Members of the Subcommittee, thank you very much for the invitation to be here today.

I submit a longer written testimony for the record. I won't repeat many of the points my colleague, Dr. Weintraub, made. I agree with them wholeheartedly.

My background includes 33 years living and working in Central and South America in trade, primarily, as a businessman and as a journalist. I think I know the area and the issue quite well.

America began retreating from free trade the day that the peso collapsed in 1994 in Mexico. That retreat until now has not been reversed, and every day that passes, every minute that passes, we

lose position in the Western Hemisphere. We lose influence and leadership in the Western Hemisphere. We lose markets in the Western Hemisphere, and we lose jobs here in America as a result.

The 105th Congress and the Clinton administration should seek to achieve some very specific objectives to reestablish America's leadership role in the process of worldwide expansion of trade.

First, we have to put American trade expansion back on track. Second, we must expand the North American Free Trade Agreement to Chile. Third, we must enlarge and deepen the World Trade Organization. Fourth, we must support the Asia-Pacific economic cooperation forum to make it a better vehicle for liberalizing Asian trade. Fifth, we must work at improving United States relations with China, which admittedly is a difficult challenge. Sixth, we must strengthen America's trans-Atlantic ties with the European Union, and seventh, we must build congressional and public support for free trade and investment.

Now, to reverse the retreat from free trade that we have seen in the last 2 years, it is absolutely indispensable that Congress grant the executive a new fast track negotiating authority quickly in order to facilitate Chile's accession to the NAFTA.

The enlargement of NAFTA to include Chile would reaffirm America's commitment to creating a Free Trade Area of the Americas by 2005. Moreover, the inclusion of Chile in NAFTA would confirm America's commitment to leading the FTAA process at the same time that it would open a new gateway for United States exports to markets in South America and APEC, of which Chile is also a member, as well as MERCOSUR, of which Chile is now an associate member.

The renewal of broad fast track negotiating authority, without any language linking trade issues to labor standards and the environment, would also facilitate the expansion of NAFTA to other countries in Latin America and the negotiation of free trade agreements with countries in Asia.

Without a fast track authority in hand, the administration cannot enter into serious trade negotiations with Chile or any other country. Suggestions that fast track is not necessary to enter into trade negotiations are mistaken. No country in this world today will invest the time or the resources in negotiating any kind of trade agreement with the United States if American negotiators cannot guarantee that any agreement reached will not be mutilated beyond recognition by the U.S. Congress.

However, to get America's trade expansion back on track, we need strong presidential leadership. Without strong executive leadership, even the wisest and best-intentioned congressional leadership will find it nearly impossible to advance America's trade interests. So far, we have not seen that leadership forthcoming.

Before closing, I would like to make a couple of points here about an issue that has been very much on the agenda in the last 3 weeks. It was not going to be part of my testimony, but I would like to talk about the issue of Mexico drug certification.

Congressional critics of President Clinton's decision to certify Mexico as an ally fully cooperating in the fight against drug trafficking are right to question that decision. Mexico could be doing more to aid in that process. However, decertifying Mexico will not

purge the corruption in Mexican law enforcement. It will not reduce the flow of illegal drugs crossing the United States-Mexico border every day, and it might well weaken the Zedillo administration beyond recovery.

Before voting to decertify Mexico, Congress should carefully weigh the potentially negative consequences of punishing Mexico for the Clinton administration's failed drug policies, and I would like to mention just two of these consequences, and I will stop, sir.

First, it would probably scare foreign investors into pulling their money out of Mexico. Decertification would be equivalent to an official no-confidence vote in the stability of the Mexican economy, and many foreign investors would react accordingly by divesting themselves of Mexican bonds and equities. More economic hardship in Mexico would fan the fires of growing social discontent in that country, and it would certainly increase the incentive for many Mexicans to migrate illegally to America.

The second consequence that it would have that I would like to mention here is that it would derail U.S. trade expansion in the rest of the Western Hemisphere. The Mexican drug certification flap between Congress and the Clinton administration has pushed trade off the congressional agenda for the past 3 weeks.

If Mexico is decertified, the future of NAFTA would be in doubt. If NAFTA fails, not only would we see more hardship and turmoil in Mexico, but we will have no vehicle upon which to build a Free Trade Area of the Americas.

Thank you, sir.

[The prepared statement follows:]

Statement of John P. Sweeney, Policy Analyst, International Trade and Latin American Issues, Heritage Foundation

FREE TRADE IS IMPORTANT TO AMERICA

Free trade makes good economic sense. It creates jobs and maximizes personal economic liberty; it provides a larger market in which American companies can sell their products; and it enables businesses to import crucial components to manufacture products in a cost-competitive manner. American companies continue to export goods and services to other countries because of the great demand for American products, and because they can produce more than Americans want. Free trade and sound investment policies have proven to be undeniably good for America and Americans, which the following facts substantiate:

America is the world's largest exporter of goods and services. In 1995, America sold over $783 billion in goods and services worldwide. According to the Office of the U.S. Trade Representative, total international trade accounted for 30 percent of the 1996 U.S. gross domestic product (GDP), or $2.3 trillion. In 1970, trade accounted for barely 13 percent of America's GDP. Moreover, the USTR's office estimates that by 2010, trade will represent 36 percent of America's GDP.

The value of U.S. merchandise exports has grown more than 600 percent over the last 25 years. Since 1988, almost 70 percent of the growth in the U.S. economy was derived solely from exporting goods and services.

One out of every five American jobs is supported by trade. In 1996, export-oriented manufacturing and service companies supported 11.3 million American jobs that paid an average of 13 percent to 16 percent more than U.S. jobs overall. Nearly half of the manufacturing jobs created in the U.S. in recent years have been in foreign-owned companies.

Since 1965, unemployment has declined every year that the U.S. trade deficit expanded (more imports came into the U.S. than goods were exported). Conversely, unemployment increased in years in which the trade deficit shrank (fewer imports came into the U.S.). Increased exports mean more jobs for Americans, and increased imports adds to the national wealth.

America is as much an industrial giant today as it has been in the past. The manufacturing base of the United States is not shrinking because of free trade, as trade

protectionists contend. In fact, it is not shrinking at all. According to the U.S. Department of Commerce, manufacturing accounts for 21 percent of GDP, which is the same percentage of the economy today as in 1967. Employment in manufacturing has remained relatively stable over the last three decades. The number of Americans working in manufacturing today (about 10.5 million) is about the same as it was in the early 1960s. While that number is a smaller percentage of a growing U.S. population, it proves that Americans are still finding jobs in manufacturing.

The 105th Congress and the Clinton Administration should seek to achieve very specific objectives to reestablish America's leadership role in the process of worldwide expansion of free trade. The general objectives policymakers should use as guidelines throughout the next presidential term are to:

(1) Put American trade expansion back on track;

(2) Expand the North American Free Trade Agreement to Chile.

(3) Enlarge and deepen the World Trade Organization;

(4) Support the Asia-Pacific Economic Cooperation (APEC) forum to make it a better vehicle for liberalizing Asian trade;

(5) Improve U.S. trade relations with China;

(6) Strengthen America's transatlantic relations with the European Union; and,

(7) Build congressional and public support for free trade and investment.

Strong presidential leadership and fast-track negotiating authority are essential for maintaining American leadership in the global economy. To expand America's international trade interests, strong and sustained presidential leadership is essential. If strong Executive leadership is lacking, even the wisest and best-intentioned congressional leadership will find it nearly impossible to advance America's trade interests. Similarly, fast-track negotiating authority is essential for the swift approval by Congress of trade agreements negotiated by the executive branch of government. Without fast-track negotiating authority, the balance of pressure from congressional constituencies with a direct interest in trade will likely shift toward a stance increasingly supportive of protective intervention. Clearly, then, the foundations for restoring a bipartisan congressional consensus in support of trade expansion are first, strong leadership from the executive branch, and second, the renewal by Congress of fast-track negotiating authority that limits the Executive's scope of action to tariff and non-tariff trade negotiations.

PUTTING AMERICAN TRADE EXPANSION BACK ON TRACK

Although America's international trade priorities and commitments span the globe, the Western Hemisphere is the region where U.S. trade negotiators scored the most impressive gains during the first half of the 1990s. Therefore, the process of putting American trade expansion back on track should begin in the Western Hemisphere. Between 1980 and 1992, the Reagan and Bush Administrations forged the closest relationship with Latin America that the U.S. has enjoyed in more than a century. This new hemispheric partnership was based on both democracy and the creation of a hemispheric free trade area as established in the Enterprise for the Americas Initiative (EAI) and the North American Free Trade Agreement (NAFTA), which was conceived as the base upon which U.S.-led trade expansion in the Western Hemisphere over the next decade would result in the creation of a Free Trade Area of the Americas (FTAA) by 2005.

Since the collapse of the Mexican peso at the end of 1994, however, NAFTA has become a political football for politicians who claim that free trade causes such domestic problems as increased drug trafficking and illegal immigration. But these critics are mistaken. NAFTA did not cause the Mexican peso crisis and is not responsible for America's social problems. Moreover, far from being a failure, NAFTA has scored some impressive trade and investment successes. During NAFTA's first two years (1994 and 1995), trade and foreign direct investment among the U.S., Mexico, and Canada increased. The average U.S. tariff on Mexican products fell from 3.5 percent to 1.5 percent, while average Mexican tariffs on U.S. products dropped from 10 percent to 4.9 percent. As a result, trade among the three NAFTA countries rose by 17 percent in 1994 to $350 billion, and bilateral U.S.-Mexico trade grew by 20.7 percent, surpassing $100 billion for the first time.

In 1995, despite the recession caused by the peso's collapse, overall U.S.-Mexico trade increased 8 percent to $108 billion, while total intra-NAFTA trade grew 10.6 percent to $380 billion. After declining by 8.9 percent in 1995 to $46.3 billion, U.S. exports to Mexico increased by 12.1 percent during the first three months of 1996 compared with the same period in 1995.

During 1996, two-way merchandise trade with Mexico increased 20.2 percent from the previous year, to nearly $130 billion, of which $56.7 billion were U.S. exports to Mexico, while $73 billion were imports from Mexico, including $36.8 billion of ex-

ports that originated from maquiladora assembly plants in Mexico. Exports now account for about 30 percent of Mexico's gross domestic product.

During the period from 1990 to 1996, U.S. exports to the world increased 57 percent, while U.S. exports to Latin America and the Caribbean Basin (excluding Mexico) increased by 110 percent. The Western Hemisphere accounted for 39 percent of U.S. merchandise exports in 1996. Not only are Canada and Mexico the first and third largest U.S. trading partners, but the rest of Latin America and the Caribbean Basin has been one of the fastest growing U.S. export markets in recent years. During 1995 and 1996, it was the only major region with which the U.S. recorded a trade surplus. In 1995 the total gross domestic product (GDP) of Latin America and the Caribbean Basin was $1.5 trillion, Moreover, Latin America intra-regional trade more than doubled from $41 billion to $88 billion during the period from 1990 to 1995. The U.S. exported more to Chile in 1995 and 1996 than it did to Russia, India, or Indonesia.

To put American trade expansion back on track in the Western Hemisphere and around the world, the 105th Congress and the Clinton Administration should strive to agree on the following specific objectives:

Congress needs to renew the Executive's fast-track negotiating authority

To reverse America's retreat from free trade, the 105th Congress should grant the Executive a new fast-track negotiating authority quickly, in order to facilitate Chile's accession to NAFTA. The enlargement of NAFTA to include Chile would reaffirm America's commitment to creating a Free Trade Area of the Americas (FTAA) by 2005. One of the greatest mistakes made recently by U.S. policymakers was postponing the inclusion of Chile in NAFTA until after the 1996 elections. The failure to add Chile to NAFTA weakened American leadership and influence in the FTAA process. There is no reason to delay the admission of Chile to NAFTA. Chile's total gross national product is equivalent to about 1 percent of the American economy. Chile has enjoyed positive economic growth for 14 consecutive years. Growth during the past six years under a democratic civilian government has averaged 7.5 percent annually. Chile has pre-paid a large chunk of its external public-sector debt, has no balance-of-payments problem, and has enjoyed single-digit inflation since 1994. Its investment and savings rates are approaching those of the Asian tigers. The inclusion of Chile in NAFTA would confirm America's commitment to leading the FTAA process and open a new gateway for U.S. exports to markets in South America and APEC (of which Chile is a member).

The renewal of a broad fast-track negotiating authority, without any language linking trade issues to labor standards and the environment, also would facilitate the expansion of NAFTA to other countries in Latin America and the negotiation of free trade agreements with countries in Asia. Without a fast-track negotiating authority in hand, the Administration cannot enter into serious trade negotiations with Chile or any other country. Suggestions that fast-track is not necessary to enter into trade negotiations are mistaken. No country will invest the time or resources in negotiating with the U.S. if American negotiators cannot guarantee that any agreement reached will not be mutilated beyond recognition by the U.S. Congress.

The U.S. Should Seek to Improve Relations with China.

China is indisputably one of the most important challenges facing American policymakers. China's emergence as a great power will be among the defining events of the next century. This will be true not only for Asia, but for the international system as well. How China integrates into the international system, and whether it accepts or rejects existing international economic, political, and legal norms, will define the very nature of that system. The U.S. should not try to isolate China in the international community. Instead, U.S. policy should seek to open and expose China to the outside world. Washington should work to expand the economic freedoms which international commerce and China's own modernization have engendered. International trade will continue to open China's economy, furthering economic reform, economic freedom, and, ultimately, greater political openness. To achieve these goals, the U.S. government should pursue several strategies:

(1) Congress should renew MFN status for China. The U.S. should encourage China to open itself to the outside world and to adhere to international rules and standards of conduct. However, the U.S. also should punish China selectively for security transgressions, but do so without unduly hurting Americans or isolating China. Instead of revoking MFN, which would harm Americans more than Chinese, not solve China's human rights problems, and isolate China from further American influence, we should approach China with carrots and sticks—promising to reward them when they adhere to international standards (with support for WTO member-

ship, for example, if they meet the criteria), but punishing them selectively when they do not. We want to keep China open to U.S. trade and influence, but that does not mean that we give them a blank check to do anything they please.

We should continue MFN status for China, encourage non-military trade, maintain high level contacts, and support public diplomatic activities inside China. However, we must also be willing to consider some "sticks" to express our displeasure over threatening behavior. For example, we should:

- Consider restrictions on Chinese military commercial activities.
- Urge the Clinton administration to be far more vigilant in enforcing U.S. sanctions against Chinese transgressions in proliferating missiles and militarily dangerous technologies.
- Curtail World Bank support for China.
- Restrict the flow of satellite expertise and technologies to China.
- Maintain a strong military presence and capability in Asia to deter China from aggression.
- Work with our friends and allies in Asia to develop a defense against Chinese and other ballistic missiles.

We share concerns about Chinese human rights abuse but we feel that revoking MFN would only make matters worse. Instead of revoking MFN, we should offer alternative "sticks" with which to punish China—sticks which address the specific security threats to Americans, but which avoid a general cut-off of trade that would be harmful to American interests. However, we should not apologize for China's behavior by adopting an "engagement at any cost" approach, or by over-emphasizing China's progress toward liberalization. Our approach is one of balance—one that best serves the interests and values of all Americans.

Our goal is a peaceful and mutually productive relationship with China. As it now stands, it makes no sense to assume that we have two simplistic choices—either to "engage" China regardless of what they do, or to "contain" and isolate them. These are false choices. Instead, we should have a balanced policy that moves China, however slowly, in the right direction. This requires telling the Chinese clearly what we (and the world) expect of them, to reward them when they comply, but to punish them (selectively) when they don't. These "rules of the road" should be the benchmark against which we measure the breadth and depth of our engagement of China.

If we cut off all trade with China, Europeans, Japanese, Koreans and others will rush in to take our place, relieving China of the economic pressure intended by the trade cut-off. In fact, the Chinese government would likely retaliate by cracking down on dissidents even more.

The best way to promote human rights in the long-run in China is to retain MFN, because it creates internal pressures and external influences that favor liberalization. Some disagree, arguing that economic liberalization has not produced enough political freedoms or democracy in China. But these skeptics exaggerate the degree of economic liberalization in China. The Heritage Foundation's Index of Economic Freedom shows that China, economically, is still "mostly unfree." Therefore, we should not be surprised that political liberalization has been so slow. As China liberalizes more economically, we would expect more political liberalization to follow.

Trading with commercial Chinese companies that manufacture shoes and other consumer goods is good for the cause of freedom in China. It spreads free market values and institutions and opens China to outside influences. However, we should not necessarily allow Chinese military front-enterprises unimpeded access to the U.S. if doing so endangers our security. Not all trade with China is equal. Some is good while some is potentially harmful if it spreads weapons that endanger Americans and American interests. We need to distinguish between these two types of trade.

The "isolate China" strategy has been tried and failed. There was a time when we not only did not have trade relations with China, but did not have diplomatic relations as well. Yet, during this time, when China was going through its horrible Cultural Revolution, millions of Chinese were killed and suffered unspeakable human rights abuses. Historically, the more isolated communist China has been from the outside world, the worse it has treated its people.

It is not appropriate to apply Cold War analogies of China and the Soviet Union. China is a growing dynamic economy, not the economic basket case of the Soviet Union; therefore, it is not about to crack if we apply enough pressure. Others will simply trade with China if we do not. Nor is China the military threat the Soviet Union was. China does not now possess the ability to project its conventional military power around the globe the way the Soviet Union did during the Cold War (although it does have nuclear ballistic missiles). We should be vigilant and deter China if it should become aggressive in the future, but we are not yet on a Cold War footing with China.

China is not yet an enemy, but it does cross our security interests on certain issues—proliferation and Taiwan, for example. When it does, we should respond forcefully. Therefore, we should consider imposing limited and targeted trade restrictions on Chinese commercial activities that threaten our security. However, the U.S. should not revoke China's MFN status.

(2) The U.S. should support the accession of China to the WTO as a developed country, when it meets the criteria. The accession of China to the WTO would give China an enhanced stake in the stability of the global trading system and in the peace and prosperity of the Asia-Pacific region. By integrating China into the WTO, the ability of U.S. policymakers to persuade China to respect the rules of the international trading system would increase significantly. Moreover, the conditions under which China joins the WTO will establish a precedent for about 30 other countries that also want to join the world trade body.

If the conditions for entry are too rigid, China may be discouraged from joining the WTO and choose instead to remain outside the global trading system, exporting its goods to other countries (including the U.S.) without being subject to the same trading rules observed by its trade partners. However, if the conditions established for China's entry into the WTO are too lax, other countries waiting in line to join the WTO certainly will seek similar conditions. The U.S. should encourage China's accession to the WTO as a developed country, allowing some flexibility in terms of the deadlines for China's compliance with the standards applicable to developed countries. However, purely political considerations—such as Beijing's insistence that it enter the WTO before Taiwan—should not be a factor.

However, there is a caveat: If it turns out that China is guilty of involvement in the Democratic Party's campaign fundraising scandals, such a turn of events would seriously jeopardize China's prospects for joining the WTO and retaining its MFN status.

(3) Congress should encourage the Administration to negotiate a bilateral intellectual property protection pact with China. As a quid pro quo for supporting China's accession to the WTO, the U.S. should press China to negotiate a bilateral agreement on intellectual property protection based on NAFTA standards rather than the WTO's TRIPS agreement. The objective of such an agreement should be to apply the rule of law across the entire country, instead of the current unwieldy and inefficient process whereby China's progress in this area is based on a quota system that quantifies the number of factories closed for violating intellectual property rights.

The U.S. should seek to enlarge and deepen the World Trade Organization.

The United States has long been a supporter of the General Agreement on Tariffs and Trade (GATT), an international agreement first signed by 24 countries (including the U.S.) in 1947. The first GATT trade agreement reduced barriers to trade that helped cause the global depression of the 1930s. Since 1947, there have been eight rounds of negotiations under the auspices of GATT, with each round liberalizing trade a little more. The most recent, called the Uruguay Round, was signed into U.S. law in 1994 and created a new body called the World Trade Organization (WTO).

There are now 129 members of the WTO, which provides these countries with a means to resolve trade disputes without resorting to trade protectionism. The WTO establishes the rules of international trade by which all members of the WTO must abide. These rules govern business contracts, the liability for not fulfilling a contract, and the resolution of disputes over interpretation of a contract's terms. Without agreement on these rules, any nation could conduct business arbitrarily according to its own domestic laws, which often are contrary to laws in other countries. However, the Clinton Administration has not utilized the WTO effectively to avoid trade disputes with America's trading partners. Instead, it has tried to bypass the WTO and has used unilateral trade measures, like Section 301 of the 1974 Trade Act, to settle trade differences with other countries.

Instead of resorting to unilateral trade measures, the U.S. should seek more actively to expand and deepen the WTO by implementing these strategies:

(1) The Administration should implement the Uruguay Round Agreements. The U.S. should make sure that all members of the WTO fully and faithfully implement their trade liberalization commitments in accordance with established timetables and deadlines for compliance. The U.S. also should ensure that tariff barriers phased out by WTO members are not replaced by regulatory barriers. This means that, instead of bypassing the WTO to manage trade differences unilaterally, the U.S. should make full use of the WTO's multilateral dispute resolution rules to go after regulatory barriers that undermine American exports and foreign investment. In addition, the U.S. should complete in 1997 the sectoral agreements to liberalize trade in financial services and basic telecommunications. The completion of these

multilateral agreements was deferred until 1997 as a result of the Clinton Administration's refusal to sign the agreements before the 1996 U.S presidential elections.

(2) The Administration should urge other members of the WTO to hold a new negotiating round with the goal of achieving global free trade and investment by 2010. The President should exercise bold leadership and press other WTO members to convene a new round of global trade liberalization talks by 1998. The new WTO round should subsume APEC's goal of free trade and investment by 2010 as its own. This policy should encourage APEC to accelerate the liberalization of trade and investment in Asia. It would not be the first time that trade liberalization in one set of negotiations spurred liberalization in another. For example, the creation of APEC helped bring the Uruguay Round negotiations to a successful conclusion in the early 1990s.

(3) The Administration should promote the accelerated implementation of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Strong protection of intellectual property rights benefits both developed and developing countries. Weak intellectual property protection deters the foreign investment that helps fuel economic development. The Uruguay Round Agreements, which took effect in 1995, represented a significant advance for the protection of intellectual property. The Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which also took effect in 1995, formally codifies substantive standards for the protection of all forms of intellectual property and includes administrative and judicial procedures, civil and criminal penalties and procedures, and customs regulations designed to uphold these standards. However, the American business community considers the TRIPS agreement only minimally acceptable. It is U.S. policy to encourage other countries to adopt intellectual property protection standards more stringent than TRIPS. For example, the NAFTA standards for intellectual property protection are more rigorous than TRIPS. These standards should not be lowered for any country—such as Chile, Argentina, Australia, New Zealand, or Singapore—that wishes to accede to NAFTA.

(4) The Administration should negotiate a Multilateral Agreement on Competition Policy. Because there is no international agreement governing competition policy, the U.S. and other governments have been tempted to act unilaterally to resolve what are, in reality, competition policy problems. Such unilateralism increases global trade friction and undermines confidence in the recently established WTO dispute settlement mechanism. The U.S. government should seek to negotiate a Multilateral Agreement on Competition Policy. The most promising route for such negotiations is the Organization for Economic Cooperation and Development (OECD). While the WTO ultimately is the proper forum for negotiating a worldwide agreement, developing WTO rules on competition policy would be a very lengthy and difficult process because of the diverse development levels and legal traditions among WTO members. Consequently, the developed countries, which share similar interests, are more likely to reach a workable competition policy agreement through the OECD in a reasonable time. The Multilateral Agreement on Competition Policy should incorporate competitive conduct rules, separation of commercial and regulatory activities, and privatization and competitive neutrality principles. A Multilateral Agreement on Competition Policy based on these principles would force most signatory countries to reform or abolish their existing antitrust or antimonopoly laws.[1] In addition, such an agreement would foster economic deregulation and significantly alleviate trade friction arising from competition policy differences, reducing the likelihood of disruptive unilateral trade actions.

(5) The Administration should negotiate a Multilateral Agreement on Investment Policy. The Uruguay Round Agreements established the first global rules for liberalizing international investment with the Agreement on Trade-Related Investment Measures. As a result, the U.S. now has three major sets of rules for investment liberalization: the WTO Agreement on Trade-Related Investment Measures, the NAFTA, and the APEC Investment Principles. The U.S. is also negotiating a fourth agreement: the Multilateral Agreement on Investment (MAI). Dissatisfied with the limited scope of the WTO Agreement on Trade-Related Investment Measures and the non-binding nature and deficiencies of the APEC Investment Principles, the U.S. and other developed countries launched negotiations through the OECD in May 1995 to draft a comprehensive, binding MAI. The finance ministers from the OECD

[1] Regardless of the existence of a multilateral agreement on competition policy or the lack of one, the U.S. should not hesitate to abolish its antiquated antitrust laws immediately and unilaterally. These laws burden America's business with outdated regulations that prevent them from engaging in joint ventures with other domestic and foreign firms. Moreover, these laws are often misused by the U.S. government to persecute and harass productive and successful U.S. companies.

member countries directed their negotiators to have the MAI treaty ready for signing before May 1997. The U.S. should not seek exceptions for itself to the rules for investment liberalization, and should press other OECD members to make as few exceptions as possible.

The U.S. should support the APEC Forum as a Better Vehicle for Liberalizing Asian Trade.

East Asia is the home of the world's fastest growing economies. Since the early 1980s, the volume of imports and exports exchanged across the Pacific has exceeded U.S. two-way trade with every other region of the world. In 1995 American exports to Pacific Rim countries totaled over $188 billion and supported over 3.6 million American jobs. In today's post-Cold War world, an ever more profitable economic relationship with East Asia remains one of America's foremost strategic interests. Thus, it is imperative that Washington seek ways to expand trade with Asia. To accomplish this goal, the U.S. should seek to create the world's largest free trade area in the Asia-Pacific region. The Asia-Pacific Economic Cooperation (APEC) forum, formed in 1989, is an instrument the U.S. can use to foster trade liberalization and enhance American commercial opportunities in the region. To make APEC a better vehicle for liberalizing Asian trade, the U.S. should execute several strategies:

(1) The Administration should harmonize and merge NAFTA and the Australia and New Zealand Closer Economic Relations (CER) agreements. The governments of these important U.S. trading partners have expressed strong interest in a faster process of trade liberalization than that which was agreed upon during APEC's November 1994 meeting in Bogor, Indonesia. By merging the NAFTA and CER agreements, the U.S. could promote American economic and strategic interests in several areas. For example, since trading disciplines currently contained within the NAFTA and CER are more rigorous than those established by the WTO, the merger of the NAFTA and CER agreements would place increased pressure on other U.S. trading partners to upgrade their own trade standards and regulations. Similarly, the convergence of the NAFTA and CER agreements would provide a powerful inducement for other APEC countries—such as China, Japan, and South Korea—to speed up APEC's timetable for trade liberalization. Such trade agreements also would energize the sluggish FTAA process in the Western Hemisphere, contribute to restoring American leadership to that process, and generate momentum for the eventual merger of the FTAA and APEC into a single free trade area encompassing more than half of the world's population.

(2) The Administration should strengthen APEC's Investment Principles into a binding agreement. At the Leaders' Meeting held in Bogor, Indonesia, in November 1994, APEC adopted a set of non-binding Investment Principles. While these principles represent an important step toward a more comprehensive accord than the WTO's Agreement on Trade-Related Investment Measures, five of the ten principles are inadequate and should be strengthened. These inadequate principles cover the transfer of funds, capital movements, national treatment of foreign investors, performance requirements, and investment incentives. At future APEC meetings, the U.S. should press other member countries to establish an unfettered right to move funds across international borders, eliminate any restrictions on cross-border investment flows, eliminate all exceptions to national treatment, prohibit all trade-related investment performance requirements, and prohibit any special government grants and tax subsidies to attract investment that are not generally available to all potential domestic and foreign competitors. Once these voluntary investment guidelines have been improved, the U.S. should press for the conversion of APEC's Investment Principles into a legal agreement that binds all APEC members.

(3) The U.S. should support concerted unilateralism in the Asia-Pacific region. This building-block approach to trade liberalization acknowledges the great diversity in economic development of APEC's members and is a necessary stage in the process of building the confidence required to undertake more comprehensive trade negotiations after the year 2000. Under "concerted unilateralism," each APEC member would be responsible for presenting its own individual action plan for meeting APEC's broad trade liberalization objectives. These plans would be subject to peer review and peer pressure by other members.

(4) The U.S. should seek to merge NAFTA, the Association of South-East Asian Nations (ASEAN) free trade area, and the 1983 Closer Economic Relations (CER) agreement between Australia and New Zealand, into a single free trade area by no later than 2000. APEC members are not located only in the Asia-Pacific region, but in the Americas as well. Current Western Hemisphere countries that form part of APEC include the U.S., Canada, Mexico, and Chile. Currently there is some disagreement among Asian members of APEC regarding the admission of new mem-

bers. For example, ASEAN is opposed to admitting any new members, especially India, that might diminish the trading advantages enjoyed by ASEAN countries. The U.S. should press APEC to admit new members, particularly from Latin America where governments generally are more supportive of rapid trade liberalization.

CONCLUSION

America has always benefited from free trade and investment. Whenever Washington has erected protectionist walls around America, it has paid the price with lost jobs, higher consumer costs, lower competitiveness, and infringements on individual economic liberty. To ensure America's economic growth and stability in the future, America's leaders, especially in Congress, must rededicate their efforts to support free trade and investment. They must make the opponents of free trade, the media, and the general public understand how much America's economic well-being depends on their freedom to buy and sell goods from whomever they choose.

American leadership has consistently pushed the world toward democracy and economic freedom. As America approaches the 21st century, it must become increasingly more competitive in a global economy. No country has ever prospered by closing its domestic markets to foreign trade or investment. In order for the U.S. to maintain the highest living standards in the world, it has to face the challenges of the global market and lead the world in strategies for overcoming them. The restoration of public and political support for free trade requires strong leadership with a commitment to free trade principles and a willingness to take immediate action. To continue to straddle the free trade fence will condemn America to economic stagnation and allow other countries to lay claim to the title of Land of the Free.

Chairman CRANE. Thank you, Mr. Sweeney.

Mr. Cooper.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

Mr. COOPER. Thank you, Mr. Chairman.

Let me start with two assurances. First, I will take less than 5 minutes. Second, I want you to know that what I am about to say is neither inconsistent with nor disapproving of the persuasive testimony that you have heard today regarding the need for some type of fast track legislation.

Having said that, let me point out to you that rubber footwear is, as I think you know, a labor-intensive, import-sensitive industry. Labor constitutes more than 40 percent of total cost. Imports of fabric upper footwear and slippers take in excess of 80 percent of the U.S. market, and imports of waterproof footwear in excess of 40 percent.

These imports come from countries where wages are from one-fifteenth to one-twentieth of the level in the domestic industry.

A major concern of this industry with respect to trade objectives and initiatives is the distinction between our government's approach to such multilateral negotiations as the Kennedy, the Tokyo, and the Uruguay rounds, and its approach to such bilateral free trade agreements as NAFTA.

The rules for multilateral negotiations have permitted careful scrutiny of the degree to which tariffs can be cut on specific harmonized system items, whereas, in bilateral negotiations, the only flexibility has been in the length of time over which all duties would go to zero.

Thus, in recognition of the unique import sensitivity of rubber footwear and slippers, the duties on the core items of this industry remained untouched in the Kennedy, Tokyo, and Uruguay rounds,

and we are talking about high duties. The average duty on waterproof footwear is 37.5 percent today. The average duty on fabric upper footwear is approximately 40 percent.

On the other hand, under NAFTA, rubber footwear and slipper duties are being phased out over a period of 15 years, a period longer than that for virtually every other American industry, but at the end of which duties on imports from Mexico will have been eliminated.

Unless current policy is modified, perhaps in the language of fast track, if not, I hope by persuasion of people like you, Mr. Chairman, in an effort to save, among others, the plant in Rock Island, Illinois, which is run by Norcross Safety Products people who make waterproof footwear, but unless current policy is modified, so as to permit limited exceptions to duty-free treatment in bilateral negotiations, what is left of this domestic industry cannot realistically expect to survive.

The validity of this statement is evidenced by our experience under the Caribbean Basin Initiative. CBI–II removed the exemption from duty-free treatment which had previously existed for footwear from the Caribbean. The direct consequence of this change in the law has been the rubber footwear imports from the Dominican Republican increased from 200,000 pairs a year in 1990 to 12 million in 1996, and that, Mr. Chairman, represents some modification of my printed testimony. Only yesterday, I got from the ITC a correction of the figure of 10 million in 1996 to 12 million.

Most of these imports are accounted for by American companies which closed plants in States such as Maine, Pennsylvania, West Virginia, and Georgia, and shifted their production to the Dominican Republic.

We are now at a truly critical juncture. The United States hopes to commence free trade negotiations with Chile, with the rest of Latin America, and with countries in the Pacific rim. In previous bilateral trade negotiations, the United States has relied on article XXIV of the GATT in justification of its no-exception rule. The fact is, however, that paragraph 8 of that article defines a free trade agreement as one where, "The duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories or products originating in such territories," and I've added the emphasis to "substantially."

If new bilateral agreements would adhere to the "substantially," all the trade language in the GATT, the rules of engagement would be closer to those in multilateral negotiations where the unique needs of particular import-sensitive industries can be taken into account.

The history of past negotiations demonstrate that there are very few domestic industries whose survival is as threatened by imports as is rubber footwear and slippers. Surely, the benefits that would otherwise accrue from a free trade agreement would not be diminished by excluding this minuscule fraction of 1 percent of this country's trade from duty-free treatment.

Accordingly, we urge that any structuring of policy objectives in upcoming trade negotiations should contain sufficient flexibility to permit the survival of an otherwise threatened domestic industry.

Thank you.

[The prepared statement and attachment follow:]

Statement of Mitchell J. Cooper, Counsel, Rubber and Plastic Footwear Manufacturers Association

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for manufacturers of most of the rubber-soled, fabric-upper footwear; waterproof footwear, and slippers made in this country. The names and addresses of the Association's members appear on appendix I.

Rubber footwear is a labor-intensive, import-sensitive industry: Labor constitutes more than 40 percent of total cost; imports of fabric-upper footwear and of slippers take in excess of 80 percent of the U.S. market and imports of the waterproof footwear in excess of 40 percent. These imports come from countries where wages are from one-fifteenth to one-twentieth of the level in the domestic industry.

A major concern of this industry with respect to trade objectives and initiatives is the distinction between our Government's approach to such multi-lateral negotiations as the Kennedy, the Tokyo, and the Uruguay Rounds and its approach to such bi-lateral free-trade agreements as NAFTA. The rules for multi-lateral negotiations have permitted careful scrutiny of the degree to which cuts in tariffs on specific Harmonized System items are warranted, where as in bi-lateral negotiations the only flexibility has been in the length of time over which all duties would go to zero. Thus, in recognition of the unique import-sensitivity of rubber footwear and slippers, the duties on the core items of this industry remained untouched in the Kennedy, Tokyo, and Uruguay Rounds. On the other hand, under NAFTA rubber footwear and slipper duties are being phased out over a period of 15 years (a period longer than that for virtually every other American industry but at the end of which duties on imports from Mexico will have been eliminated).

Unless current policy is modified so as to permit limited exceptions to duty-free treatment in bi-lateral negotiations, what is left of this domestic industry cannot realistically expect to survive. The validity of this statement is evidenced by our experience under the Caribbean Basin Initiative. CBI II removed the exemption from duty-free treatment which had previously existed for footwear from the Caribbean. The direct consequence of this change in the law has been that rubber footwear imports from the Dominican Republic increased from 200,000 pair a year in 1990 to 10 million pair in 1996. Most of these imports are accounted for by American companies which closed plants in such states as Maine, Pennsylvania, West Virginia, and Georgia and shifted their production to the Dominican Republic.

We are now at a truly critical juncture. The United States hopes to commence free-trade negotiations with Chile, with the rest of Latin America, and with countries in the Pacific Rim.

In previous bi-lateral trade negotiations the United States has relied on article XXIV of the GATT in justification of its no-exception rule. The fact is however, that paragraph eight of that article defines a free trade agreement as one where "the duties and other restrictive regulations of commerce...are eliminated on *substantially* all the trade between the constituent territories or products originating in such territories" (emphasis added). If new bi-lateral negotiations would adhere to the "substantially all the trade" language in the GATT, the rules of engagement would be closer to those in multi-lateral negotiations where the unique needs of particular import sensitive industries can be taken into account.

The history of past negotiations demonstrates that there are very few domestic industries whose survival is as threatened by imports as is rubber footwear and slippers. Surely, the benefits that would otherwise accrue from a free trade agreement would not be diminished by excluding this minuscule fraction of one percent of this country's trade from duty free treatment. Accordingly, we urge that any structuring of policy objectives in upcoming trade negotiations should contain sufficient flexibility to permit the survival of an otherwise threatened domestic industry.

Appendix I

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

American Steel Toe
PO Box 959
S. Lynnfield, MA 01940–0959

Converse, Inc.
One Fordham Road
North Reading, MA 01864
(with a plant in North Carolina)

Draper Knitting Co.
28 Draper Lane
Canton, MA 02021

Genfoot
Littleton, NH

S. Goldberg and Co.
20 East Broadway
Hackensack, NJ 07601–6892

Hudson Machinery Worldwide
PO Box 831
Haverhill, MA 01831

Spartech Franklin
113 Passaic Ave., Kearney, NJ 07032

Kaufman Footwear
Batavia, New York

Frank C. Meyer Co.
585 South Union Street
Lawrence, MA 01843
(with plants also in New Jersey, Missouri, Maine, Mississippi, and Puerto Rico)

New Balance Athlectic Shoe, Inc.
38 Everett Street
Allston, MA 02134–1933
(with plants in Maine)

Norcross Safety Products
1136 2nd Street,
PO Box 7208
Rock Island, IL 61204–7208

LaCrosse Footwear, Inc.
PO Box 1328
LaCrosse, WI 54602
(plants also in New Hampshire and Oregon)

Tingley Rubber Corporation
200 South Avenue, PO Box 100
S. Planfield, NJ 07080

Chairman CRANE. Thank you, Mr. Cooper.

Mr. Weintraub, how would you assess United States relations with Mexico and the operation of NAFTA at the present time?

Mr. WEINTRAUB. I have a hard time at the present time because of the narcotics debate that has taken place here in the Congress over the past several weeks.

There was a tremendous transformation that took place in United States relations with Mexico starting in the mideighties. Up until that time, as the title of a well-known book by Alan Riding said, our relationship with Mexico was distant. We were not very close. Mexican politicians ran for office blasting the United States. It was quite common.

Starting in the mideighties, when Mexico began to think in terms of free trade with the United States and of a closer relationship, those relations became warmer, more cordial, more cooperative. If you read the Mexican press on a regular basis, the transformation was quite remarkable.

In the last few weeks, a lot of the old animosities have come out again. There has been deep resentment in Mexico of some of the very harsh language used during the discussion of drug certification. So, at the moment, I would say that the relationships still have not completely reverted, but they have deteriorated from what they were for about 10 years until about 3 or 4 weeks ago.

Chairman CRANE. You, I believe, mentioned or made reference to the President's commitment to hemispheric free trade, or did you, Mr. Sweeney, by the year 2005? One of you, I think, made a reference to that.

Realistically, do you think we will get a balanced budget in the year 2002 with greater probability than hemispheric free trade by 2005?

Mr. WEINTRAUB. I hope you get a balanced budget by the year 2002. Let me be super confident and say that will succeed, and I will give the 2005 date for hemispheric trade the same odds, Mr. Chairman.

Chairman CRANE. Do you want to comment on that, Mr. Sweeney?

Mr. SWEENEY. I don't know enough about the budget to make a comment like that. I would hope we can balance it quickly, although as a person who watches events in Washington, I have my doubts about the sincerity and commitment of some of what we are seeing coming out of this administration.

As for the prospective for making a Free Trade Area of the Americas by the year 2005, I think that may happen, but the issue is, will the United States be a player or not, and right now, quite frankly, the United States is not a player.

In the last 2 years, United States relations with the rest of Latin America have deteriorated to an alarming extent. From Mexico City to Buenos Aires and Santiago, many Latin Americans who had staked their businesses, their political careers, their futures on some kind of hemispheric arrangement are now saying, Well, the yankees don't want us, let's do a deal with Europe, let's do a deal with Asia, let's do a deal with China. Nobody is waiting for the United States.

One of the previous panelists was saying we should declare a moratorium and then leverage. My comment to Sidney as we were listening to that is how incredibly arrogant of Americans to think that we can set standards for the rest of the world and tell them to wait until we make up our minds whether we want to play the game or not.

Right now we are not there, and we are not there because this administration has chosen not to lead.

Chairman CRANE. In your written testimony, Mr. Sweeney, you suggest that the United States should seek to merge NAFTA, the Association of Southeast Asian Nations Free Trade Area, and the 1983 Closer Economic Relations Agreement between Australia and New Zealand into a single free trade area by no later than the year 2000. First, you might comment on the advantages of negotiating with these governments, but second, let me ask you once more with regard to the timeframe.

Given what we have gone through the last 2 years, do you think that is doable?

Mr. SWEENEY. I think it is doable, sir, if the leadership is here in the United States, if we have the leadership and we are exerting that leadership.

I know that Australia and New Zealand and countries that belong to ASEAN are interested in faster trade liberalization than other countries that belong to APEC. The Australians, and particularly the government of New Zealand, has indicated they are willing to negotiate at a faster pace. Singapore would like to do the same.

Many countries in South America are interested in doing trade deals with Australia and New Zealand and ASEAN. Argentina, for example, recently suggested a free trade agreement between MERCOSUR and ASEAN. That would be a market of 600 million people.

I think it can be done. There are a lot of countries out there that want to do it. The only country that doesn't seem to make up its mind, lamentably, is America.

Chairman CRANE. That is really what I mean. We would be an active participant, presumably. I thought you meant in achieving that stated role.

Mr. SWEENEY. I certainly hope we would be, sir, but I think the issue is up in the air right now.

Chairman CRANE. Well, the concern, of course, I have is that we still have not resolved fast track, although I am pleased to report that Ambassador Barshefsky has that as her number one priority, and certainly, it is our number one priority, too. But unfortunately, Mickey Kantor derailed the fast track extension, you will recall, and I was sympathetic to hear his line of argumentation. But I really did not see any benefits flowing out of guaranteeing that we didn't have that in place. Chile has been hanging in the wings all this while, waiting to get the United States off the dime. It is very unfortunate, and in the interim, we are, I think, losing our clout with our other South American neighbors.

Would any of you share that opinion?

Mr. SWEENEY. Yes, sir, I do, and more than losing clout, I think we are losing prestige. I think we are losing image. We are losing influence, and we are poisoning the well of our friends and allies, and I think that is very dangerous, particularly since Latin America at this moment in time is at a difficult point in its transition from closed inward-looking economies to outward-looking competitive export of economies.

Growth in Latin America has been slower than it should have been in the last 6 or 7 years. Poverty has increased in Latin America because reforms have not advanced at a sufficiently rapid pace, and a backlash is starting to build up. If the United States does not get back into the game and start supporting its friends and allies in Latin America who are committed to reforming the region and opening it up, we are going to see a return to social discontent and unrest in many countries. We are going to see increased illegal immigration to the United States. We are going to see the increased penetration of transnational criminal enterprises throughout the Western Hemisphere, and all of these developments will be to the detriment of America's economic and security interest in the Americas.

Chairman CRANE. Well, I share that concern, and the thing that is troublesome is that I was in Miami when the President made that commitment at that Miami conference, and there was basically ecstacy on the part of the 34 Democratic countries that were represented at that conference about this kind of commitment. Since that time, our inaction, which I hope will be overturned very soon, but our inaction has worked, I think, to the detriment of our hemispheric interests, our world interests, if you will, and I hope we can achieve these objectives over the course of the next 2 years.

Something you talked about, Mr. Weintraub, was jobs, and we have what they are calling, for all practical purposes, full employment right now in the United States, and I am curious, with the modest economic growth rate of 2.5 percent, do you know how many illegals are working in the United States right now?

Mr. WEINTRAUB. The estimate of the INS, the most recent study, is 5 million.

Chairman CRANE. Five million. Here we are at full employment. We are employing 5 million illegals.

I mentioned earlier today that we had a luncheon with our delegation and Mayor Daley from Chicago last week, and he indicated they couldn't get tool and dye workers in Chicago, and they had to import legal immigrants to do tool and dye work and pay them $20 an hour. That is not a bad income for, I guess, a tool and dye worker. I don't know what all the job skills entail, but $40,000 a year ain't bad, and especially how attractive an offer that was to a lot of legal immigrants who came over here to fill those slots.

I am just wondering, is our economic growth so prodigious at this moment in history that we can't find the workers to do the work we need?

Mr. WEINTRAUB. Well, it would appear that we can't find the workers to do what we need in a good many fields, in a good many skilled fields.

I think you have to distinguish. The unskilled worker has been having a hard time, and there is real hardship among unskilled workers.

Chairman CRANE. Well, are all of those 5 percent unemployed? Are they all unskilled workers?

Mr. WEINTRAUB. Of the 5 million, by no means, but a good proportion of them are unskilled, not all of them, I am sure, but there are skill shortages.

If you look at the want ads all over the country, there are shortages of people with particular skills, and jobs go wanting in the United States today.

Chairman CRANE. Well, one of the things I recall, when Steve Syms was a Member of the House, his family had an apple orchard outside of Boise. He told me that come harvest time, his dad offered jobs picking apples. Now, this was 1972. You make the adjustment for the deterioration of our dollar. His dad was offering $5 an hour to pick apples. That would be like $20 an hour or more today, and couldn't get locals to come out and pick apples.

As it turns out, illegal immigrants from Mexico came there at harvest time and they started harvesting the crop. Then the immigration officials descended on them and gathered them all up and took them back south of the border. His dad was having heart arrest that his crop was going to rot on the trees. They were all back in 2 days.

He said they routinely would go from different crops to different crops to harvest and then go back down to Mexico. I am wondering because it certainly doesn't take a lot of skill to pick apples.

Mr. COOPER. Mr. Chairman, may I make—I am sorry.

Chairman CRANE. Oh, sure thing.

Mr. COOPER. May I make a comment?

Chairman CRANE. Yes, indeed. I am curious about——

Mr. COOPER. Well, I can't disagree, obviously, with anything that has been said on this subject, other than to point out that the picture is not a uniform one.

I started to represent the rubber footwear industry over 30 years ago, at which time there were approximately 30,000 employees. Now I would like to think there is not a cause-and-effect relationship with my representation and the fact that employment has fallen to approximately 5,000 employees, but that is the fact.

Chairman CRANE. Well, let me ask a question in that context. Are you only producing one-sixth of the footwear that you were producing with 30,000?

Mr. COOPER. No, because there is a fair amount of mechanization, a fair amount in this industry, just as there is abroad, but I will point out to you, for example, that even under the relatively high tariffs, admittedly high tariffs, that this industry has, a company like Nike found it profitable to lay off 1,000 employees in Maine, to close its domestic operations, and to shift everything to the Pacific.

All I am trying to point out is that within the macro picture, there is a micro picture, and I think it is in everybody's best interest not to lose sight of the fact that everybody has not been the beneficiary of a rising tide, and that it is not—you don't have to say we are opposed to fast track or we are opposed to trade negotiations. We favored the Uruguay round, the Kennedy round, the Tokyo round, and this industry's problems were recognized. You can have it both ways. You can have enormous success in a free trade negotiation, for example, if you are 99.5 percent successful. That is what happened in NAFTA. Everybody except less than one-half of 1 percent in American industry was phased out over a period of 10 years or less, but there was some recognition that there are a few industries in this country which do require special consideration, not because they are inefficient, but because they are so labor-intensive and because the products can be manufactured in relatively undeveloped countries where wages are so very low.

All we are saying is that if you apply the same rules of the game to bilaterals that you apply to multilaterals, I think you would find more support in the House of Representatives for fast track legislation than exists today.

Chairman CRANE. Let me ask you a question. Did you go overseas to manufacture any of your shoes?

Mr. COOPER. A lot of my clients are importing by either——

Chairman CRANE. No, no, no. I mean your business. Did you start manufacturing overseas?

Mr. COOPER. Well, I am a lawyer for 15 companies. No, no. I am counsel to this industry.

Chairman CRANE. Let me ask you a second question. When the industry provided 30,000 jobs domestically, have you any idea how many of those boots they produced a year?

Mr. COOPER. I have that figure, Mr. Crane. I don't want to cite it off the top of my head. Clearly more today.

Chairman CRANE. But you are producing more boots now?

Mr. COOPER. More—no, no. That is inaccurate. I am sorry. No, we are not. The total consumption is greater.

When I started to represent them, imports took about 20 percent of the market. Today it is 80 percent of the market. No, domestic production is down.

Chairman CRANE. That is because you can't meet the demand? Is that it?

Mr. COOPER. It is because it is very simple to manufacture this product now in countries like the People's Republic and in Vietnam, in the Dominican Republic where it is now duty free, and to bring it in and to compete successfully against domestic production.

Chairman CRANE. Well, you are talking about cheaper labor beyond our borders.

Mr. COOPER. That is correct.

Chairman CRANE. Yet, you talked about mechanization of the domestic industry. That should reduce costs significantly and give you a more competitive leg up against——

Mr. COOPER. I am sorry, but this mechanization is taking place there, too. The companies that are doing this are companies like Nike and Reebok. They are American companies. They are, to some extent, my clients, Mr. Chairman, but the balance of interests of my clients has remained in this country because they want to be known as American producers of American products, and as long as they can continue to operate here, they will do so.

Chairman CRANE. Mr. Traficant always insists that government purchases be labeled "made in America."

Mr. COOPER. That is right.

Chairman CRANE. I am curious because our auto industry finally revived due to Japanese competition, and the Japanese were implementing things they had learned from us, like the robotization of the body assembly lines, and they produced a better quality product at a lower price. Detroit finally came to its senses and started doing the same thing, but I am wondering if there isn't a parallel when you talk about mechanization of some of the production of boots.

Mr. COOPER. Well, we are not talking about companies that are either Japanese companies or Indonesian companies. We are talking largely about American companies who have brought their skill and knowhow over there because they can manufacture for less. The production processes are the same there as they are here. The product is no better. Nobody is going to be able to persuade me that if they go into a Foot Locker and choose between a New Balance, which is made in this country, or a Nike which is made abroad, that they are doing it on the basis of quality. No one has ever faulted the quality of a New Balance shoe against a Nike shoe. I mean, they are both high-quality shoes. It is a question of where can you produce at the least cost.

The Government has recognized this. That is why the duties have remained high in this industry. Although there has been mechanization, labor is still the principal item of cost, and they have not been able to overcome that.

Chairman CRANE. Mr. Sweeney, did you have a comment?

Mr. SWEENEY. Well, yes, I have two comments. One, I think if you look at what is happening in the United States today and compare it with what is happening in other parts of the world, you find that there has been a shift of jobs overseas at the lower skill end

of technological companies and manufacturing enterprises. I think that is an inevitable process that would have happened irrespective of whether or not the United States was a free trader and was negotiating free trade agreements.

As the world economy grows and countries come out of the Third World and start developing and trying to join the first world, first of all, they have a surplus of labor. That is their strongest factor of production, and they are going to specialize in those areas where they can take advantage of that.

At the same time, however, you see here in America, going back over the last 20 years, that many new jobs have been added at the higher end of the technology or the skills scale, if you will.

The second comment I wanted to make is that whenever you hear people talking about trade, you hear about workers which is a very important thing. A worker who loses his or her job is something very painful. I have been unemployed. I know what it feels like. It is a terrifying situation to find yourself in, but we are also talking about consumers. Free trade, unquestionably, has benefited the American consumer and the American family. There is a tradeoff as we see the economy globalizing and job shifting overseas in some areas, but at the same time ultimately, the American consumer benefits, and I think the historical record shows that, beyond the shadow of any doubt.

Chairman CRANE. Well, I was going to cite another example. In my district, I have the corporate headquarters of Motorola, and we have a community college close by. Motorola got the community college to introduce targeted courses for specific upgrading of skills for their employees, and other corporations have followed suit since. There is an upgrading of skills of employees that has been initiated by corporations, and mercifully, it has worked out to everyone's advantage, including the community colleges.

Well, gentlemen, I want to thank you for your testimony and appreciate your presentations, and your written statements, as I have indicated before, will be made a part of the permanent record, and keep the inflow coming, including Mr. Cooper, on how many of those jobs we lost in the shoe industry.

One thing I want to say, Mr. Cooper, before you go, though.

Mr. COOPER. Yes.

Chairman CRANE. You talked about plastic. Didn't you say something about some plastic component in shoes?

Mr. COOPER. Yes. It is rubber. Well, the industry is rubber and plastic.

Chairman CRANE. When Procter & Gamble was here, did you hear them testifying——

Mr. COOPER. I was here, yes.

Chairman CRANE [continuing]. About the billion plastic lids——

Mr. COOPER. Right.

Chairman CRANE [continuing]. That are made for Pringles, and that is in Lee Summit, Missouri? I will give you the address if you are interested.

Mr. COOPER. That is all right.

Chairman CRANE. Thank you all.

With that, the Subcommittee stands adjourned. This concludes our hearing, but the record will be open until April 1 of this year.

[Whereupon, at 4:40 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement Submitted on Behalf of: AK Steel Co., American Beekeepers Association, American Honey Producers Association, American Textile Manufacturers Institute, AMT—The Association for Manufacturing Technology, Bethlehem Steel Corp., California Forestry Association, Coalition for Fair Atlantic Salmon Trade, Coalition for Fair Lumber Imports, Cold-Finished Steel Bar Institute, Copper and Brass Fabricators Council, Ferroalloy Association, Footwear Industries of America, Fresh Garlic Producers Association, Independent Forest Products Association, Inland Steel Industries, Inc., Intermountain Forest Industries Association, Leather Industries of America, LTV Steel Co., Municipal Castings Fair Trade Council, National Steel Corp., National Association of Wheat Growers, Northeastern Lumber Manufacturers Association, Southeastern Lumber Manufacturers Association, Southern Tier Cement Committee, USX Corp., Valmont Industries, and Western Wood Products Association

I. INTRODUCTION

Chapter 19 of the North American Free Trade Agreement ("NAFTA") extended to Mexico the novel and unprecedented system for resolving antidumping duty ("AD") and countervailing duty ("CVD") appeals that was introduced by the U.S.-Canada Free Trade Agreement ("CFTA") in 1989. Under this system, AD and CVD determinations made by NAFTA-countries' government agencies are appealable to ad hoc panels of private individuals from both countries affected, rather than impartial courts. The international panels do not interpret agreed NAFTA AD or CVD rules; rather, they review agency determinations solely for consistency with national law.

This system departs radically from traditional international dispute settlement principles whereby international bodies resolve disputes over the interpretation of internationally agreed texts. Unlike any other international dispute mechanism in which the United States participates, the Chapter 19 system entails direct interpretation of U.S. law and implementation under national law of decisions rendered by non-judges and indeed by non-citizens. In practice, this system has led to the implementation of decisions that contravene U.S. laws.

The Chapter 19 system should be reformed or eliminated from the NAFTA. It certainly should not be extended to additional U.S. trade agreements. Indeed, doing so would compound its problems. Language should be included in fast-track legislation to prevent this from occurring. (Proposed legislative text is attached to this statement.) Statutory containment of Chapter 19 would not only prevent the compounding of a major policy mistake but also improve the prospects for fast track negotiating authority and expanded free trade.

II. SUMMARY

Established as an interim measure only for U.S.-Canada trade, the Chapter 19 system is fundamentally flawed and undemocratic. It places far-reaching decision-making power in the hands of private individuals who do not have judicial experience and who are not accountable for their performance. Under this system, international panels—with foreign nationals frequently in the majority—are allowed to interpret and implement U.S. law, and their decisions have the force of law. Constitutional safeguards to assure judicial impartiality are lost when such panels replace U.S. courts. Justice Department officials warned Congress in 1988 that, for this very reason, the proposed system was unconstitutional.

In addition, the system's ad hoc and fragmented nature dooms it to failure as a replacement for domestic courts. Especially if the system were extended to additional countries, industries attempting to exercise their rights against unfair trade from different points of origin would end up facing a multiplicity of panel and court proceedings likely to yield divergent rulings on identical issues. Neither industry nor the government agencies involved could afford to prosecute so many litigations. The result would be incoherent bodies of law, an unpredictable environment for litigants and businesses, and even the possibility of most-favored-nation problems resulting from unequal application of AD and CVD laws. In short, the system would become unworkable (and congressionally-mandated U.S. trade remedies unusable).

The Chapter 19 system has already failed in some of its most critical disputes. As Congress has noted, panels reviewing U.S. Government determinations have repeatedly disregarded the requirement that they behave like a U.S. court and apply U.S. law, and they have impaired implementation of U.S. trade remedies. Panel de-

cisions have created an environment in which U.S. industry can have little faith in U.S. trade remedy policies as applied to imports from Canada and Mexico, much less to imports from an even broader array of countries.

The Chapter 19 system need not, and should not, be extended to other countries since the WTO dispute settlement system satisfies U.S. importers' and exporters' need for international dispute resolution. Unlike the Chapter 19 system, the WTO system is based on traditional international dispute settlement principles, i.e., international bodies interpreting international rules. The unprecedented impairment of sovereign legal functions entailed by Chapter 19—with foreign nationals interpreting and implementing domestic law—is unworkable in the United States and, in the long term, in any other country.

Congress should direct the Administration to negotiate the reform or elimination of Chapter 19 from the NAFTA. In addition, any legislation renewing fast-track procedures should expressly prohibit agreements that extend the Chapter 19 system to trade with additional countries and make negotiating authority and fast track procedures inapplicable to implementation bills for such agreements.

Precluding extension of Chapter 19 is needed to limit the deterioration of U.S. trade remedies and the administration of justice. In addition, doing so would enhance prospects for fast track and expanded free trade by removing a widespread concern about them. Consequently, containment of Chapter 19 would lead to broader support for fast track negotiating authority and expanding free trade.

III. Background on the Chapter 19 System

A primary Canadian goal in negotiating the CFTA was exempting Canadian exports from the United States' AD and CVD laws. The United States maintained a contrary and more cautious position: the agreement should establish disciplines on unfair trade practices rather than permitting them to go unsanctioned.

U.S. and Canadian officials reached a compromise on this issue as the negotiations drew to a close in the Fall of 1988. The CFTA provided that after the agreement came into effect the United States and Canada would pursue negotiations on subsidy disciplines and a "substitute system" of AD and CVD rules. CFTA at Art. 1907. Pending achievement of the "substitute system," and for a maximum of seven years, the countries would operate under the Chapter 19 system of AD/CVD review by panels. Id. at Art. 1906.

Chapter 19 was revolutionary and extremely controversial. First, judicial review of disputes involving customs duties by impartial courts created under Article III of the Constitution has a long history in the United States.[1] Replacing impartial courts with binational panels raised the specter of unfair decisions and the circumvention of U.S. law.

Second, during Congress's consideration of the CFTA, U.S. Justice Department officials advised that the system would be unconstitutional if panel decisions were implemented automatically, as is now the case. United States-Canada Free Trade Agreement: Hearings Before the Senate Judiciary Committee, 100th Cong. 76–87 (1988) ("Senate Judiciary Comm. Hearing"). Several Members of Congress expressed serious reservations about the constitutionality and workability of Chapter 19, including Senators Grassley and Heflin. See id. at 89–98; S. Rep. No. 100–509, at 70–71 (1988).

The Chapter 19 system was ultimately accepted as part of the CFTA based on executive branch commitments to Congress that: 1) panels reviewing U.S. agency determinations would be bound by U.S. law and its governing standard of review, just as the U.S. Court of International Trade is so bound; 2) there would be strict and fully enforced conflict-of-interest rules; and 3) the system would be in place only a short while and only with Canada. According to one of the primary U.S. negotiators on this issue, the system could only work for Canada. It was:

> not, and [was] not intended to be, a model for future agreements between the United States and its other trading partners. Its workability stems from the similarity in the U.S. and Canadian legal systems. With that shared legal tradition as a basis, the panel procedure is simply an interim solution to a complex issue in an historic agreement with our largest trading partner.

United States-Canada Free Trade Agreement: Hearings Before the House Judiciary Committee, 100th Cong. 73 (1988) (Testimony of M. Jean Anderson).

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[1] Reported cases include, for example, *United States v. Tappan*, 24 U.S. (11 Wheat.) 418 (1826) and *Elliot v. Swartwout*, 35 U.S. (10 Pet.) 137 (1836).

Although the Chapter 19 system was accepted, negotiations with Canada to create disciplines on unfair trade practices, including subsidies, failed. Nonetheless, with little additional discussion, and contrary to executive branch commitments to industry, the system was made a permanent part of the NAFTA in 1994.

IV. Chapter 19's Design Is Flawed in Several Respects and has Serious Constitutional Problems

Under the Chapter 19 system, panels are formed on a case-by-case basis to review the consistency with national law of AD and CVD determinations issued, in the United States, by the Commerce Department ("DOC") and the U.S. International Trade Commission ("ITC"). The panels contain five members—three from one country involved in the case and two from the other—who are private-sector trade experts, usually lawyers.[2]

The System is Undemocratic and Unaccountable

On its face, the system is, at minimum, anomalous. A group of private individuals, each with his or her own clients and interests, is empowered to direct the actions of government officials and dictate the outcome of cases involving billions of dollars in trade. These panelists do not have judicial training. Nor are they insulated, as judges must be, from outside pressures and conflicts. Once a case is over, the panelists simply return to their occupations—many of them practicing before the very agencies whose decisions they recently were reviewing. They are not accountable in any way for their decisions as panelists.

This process is contrary to traditional principles of representative governance. Indeed, as indicated above, Justice Department officials advised Congress that the Chapter 19 system contravenes a constitutional provision intended to establish accountability among U.S. decision-makers (the "Appointments Clause").[3] Congress cannot "sanction" or "correct" erroneous decisions because the "judges" are not part of a standing judiciary.

The System Violates Principles of Impartial Judicial Review

Article III of the Constitution establishes safeguards to assure an impartial federal judiciary, e.g., life appointment and freedom from salary diminution. As noted above, review of trade cases by Article III judges has a long tradition in the United States, and dispensing with Article III protections for reviews of AD/CVD determinations is unwarranted. In fact, and as further explained below, conflicts of interest on the part of panelists were a major problem in the Chapter 19 review involving Canadian softwood lumber. Even holding constitutional infirmities aside, the conflict-of-interest prone Chapter 19 setup creates a serious perception problem damaging to the credibility of the international trading system.

The System's Premise is False and Objectionable

The Chapter 19 system is premised on the outrageous assumption that domestic courts are incapable of resolving these cases in a fair and impartial manner. There is no evidence to support this proposition. In any event, this type of extraordinary device is not viewed as necessary in other litigation contexts in which foreign interests frequently participate, such as appeals of agency determinations in the communications arena. There is no basis to single-out trade remedies as requiring this mechanism.

The System's Ad Hoc, Fragmented Nature Renders it Unworkable

The Chapter 19 system contemplates that a separate panel proceeding is to resolve each AD/CVD appeal on a country-by-country basis. In practice, this cannot

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[2] Each country involved in the dispute appoints two panelists. NAFTA Chapt. 19, Annex 1901.2. The two countries are then to agree on a fifth panelist. *Id.* If they are unable to agree, the two countries decide by lot which country will select the fifth panelist. *Id.*

[3] U.S. Const. art. II, § 2, cl. 2. ironically, the Appointments Clause emerged, in part, from the Founders' experience with the British colonial government's selection of Royal officials, a preponderance of whcih were customs officials. The Founders included as a grievance in the Declaration of Independence that the King "has erected a multitude of New Offices, and sent hither swarms of Officers to harass our People, and eat out their substance." The reference is to customs officials, Barrow, *Trade and Empire* 256 (1967).

The constitutionality of the Chapter 19 system has been discussed in numerous articles. *See, e.g.,* Barbara Bucholtz, *Sawing Off the Third Branch: Precluding Judicial Review of Anti-Dumping and Countervailing Duty Assessments Under Free Trade Agreements,* 19 Md. J. Int'l LK. & Trade 175 (1995); Alan B. Morrison, *Appointments Clause Problems in the Dispute Resolution Provisions of the United States-Canada Free Trade Agreement,* 49 Wash. & Lee L. Rev. 1299 (1992).

work, especially if Chapter 19 is extended to many different countries. An industry seeking a remedy against unfair trade from several countries—as is often the case—would end up facing proceedings before panels for each of the countries from which unfairly traded merchandise is imported and, potentially, another proceeding at the Court of International Trade. The resulting decisions could relate literally to identical issues.

Neither the affected industry nor the U.S. agencies involved could afford to engage in this multiplicity of litigations.[4] Even if this were manageable procedurally, the panels would inevitably come to different interpretations of U.S. law on the same underlying facts and issues. Such an atomized judicial mechanism cannot retain (and indeed has never gained) credibility. The inevitable result is an unworkable system, leading to the effective neutralization of U.S. trade laws.

V. In Practice, Chapter 19 has Resulted in Bad Decisions With-Out Remedy

Before it came into effect, Senator Grassley expressed deep concern about the novel experiment in replacing the U.S. judiciary with panels and whether it could, in practice, earn the respect of private parties. *Senate Judiciary Comm. Hearing* at 89–90, 94, 96. Unfortunately, Senator Grassley's concerns have been vindicated. Based on the panels' track record, private parties cannot have faith that the trade laws will be administered fairly or correctly as regards imports from Canada and Mexico.

Were they to adhere to the standard of review mandated by the NAFTA and U.S. law, panels would reach exactly the same results as the Court of International Trade and be very deferential to DOC and ITC trade determinations. In particular, they would sustain the agency's findings unless they have no "reasonable" factual basis or are grounded on a legal interpretation that is "effectively precluded by the statute." *PPG Indus., Inc. v. United States*, 928 F.2d 1568, 1573 (Fed. Cir. 1991).

As recognized by Congress, the reality has often been to the contrary.[5] Panel decisions involving Canadian pork and swine imports were so flawed that the U.S. Government sought review by appellate Chapter 19 panels ("extraordinary challenge committees" or "ECCs"). The swine ECC virtually conceded that the lower panel erred but declined to take corrective action. *Live Swine from Canada*, No. ECC–93–1904–01–USA, slip op. at 6 (Apr. 8, 1993) ("the Committee felt the Panel may have erred").

The Chapter 19 system also failed conspicuously in the last case involving subsidized Canadian softwood lumber, where:

- Both the lower panel decision and the ECC decision were decided by bare majorities divided by nationality. *Certain Softwood Lumber Products from Canada*, No. USA–92–1902–1904–01, slip op. (Dec. 17, 1993); *Certain Softwood Lumber Products from Canada*, No. ECC–1904–01–USA, slip op. at 37 (Aug. 3, 1994) ("*Lumber ECC*").
- Two of the three Canadian members of the lower panel and their law firms had previously represented Canadian lumber interests and governments but did not disclose all of their conflicts. *See Lumber ECC* at 71–86, Annex 1 (Wilkey opinion).
- The panels disregarded extensive case law and explicit Congressional committee reports which specified the proper interpretation of the CVD law on litigated issues. *See Brief of the United States*, No. ECC–1904–01–USA, at 69, 79–80 (May 3, 1994).
- An ECC member expressly chose to ignore the review standard for panels that is established by the NAFTA and the applica-ble U.S. statute. *See Lumber ECC* at 28 (Hart opinion) (indicating that panels need not apply the review standard of the Court of International Trade).

The dissenter in the lumber ECC decision was former Federal Appeals Court Judge (and former Ambassador) Malcolm Wilkey. According to Judge Wilkey, the underlying panel majority opinion "may violate more principles of appellate review of agency action than any opinion by a reviewing body which I have ever read." *Lumber ECC* at 37 (Wilkey opinion). Moreover, Judge Wilkey concluded that the lumber case violated all of the safeguards on which Congress based its conclusion that the Chapter 19 system is consistent with constitutional due process protections. *Id.* at 69–71, *citing* H.R. Rep. No. 100–816, Pt. 4, at 5 (1988).

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[4] Indeed, a recent Canadian survey indicated that a Chapter 19 appeal can cost $100,000 to 150,000, while an appeal to a federal court costs only $25,000 to 40,000 to litigate. *See* Laura Eggerston, "Costs Deter NAFTA Dispute Settlements," *The Globe and Mail*, Mar. 20, 1997, at B–9.

[5] *See* North American Free Trade Agreement Implementation Act, Joint Senate Report, S. Rep. No. 103–189, at 42 (1993) ("[T]he Committee believes . . . that CFTA binational panels have, in several instances, failed to apply the appropriate standard of review. . . ."); *see also* North American Free Trade Agreement Implementation Act, House Ways & Means Committee Report, H.R. Rep. No. 103–361, at 75 (1993).

VI. Recently Concluded Trade Agreements Demonstrate That Chapter 19 Is Unnecessary

The infirmities in Chapter 19's design and its failures in practice demonstrate that the U.S. Government should not extend the Chapter 19 system to other countries. Even setting aside these problems with Chapter 19, however, it should not be part of future U.S. free trade relationships because it is not needed.

First, the new WTO system fulfills any legitimate need for international AD/CVD dispute settlement. Unlike the Chapter 19 system, WTO dispute settlement operates under standard principles of international dispute settlement: WTO panels resolve disputes over the meaning of the WTO agreements, deciding whether the importing country has complied with its international obligations. This process, coupled with access to domestic courts, should satisfy any concerns about securing unbiased review of AD/CVD determinations. There is simply no need for the intrusive system under which panels hand down controlling dictates on the application of domestic U.S. law.

Even if Chapter 19's theoretical benefit to U.S. exporters showed real signs of materializing, that benefit would be vastly outweighed by the systemic problems described above and the undermining of U.S. trade remedy policies that would inevitably result. Moreover, the benefit to U.S. exporters would be marginal indeed since, with respect to ensuring that foreign governments' AD/CVD determinations comply with national law, the WTO agreements include provisions on effective judicial review. These provisions present an opportunity to achieve by more legitimate means the goals Chapter 19 was allegedly designed to promote.

Finally, our current NAFTA partners and prospective new partner have indicated that Chapter 19 is unnecessary in future trade agreements. Mexico omitted Chapter 19 from trade agreements with several Latin American countries. Canada and Chile omitted the system from the trade agreement that they signed late last year as a precursor to NAFTA expansion, choosing expressly to rely instead on WTO dispute settlement.[6] Furthermore, the Association of American Chambers of Commerce in Latin America, citing many of the concerns identified in this statement, has warned that at least U.S. business interests in Chile are likely to oppose inclusion of Chapter 19 in any agreement with that country.[7]

Given these developments, there is no credible argument that Chapter 19 is needed to secure expanded free trade. Indeed, as discussed below, efforts to extend Chapter 19 are impeding the cause of expanded free trade.

VII. Statutory Containment of Chapter 19 Is Needed

Since Chapter 19 is harmful and unnecessary, measures are needed, at minimum, to ensure that it is not extended to additional trading partners. The most straightforward means of enacting such measures would be through the fast-track bill itself. The statute should direct the executive branch not to further alienate federal jurisdiction and authority to decide cases under U.S. law through international agreements and should withhold trade agreements negotiating authority and fast-track procedures from any such agreements.

Ensuring that the problem of Chapter 19 will not be compounded through the trade agreements program will significantly benefit the prospects for fast track and expanded free trade. It will remove impediments (e.g., concerns about diminished sovereignty, constitutional problems) for those inclined to be supportive. At the same time, it is highly unlikely that any Member of Congress or any constituency will withhold his or her support from fast track, an expanded NAFTA or the FTAA if Chapter 19 is excluded from the resulting agreements.

VIII. Conclusion

The U.S. Government should negotiate elimination of the Chapter 19 dispute settlement system as it exists with Canada and Mexico; under no circumstances should it be extended to new participants under the NAFTA or the FTAA. Congress should:

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[6] Canada and Chile did not alter their CVD policies, but did reportedly agree to phase out AD remedies for bilateral trade. Weakening AD policies is not an option for the United States given the many U.S. industries that have suffered grievous injury—sometimes elimination—at the hands of dumped merchandise. In any case, the Canada-Chile agreement demonstrates that Chapter 19 is unnecessary in any new agreements.

[7] Letter from Vincent m. McCord, Vice President of the Association of American Chambers of Commerce in Latin America and Executive Vice President of the American Chamber of Commerce in Chile, to Donna R. Koehnke, Secretary of the International Trade Commission (July 19, 1995).

• ensure that fast-track legislation prevents extension of Chapter 19 to additional countries;

• hold hearings on the Chapter 19 system to investigate (1) whether the system is unconstitutional; (2) whether the system is necessary in light of WTO rules and the WTO dispute settlement system; (3) the suitability of the system as a permanent replacement for judicial review of trade cases; and (4) the past administration of the system; and

• direct the Administration to negotiate the elimination or reform of the Chapter 19 system from the NAFTA.

Draft Section of Fast Track Bill

1. Notwithstanding any other provision of law, the U.S. Government shall not enter into any treaty or other international agreement that, in whole or in part, would have the purpose or effect of transferring any jurisdiction or authority to decide cases under U.S. law away from the federal judiciary.

2. The trade agreements negotiating authority of—[formerly Sec. 1102 of the 1988 Act] shall not apply to the negotiation of any trade agreement that would have the purpose or effect of transferring any jurisdiction or authority to decide cases under U.S. law away from the federal judiciary, and the procedures of Section 151 of the Trade Act of 1974 [fast track], or any similar successor provisions, shall not apply to implementing legislation submitted with respect to any such trade agreement.

Statement of American Association of Exporters and Importers, New York, New York

Introduction and Background

The American Association of Exporters and Importers (AAEI) is comprised of over 1000 U.S. member firms that export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, footwear, autos/parts, food, household consumer goods, toys, specialty items, textiles and apparel. Members also include firms which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers. AAEI members conduct operations in all fifty states, employing millions of U.S. workers. Together, AAEI companies account for a large majority of non-military, commercial U.S. trade.

Over many decades, AAEI has cultivated strong working relationships with Federal departments and agencies regulating international trade, including the U.S. Trade Representative, the U.S. Customs Service, the Department of Commerce, the U.S. International Trade Commission and the Food and Drug Administration. As we prepare for the next century of international commerce, AAEI is grateful for the opportunity to present its comments on this crucial review of U.S. trade policy objectives and initiatives. Among the most pressing trade issues for which the U.S. must develop clear and unwavering policies and objectives concern trade with China, fast track negotiating authority, the continuation of the Generalized System of Preferences, expansion of free trade in the Americas and meaningful liberalization of trade in textiles and apparel.

China Trade

AAEI has long favored, including as late as its June 11, 1996 testimony before the Trade Subcommittee, the granting by the U.S. of permanent and Unconditional MFN trading status to China. AAEI has also urged concomitant revision of the Jackson-Vanik Amendment toward this aim. AAEI believes that human rights, arms control, environmental, and other political and economic issues are more productively addressed and affected by means other than denial of, or threat of revoking normalized trade relations. Open trade, and its benefits to all, is more achievable within commercial engagement rather than by isolation of trading partner nations. A larger and more important step is the eventual inclusion of China into the World Trade Organization (WTO) on commercially acceptable terms. Continued exclusion of the important China market from potential disciplines and remedies under WTO has lost any effective advantage or meaning for the U.S. The WTO cannot function effectively with continued exclusion of China—one of the world's fastest

growing trading economies. Additionally, WTO membership may compel China to reverse some restrictive policies bringing its economy more in line with other members.

MFN status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China entered in 1979. The term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing.

The Chinese market is already the world's third largest, according to an International Monetary Fund (IMF) study, and has continued to grow at an annual rate of more than 10%. This market is simply too important to our future international competitiveness and to the battle against inflation in the U.S. to ignore or to jeopardize through an unstable trading relationship. As President Clinton has recognized, MFN is an essential cornerstone for a long-term, stable bilateral relationship with China in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long run plans, and saddles U.S./China trade and investment with a risk factor cost not faced by our international competitors.

AAEI members agree that human rights issues warrant our attention and further bilateral negotiations between the U.S. and China. However, the Association does not believe that the threat of terminating MFN is an appropriate or constructive tool for pursuing this important U.S. foreign policy objective. History suggests that despite China's strong interest in trade with the U.S., efforts to impose our will on the Chinese government through a series of public demands will prove to be counterproductive. MFN is the foundation on which the U.S. bilateral relationship with China rests.

Failure to renew China's MFN status would harm U.S. exporters as well as importers. China represents a significant and very promising market for U.S. exports, with over $13 billion worth of U.S. goods purchased by the Chinese last year. The Department of Commerce estimates the value of U.S./China trade and investments will be $600 billion in the next five to seven years.

AAEI strongly supports initiatives by the Administration and Congress to grant China MFN status on a permanent basis and urges serious consideration of a revision of the Jackson-Vanik Amendment toward this aim. A revision of Jackson-Vanik does not require a revision of U.S. human rights objectives. AAEI believes that President Clinton correctly determined that those objectives should not be limited to trade issues between the U.S. and China. U.S. human rights objectives can, and should, be attained without terminating China's MFN status. Terminating China's MFN status could only harm U.S. trade and foreign policy interests and ultimately, the progressive forces in China on which future progress will depend. Strong U.S.-China trade ties encourages private commerce initiatives within China.

Looking ahead to the bigger picture, AAEI believes that it is through China's full integration into the world community of nations that its citizens will benefit from the relaxation of the current authoritarian political climate. Therefore, AAEI supports Administration and Congressional initiatives favoring China's admission to the World Trade Organization. Indeed, our own trading position is not helped by the continued exclusion of the crucial China market from potential disciplines and remedies under the WTO. Human rights, arms control, environmental and other political and economic issues are more productively addressed in a climate of normalized trade relations.

FAST TRACK NEGOTIATING AUTHORITY

AAEI supports renewal of Fast Track as an essential tool for the U.S. to conclude meaningful trade agreements with its partners. It gives U.S. negotiators the necessary backing and credibility to maximize U.S. interests on a multilateral level. The provision assures that Congress receives continuous updates through every phase of the negotiation process, culminating in a well-informed up or down vote. The notion that Fast Track binds the hands of Congress, preventing it from impacting important trade negotiations, is a misconception. Fast track legislation puts Congress into the negotiation process at a pivotal time, before it begins. Throughout the negotiations, Congress delineates detailed guidelines, to which the President must adhere. These guidelines set the framework for the negotiation process. The President is also required to continuously report back to Congress on the progress of the talks. To view Fast Track as a vehicle granting the President complete autonomy in trade negotiations is misleading. Congress gives up very little oversight au-

thority by approving Fast Track. In fact, Fast Track statutorily defines and maintains the role Congress is to play.

CONTINUATION OF THE GENERALIZED SYSTEM OF PREFERENCES

AAEI has supported GSP since its inception in 1974 and strongly urges its renewal. For over twenty years, GSP has given developing countries access to the world marketplace by allowing them to export many products to industrialized countries free of duty, while maintaining effective safeguards to prevent this treatment from harming U.S. production. GSP is based on a philosophy of trade, rather than aid, as a more effective, cost-efficient means of promoting sustained economic development.

The imminent expiration of GSP is of great concern to importers. Over twenty other industrialized countries have adopted the GSP concept and continue to import goods duty-free from developing countries. The United States must continue this program in order to remain competitive in international trade and to foster development where needed.

Additionally, duty-free sourcing of materials and components is important to U.S. industries which use them in production of finished products. If U.S. manufacturers can obtain these materials and components only at prices which include the payment of duty, increases in the price of finished products will inevitably be passed to the U.S. consumer. For example, a substantial volume of electrical products, such as outlets and switches, are imported from Beneficiary Developing Countries under GSP to be used in the housing industry. If such products are not available at prices which do not include duty, whatever increased costs are involved will be paid by purchasers of new homes.

Finally, in the past, the existence of the GSP program has resulted in Beneficiary Developing Countries either protecting or improving intellectual property rights and living up to other international obligations. It is clear that if the GSP program is not renewed, countries which have previously protected or improved these rights will have no further incentive for doing so.

AAEI urges that upon its expiration on May 31, 1997, GSP be renewed for at least ten years. The program has historically encouraged trade with underdeveloped nations and has led to substantial economic gains for both these countries and the United States.

FREE TRADE AREA OF THE AMERICAS

The second fastest growing economic region in the world is Latin America. By 2010 it is estimated that the United States will send more U.S. goods and provide more services to Latin America than to Europe and Japan combined. Forging economic ties among nations of the Americas will solidify recent economic reforms, promote growth, develop the middle classes and strengthen democracy, while creating jobs in the United States.

The negotiation of Chile's accession to the NAFTA is an important first step in developing hemispheric free trade. The United States must cultivate a partnership with the leader of economic reform in Latin America and its most vibrant economy in over a decade.

If we do not act quickly, we may miss out on a valuable economic opportunity. Chile is currently negotiating separate agreements with both Mexico and Canada. It will be unfortunate if agreements are reached outside the NAFTA framework. Numerous separate agreements will complicate matters for business as well as the economy as a whole.

TRADE IN TEXTILES AND APPAREL

AAEI regrets that the integration schedule decreed by CITA with regard to the agreed phaseout of the Multifiber Arrangement does not conform to the letter and the spirit of the GATT Uruguay Round Agreements. The U.S. failure to adhere to the agreed quota reductions will harm our standing in the international community. Furthermore, U.S. consumers, whose interests should be paramount in the process, will continue to bear the brunt of retaining almost 90 percent of our protectionist quotas for a full ten years. To maintain quotas on virtually all "sensitive" categories for ten years is to do a disservice to the very industry the quotas are designed to protect.

By not providing for real liberalization in the first phase of integration, the United States failed to stimulate industrial adjustment in this country, or to increase competition. The U.S. is now compounding this failure by continuing to steer away from sensitive items.

AAEI supported the concept of a ten-year phaseout of the Multifiber Arrangement during the Uruguay Round negotiations, because it understood the necessity of preparing the domestic industry for complete elimination of quotas by a gradual reduction. Textile and apparel exporting nations agreed to the phaseout in good faith, with the same understanding of its nature. U.S. action in scheduling the phaseout has not shown the same good faith. By effecting a reasoned, gradual approach to integration, CITA will be able to fulfill its commitments to our association, to other members of the importing community, to signatories to the GATT Agreement and, ultimately, to the American consumer, who bears the brunt of the burden of restrictive quotas.

Statement of W. Henson Moore, President and Chief Executive Officer, American Forest & Paper Association

My name is W. Henson Moore. I am President and CEO of the American Forest & Paper Association (AF&PA). AF&PA, the national trade association of the forest, pulp, paper, paperboard, and wood products industry, represents more than 200 companies. The vital national industry which AF&PA represents accounts for 8% of total U.S. manufacturing output. The industry employs approximately 1.6 million people and ranks among the top 10 manufacturing employers in 46 states. Its annual payroll is about $50 billion, and sales of forest and paper products top $200 billion annually in the U.S. and abroad.

We very much appreciate this opportunity to share with the Subcommittee our views regarding the role U.S. trade policy must play in promoting economic growth and maintaining manufacturing employment here in the U.S.

Like Hippocrates, we believe the first principle of U.S. trade policy must be to do no harm. When management, workers and resources combine to give the U.S. a competitive edge in an industry, the minimum standard for U.S. trade policy effectiveness would appear to be to do nothing which undermines our ability to sell our products in overseas markets.

Unfortunately, in the trade offs that are typical of trade negotiations, this does not always happen. During the course of past trade negotiations, U.S. tariffs on paper and wood products were reduced almost to zero, while our principal trading partners—in Europe and Japan—were allowed to keep their tariffs on these products at high levels. (I am submitting for the record charts which graphically demonstrate the gap which separates our virtually tariff free market from both Europe and Japan.)

During the Uruguay Round, we tried to remedy this situation with our zero for zero proposal. While we did get agreement to eliminate paper tariffs, the Europeans would not agree to do so until the year 2004. And due to the objections of Japan, our trading partners will only cut tariffs on wood products by an average of 28%.

The result is that an industry which is globally competitive in terms of its resource base, manufacturing costs, product quality and environmental stewardship cannot translate that advantage into sales in world markets because our trading partners have been allowed to maintain crippling tariff barriers. At the same time, the fact that we no longer have any meaningful tariffs on these products here in the U.S., and that European markets are so well protected, has encouraged our competitors to build capacity—which translates into jobs added overseas and jobs foregone here in the U.S.

We are particularly frustrated because our efforts to improve on the Uruguay Round results have been resisted by our competitors, who frankly admit that they are very comfortable to be able to hide behind a tariff wall at home and sell in our market at will. As recently as the Singapore Ministerial meetings last December, the efforts of Ambassador Barshefsky and several members of this Subcommittee to rectify this situation were rebuffed by our competitors in Europe (such as Finland) and Japan. Unfortunately, the views of consumers of paper and wood products, who recognize that earlier tariff cuts would mean lower costs to them, apparently were not represented in Singapore.

To return to my opening premise, the American forest products industry urges the Administration to focus on the damage which an unbalanced global playing field has done to capacity, employment, and earnings in our industry and to make the restoration of equity and balance in forest products trade a top priority item on the 1997 Trade Policy Agenda. We urge Ambassador Barshefsky to spearhead an integrated effort with the explicit goal of achieving global free trade in forest products before the end of the century.

There are several elements of the Administration's 1997 Trade Policy Agenda which we wholeheartedly support and which would form vital links in an integrated forest products initiative:

• The APEC forum must be used to eliminate Japanese resistance to the early elimination of both paper and wood products tariffs. At the same time, APEC must focus on the role of regional producers, such as Indonesia, Malaysia and Thailand, which maintain very high tariffs on forest products and yet benefit from duty free access to the U.S. and other developed country markets through GSP (Generalized System of Preferences). Agreement on the part of these producers to immediate duty free treatment for wood and paper products must be a precondition for continuing U.S. GSP status.

Indonesia in particular is building a world class, competitive paper industry, with substantial support from its government. The U.S. must take account of such sector specific competitive situations, and use sector comparability as its yardstick for assessing APEC tariff offers.

• In the FTAA process, the Administration must intensify its efforts to focus on tariff cutting, for wood and paper products in particular. The elimination of regional tariffs in these products must be included in any definition of "concrete progress" in the year 2000.

• In WTO accession negotiations with China and Russia, as well as other candidates, the immediate elimination of wood and paper tariffs must be established as a precondition of membership from the beginning. In addition, extensive non-tariff barriers exist in China which, if not addressed prior to China's accession to the WTO, will lock U.S. producers into a position of long-term competitive disadvantage. Our experience painfully demonstrates that U.S. toleration of an unequal bargain does not work. It only institutionalizes protectionism, and robs the U.S. of the leverage it needs to negotiate tariff cuts in future. We should not make this mistake again.

To the extent that fast track authority will be needed to accomplish these objectives, the forest products industry has already indicated it would be strongly supportive.

The Government of Canada, which shares our concern for the extent to which its forest products sector has been disadvantaged by this tariff inequity, has proposed the elimination of all tariffs on paper products by January 1, 1998. The upcoming Quad meeting in Toronto would appear to be a most appropriate occasion for the U.S. to identify free trade in forest products as a priority U.S. objective for 1997. We urge USTR to immediately seek the support of the Canadian host government for a special focus on forest products trade at this Quad, with the objective of getting a commitment by the Quad member states to reach agreement on the immediate elimination of wood and paper tariffs by the end of the year. Among the other occasions on which we would expect to see progress on tariff elimination would be the U.S.–EU Summit in the Hague in May and the meeting of APEC Trade Ministers, again hosted by the Government of Canada, in May.

Ours is a strongly competitive industry. In 1993, Fortune Magazine identified us as one of only two U.S. industries which had the overall competitive strength to retain a dominant position in world markets through the decade of the 90's. This position is eroding everyday on which we continue to compete with one hand tied behind our backs, while our competitors take profits from our open market and their protected markets, and use them to build new capacity, forcing us in turn to take downtime to try to balance global supply and demand. We believe that it cannot be acceptable U.S. trade policy that we—or any other U.S. industry—should be required to do so.

Thank you, Mr. Chairman.

Attachments

TARIFFS ON COATED PAPERS: 1996

COUNTRY	TARIFF
United States	**2.0%**
Canada	**2.0%**
Japan	**3.3%**
European Union	**6.0/7.2%**

Attachment 2

TARIFFS ON SELECTED WOOD PRODUCTS

European Union:

Product Description	1996 Rate	1999 Rate
Hardwood Veneer	4.8	4.0
Particleboard	8.2	7.0
Fiberboard	8.2	7.0
Plywood: Other	8.2	7.0
Builder's Joinery	4.2	3.0

Japan:

Product Description	1996 Rate	1999 Rate
Softwood Lumber	0 - 9	0 - 4.8
Veneer	5.0	5.0
Softwood Moulding	4.3 - 6.5	4.1 - 6
Particleboard/OSB	6.8	6.5
Plywood	8.1 - 16	7.4 - 14
Hardwood Moulding	4.5	3.6

United States:

Product Description	1996 Rate
Lumber	0.0
Veneer	0.0
Moulding & Flooring	0 - 6.5
Particleboard	0 - 2.4
Fiberboard	0.0
Plywood	0 - 8

Statement of Andrew Howell, Executive Director, Association of American Chambers of Commerce in Latin America

Chairman Crane, thank you very much for this opportunity to comment on the United States' trade negotiating priorities from the perspective of the over 16,000 members the Association of American Chambers of Commerce in Latin America (AACCLA). My name is Andrew Howell and I serve as a executive director of AACCLA, whose members manage the bulk of US investment in the region, and are therefore the best resource for information on the impact that US trade and investment policy initiatives have on American business in the Americas.

In this statement, I would like to discuss how important it is for the United States to return to a leadership role in building free trade throughout the Americas, from the perspective of US business operating in the Latin American and Caribbean market.

ASSERTING US LEADERSHIP

The United States has long been at the forefront of opening foreign markets, and has one of the most open economies in the world. The North American Free Trade Agreement (NAFTA) set new standards for trade agreements in many areas when it was signed and approved in 1993. Its broad coverage of trade and investment issues has been seen as the model around which Hemisphere-wide free trade would be built.

The successful completion and implementation of the Uruguay Round of the General Agreement on Tariffs and Trade also demonstrated the commitment of the United States to the world-wide trading system. Throughout over 8 years of trade negotiations, the US public and private sector worked together to forge one of the most ambitious multilateral trade pacts in the history, and the largest tax cut in the world.

In sum, US trade policy objectives created a climate for doing business overseas that helped bring new, growing markets within the reach of US exporters of all sizes. These new markets, in turn, help the US economy grow at rates that would be unattainable if our companies were limited to selling their goods and services domestically.

However, since 1994, progress on opening new markets in the Americas has been stalled in part because of the absence of fast-track negotiating authority. For the past two years, our trade negotiators have been unable to actively bring about the elimination of the many barriers to trade and investment in Latin America. American goods, services and most of all, know how, have positioned US companies as leaders in the varied economies of the region. US engineering firms build the highways and railroads that move people across vast distanced; US manufacturers create new, cutting-edge products known for their craftsmanship and dependability; consumers across Latin America and the Caribbean have always been eager to buy blue jeans, watch American movies, eat hamburgers and shop in US style malls. In short, US business has a leg up on our competitors because we have worked so hard to have a strong market presence in every sector of the Latin American economy. Over the last several years, this hard work has helped boost trade between the US and Mexico from $100.3 billion in 1994, to $129.8 billion in 1996, a 29 percent increase since the implementation of NAFTA. Overall, US trade in the region has grown from $180.5 billion in 1994 to an astounding $231.1 billion in 1996, an increase of over 28 percent.

Yet we cannot be complacent and think that consumers and business leaders will remain inclined to buy US goods and services unless we set the trade rules that allow them to successfully compete in these markets. New competitors emerge in the international market constantly, and if our negotiators are left without authority, we cannot take advantage of the promise of the Latin American market. And today, the opportunity exists for increased market access in the Americas. The 34 market based economies of the Americas are in agreement that open markets are the foundation of sustainable economic growth.

US INACTION MEANS GAINS BY OTHERS

Yet while the United States is participating in the valuable, pre-negotiation information gathering phase of the Free Trade Area of the Americas, we are not in a position to negotiate with anyone. In the past, US leadership might have mean a

standstill in trade liberalization measures in the Hemisphere. Instead, we now see the European Union pressing forward to negotiate deals with the many growing markets of our own Hemisphere. Trade negotiators have been meeting with their counterparts in the Mercosur markets of Argentina, Brazil, Paraguay and Uruguay; with Chile; and with Mexico in order to gain preferential access.

Within the region, trade negotiators from Argentina, Brazil, Chile and Mexico, for example, are proposing their own trade liberalization agenda. Since the US is not at the table, our economic interests are not represented, which means that the rules of the game are written by our competitors. The business community wants the road-map for Hemisphere-wide free trade to be built by our negotiators, under terms that are fair for our exporters and investors.

Chile, for example, has been a leader in moving toward free trade in the Hemisphere. That nation's increased trade with other countries in the region demonstrates the benefits the nation has derived from lowering tariffs and investment barriers.

Chile's bilateral and multilateral deals dot the landscape of every sub-region within the Americas. Chile signed bilateral deals with both of our NAFTA partners. The Chile-Mexico deal has lowered the duties on nearly 90 percent of total bilateral trade to nearly zero. As a result, 1996 trade jumped between the two nations by 48 percent.

In the Andean region, Chile has also been actively striking deals. Chile and Colombia have agreed to lower the duties on 333 products traded between the two nations to zero. In 1996, trade between those two nations rose 23 percent. Chile and Venezuela will have tariff free trade by 1998. Trade between the two nations rose 70 percent in 1995, and 28 percent in 1996. Furthermore, Chile and Ecuador have signed a deal which will lower the tariffs on all items traded between the two nations to zero by the end of 1998.

Chile has also struck a deal with the formidable trade group of Mercosur, which includes Argentina, Brazil, Paraguay and Uruguay. While tariff-free trade will not be in effect until 2014, significant market opening steps are already being taken. Since October 1, the Mercosur-Chile deal has led to a 30% tariff reduction on 73 percent of Chilean exports, and 81 percent of Chilean imports.

Meanwhile, we have been unable to lower either the 11 percent duty rate or the numerous other non-tariff barriers that US exporters must face when trying to sell in the Chilean market. As a result, the long-term growth of our bilateral trade relationship is limited, as are our opportunities to beat out our competitors who already have (or will soon negotiate) preferential access to the Chilean market.

PRESERVATION OF OUR ECONOMIC SELF INTEREST

The status quo clearly disadvantages US exporters. Therefore, we must re-insert ourselves into the Hemisphere's trade liberalization program, and bring Chile into the NAFTA. Only by acting can we stem the potential loss of US market share in Latin America.

By striking trade agreements with countries like Chile who are eager to join NAFTA, we have the opportunity to not only ''lock-in'' market access, but also set forth clear ground rules for doing business. By setting forth clear, understandable rules for conducting trade, we can create a business environment in which economic growth can flourish, and companies of all sizes can grow and create jobs.

A good example of the need for clear rules was demonstrated by Mexico's reaction to the 1995 peso devaluation. During the 1995 economic downturn which shrunk the Mexican economy by nearly 9%—the government raised duties on goods from European and Asian nations, causing Mexico's imports from these two regions to drop 20 and 30 percent, respectively. However, because of the NAFTA rules, Mexico was unable to reimpose duties on American exports, and our shipments to Mexico fell less than 9%.

Yet when the U.S. is not at the table shaping the rules of international trade, our prospects for growth decline because the rules are made to help others, not us.

CONCLUSION

Mr. Chairman, the members of AACCLA ask only that our Executive and Legislative leaders pass long term fast-track negotiating authority that is limited to the resolution of commercial issues and that spells out our vision for the creation of a Free Trade Area of the Americas. An international trade policy that gives our negotiators the authority to strike deals while also allowing the Congress to maintain its traditional oversight role is essential to a prosperous United States.

Statement of Bethlehem Steel Corp., U.S. Steel Group (a Unit of USX Corp.), LTV Steel Co., Inland Steel Industries, Inc., National Steel Corp., and AK Steel Co.

This statement describes the views of the six major integrated U.S. producers of carbon steel products—Bethlehem Steel Corp., U.S. Steel Group (a Unit of USX Corp.), LTV Steel Co., Inland Steel Industries, Inc., National Steel Corp. and AK Steel Co.—on U.S. trade policy objectives and initiatives. We appreciate the opportunity to submit this statement for inclusion in the record of the hearing held by the Subcommittee on Trade on March 18, 1997.

I. Introduction: The Need for Strong International Rules Against Unfair Trade Practices

World trade in steel has been more distorted by government intervention than in any other manufacturing sector. These distortions have seriously damaged a highly competitive and strategically important U.S. industry, and these unfair trade practices continue.

- Dumping. Comprehensive import protection and cartels have restrained competition, diminished market pressure on producers to cut back excess capacity, and given rise to dumping. Dumping occurs when producers can practice price discrimination between markets, by selling at a higher price in the home market than in export markets. They can do this when they are able to limit imports into their own market and restrict internal competition.
- Subsidies. Over $100 billion in subsidies were given to foreign steelmakers between 1980 and 1992. The Member States of the European Union spent more on steel subsidies between 1980 and 1985 ($37 billion) than the United States spent to put a man on the moon ($25 billion).

After exhaustive investigation and analysis, the U.S. Government has confirmed the enormity of unfair trade in the steel industry. In its 1993 investigation of flat-rolled steel products from 22 different countries, the Department of Commerce found weighted-average subsidy and dumping margins of 37 percent. The Department's 1995 investigations dealing with steel pipe confirmed widespread dumping of those products by producers in 9 different countries. Last year, the Department of Commerce initiated yet another round of investigations, this time relating to steel plate products, based on petitions once again documenting massive dumping in the steel sector.

During the Uruguay Round negotiations, efforts were made at the behest of the Congress to strengthen international disciplines against foreign unfair trade practices. Unfortunately, the final Uruguay Round agreements concluded in Geneva in 1993 and implemented by the Congress in 1994, while positive in some respects, did not eliminate dumping and the market barriers that make it possible, nor did they prohibit harmful subsidies. Therefore, continued U.S. Government attention to foreign unfair trade practices in future negotiations is needed.

II. Past U.S. Negotiating Objectives Concerning Unfair Trade Practices

In the past, official U.S. negotiating goals have consistently stressed the importance of strengthening subsidy discipline and improving anti-subsidy and antidumping remedies. The Omnibus Trade and Competitiveness Act of 1988 included in the negotiating objectives tied to its grant of fast track authority the following "principal trade negotiating objectives" directly addressing these matters:

> The principal negotiating objectives of the United States with respect to unfair trade practices are . . . to improve the provisions of the GATT and non-tariff measure agreements in order to define, deter, discourage the persistent use of, and otherwise discipline unfair trade practices having adverse trade effects, including forms of subsidy and dumping and other practices not adequately covered such as resource input subsidies, diversionary dumping, dumped or subsidized inputs, and export targeting practices . . . .

Section 1101(b)(8) of the Omnibus Trade and Competitiveness Act of 1988 (19 U.S.C. § 2901(b)(8)).

Such clearly defined goals have ensured that U.S. negotiators pursued stronger trade remedies as a priority objective and have alerted foreign governments that agreements weakening U.S. trade laws were unlikely to be approved at the imple-

menting stage by Congress. A shift to ambiguous negotiating goals in this area would seriously undermine the ability of U.S. negotiators to protect, let alone enhance, U.S. trade remedies. Accordingly, language similar to that contained in prior enactments is essential in any new fast track bill.

III. Specific Issues To Be Addressed in Future Negotiations

Any new negotiating authority granted by the Congress to the President should include specific negotiating objectives regarding the improvement of disciplines against foreign unfair trade practices along the lines of the provisions from the Omnibus Trade and Competitiveness Act of 1988 cited above. Among the specific issues which should be addressed are the following:

A. Repeat Dumping

Nothing in the WTO Antidumping Agreement deals with the problem of repeat offenders. The antidumping law provides only a limited mechanism for relief to industries injured by dumping: a prospective remedy against unfair trade. For those foreign companies that repeatedly engage in dumping, existing antidumping procedures and remedies are clearly not sufficient to deter repeated dumping. For these repeat offenders, the antidumping law is simply another cost to be absorbed in the course of capturing market share.

Uruguay Round Developments. Establishing disciplines against repeat dumping was one initiative urged by the United States during the Uruguay Round. However, in the face of the strong efforts of certain other GATT members to weaken the international rules against dumping, the United States was unable to make any progress on this issue.

Recommended U.S. Trade Policy Objective. The U.S. negotiating objectives should state that a goal of future negotiations should be international rules to discipline and deter repeat dumping. There are a variety of steps that could be taken to respond to this problem in the context of revisions to international antidumping rules. Accelerated investigation procedures might be established for petitions against repeat offenders. Earlier imposition of preliminary duties might be ordered. Another possibility would be to impose retroactive antidumping duties to offset some of the earlier injury caused to domestic industries by repeated dumping.

B. Circumvention of Antidumping and Countervailing Duty Orders

Another problem facing U.S. industries repeatedly injured by dumped or subsidized imports is the problem of circumvention. Through small changes in the character of a product, or by moving the point of final assembly to another country, foreign companies are often able to evade antidumping and countervailing duty orders imposed by the Department of Commerce. The result is continued imports of dumped or subsidized goods in the U.S. market and continued injury to U.S. producers, despite clear provisions in the GATT and WTO agreements for a remedy against dumping and injurious subsidies.

Uruguay Round Developments. As with repeat dumping, the United States put forward proposals to deal with the problem of circumvention of antidumping and countervailing duty orders during the Uruguay Round negotiations. Unfortunately, the final Uruguay Round agreements did not directly address the question of rules against circumvention of antidumping and countervailing duty orders, although a Ministerial Decision was reached referring the question to the WTO Committee on Antidumping for review. The U.S. implementing legislation did put in place new U.S. procedures to combat circumvention of antidumping and countervailing duty orders, although they were not particularly aggressive, given the absence of clear international rules.

Recommended U.S. Trade Policy Objective. The U.S. negotiating objectives should state that the United States should therefore seek to negotiate international rules on circumvention and the related issue of diversionary dumping as soon as possible.

C. Subsidies

The volume of subsidies given to the steel sector worldwide has been greater than those given to any other industrial sector. Much of the expansion of foreign steelmaking capacity since the early 1960s was funded either by governments directly (through equity infusions and soft loans) or indirectly (by manipulating the financial system to channel abundant capital to expanding steel industries).

Uruguay Round Developments. The Uruguay Round made a number of substantial changes to the GATT rules governing subsidies. Article 8 of the Subsidies Agreement "greenlights" certain categories of subsidies—research and development, regional, and environmental—rendering them non-actionable both with respect to U.S.

countervailing duty law and with regard to WTO dispute settlement, even if the subsidized goods cause injury. However, Article 31 of the Subsidies Agreement provides that Article 8 and certain other new Subsidies Agreement provisions will expire after five years unless renewed by decision of WTO member countries.

Section 282 of the Uruguay Round Agreements Act implements Article 8 of the WTO Subsidies Agreement by making certain categories of otherwise countervailable subsidies non-countervailable. However, section 282 of the Act further provides that these new, non-countervailable categories will not apply on or after July 1, 2000, unless extended by subsequent legislation considered under "fast track" rules.

Arguments Against Greenlighting of Subsidies. Greenlighting provides few benefits at all—and certainly no net benefit—to the United States. Under WTO rules, no countervailing duty or other action can be taken against most subsidies unless the subsidy in question is found to cause injury to the domestic industry of another country. U.S. goods benefitting from general research and development subsidies are not likely to raise a question of injury to foreign industries, and U.S. firms do not benefit significantly from the other categories of greenlighted measures. Meanwhile, the other new provisions added to the Subsidies Agreement along with greenlighting in the Uruguay Round—updated subsidy notification requirements and "serious prejudice" rules—have not measurably benefitted the United States or curbed foreign subsidization. Nor is it clear that in order to extend these provisions, which at least in principle enhance subsidy discipline, it would be necessary to also extend greenlighting, which in principle detracts from it.

If subsidized goods cause no injury, the subsidies involved are already non-actionable, without regard to greenlighting. If they do cause injury, the rationalization for the subsidies is largely irrelevant, and offsetting measures should be available. Subsidies, after all, represent an intrusion by governments seeking to alter normal market outcomes. Subsidies associated with trade harm—whether that harm goes by the label of "adverse effects," "serious prejudice," or "material injury"—should be actionable under international and national law. Since all subsidies have a monetary equivalent, and since money is fungible, there is no basis for singling out certain types of subsidies as presumptively less harmful than other types.

Article 31 of the WTO Subsidies Agreement provides that greenlighting will terminate after an initial 5-year trial period unless extended by a Ministerial decision (which must be unanimous). Nothing in the GATT 1994 or the WTO Subsidies Agreement prejudges the position that any WTO Member will take with respect to the extension of greenlighting.

Recommended U.S. Trade Policy Objective. The U.S. negotiating objectives should state that the greenlighting of subsidies does not serve U.S. interests and should be terminated at the end of the initial 5-year trial period. Ending greenlighting is important to the continuing U.S. effort to curb trade-distorting foreign subsidies. Therefore, the Congress should direct the Administration to oppose renewal of the greenlighting provisions of the WTO Subsidies Agreement when they expire in 2000.

D. Anticompetitive Business Practices

World steel trade is highly restricted by national and international cartels. Outside the United States, most national steel markets are monopolized by one producer or regulated by cartels, and trade between national markets is subject to a wide range of anticompetitive arrangements and restrictions. These arrangements have contributed to the creation and perpetuation of an enormous capacity surplus by shielding producers from competition and have fostered endemic dumping on world markets.

Effect of Cartels. Cartels have prevented market forces from eliminating excess capacity in restricted markets which in turn has led to dumping. A typical steel cartel functions by limiting the availability of steel in the home market through restraints on production and deliveries. Because of their high fixed costs, however, producers confront severe economic pressure to operate their facilities at as high a capacity as possible. The solution generally has been to export surpluses, dumping them outside the home market at whatever prices can be obtained.

The international cartel arrangements restrict steel trade flows between virtually all of the major western industrialized and newly-industrializing nations. They do not, however, include the United States and other open markets. As a result, the pressure on the more open markets is dramatically increased. The U.S. market, as the largest open market in the world, is the natural target for foreign producers with excess capacity.

Known Steel Cartels. The so-called East of Burma Agreement (also known as the London Agreement) between several foreign steelmakers came to light during the U.S. Government's 1993 antidumping investigations against a number of foreign ex-

porters. Importers of steel in foreign countries subject to the Agreement informed the U.S. steel industry of the restrictions imposed upon them by the cartel. The Agreement restricts direct trade in steel between certain "spheres of influence" in the Eastern Hemisphere, with Burma serving as the demarcation point of those spheres. Under the Agreement, shipments of steel are subject to quotas and price restraints and punishment for breach of the agreement is dumping of twice the tonnage into the market of the violator.

The European steel market has been cartelized since the 1880s. Since the mid-1970s, the European Commission has regularly intervened in the market to reduce price competition and stabilize the market. In 1980, the European Commission established a system of mandatory production quotas and minimum prices that was administered in close coordination with Eurofer, the integrated steel producers' association. This system was phased out in 1988, but cartel activity by the producers was widely reported to have continued in a clandestine manner. In 1993, with a price war raging in a depressed market, the European Commission reinstituted a system of "voluntary" production guidelines designed to raise prices and stabilize the market. In addition to these internal measures, since 1978 the EU has also negotiated bilateral import restraint agreements with the major foreign suppliers of steel to the European market.

Recommended U.S. Trade Policy Objective. At the Singapore Ministerial, the WTO agreed to establish a Working Party on trade and competition policy. However, the exact agenda of this new Working Party remains very much in doubt. The Congress should therefore give direction to these discussions by laying out as a long term negotiating objective the development of international rules to prohibit government toleration of private anticompetitive practices such as the formation of cartels, price-fixing agreements, and other anticompetitive arrangements which can distort international trade.

However, in defining our trade policy objectives in this area, the United States should be sure to move forward at a modest, careful pace. In the near term, multilateral efforts in this area should focus on fact-gathering rather than rule-making. The goal should be to identify barriers to market access for goods, services and investment that are not adequately covered by international commitments, and that may not be reachable under current rules and dispute settlement. This is the proper focus for OECD discussions and for any near term consideration of this issue within the WTO. Rule-oriented negotiations will need to await further preparatory work by both the private sector and the U.S. Government. In the meanwhile, the United States must continue to address bilaterally (through Section 301) foreign government toleration of private restraints that block U.S. exports to, or investment in, foreign markets. As with intellectual property rights, such an approach will enhance our government's ability to bring this important issue into the multilateral system with appropriate rules at a later date.

The negotiating objective also should make it clear that the Congress expects the WTO Working Party on Trade and Competition Policy established at the Singapore Ministerial to reject proposals to renegotiate the WTO Antidumping Agreement, consistent with the statements made by Ambassador Barshefsky and EU Trade Commissioner Sir Leon Brittan in Singapore last December.

E. Export Targeting

Numerous U.S. industries have been injured by export targeting by foreign governments, chiefly Japan and Korea (although China has launched several industrial targeting plans in recent years and could become a threat in the future).

U.S. Law on Export Targeting. Section 301 of the Trade Act of 1974 provides for U.S. Government action against export targeting, which it defines as "any government plan or scheme consisting of a combination of coordinated actions (whether carried out severally or jointly) that are bestowed on a specific enterprise, industry or group to become more competitive in the export of a class or kind of merchandise." However, it will be difficult for the United States to act against foreign targeting so long as there are no internationally agreed upon rules in this area.

Recommended U.S. Trade Policy Objective. The U.S. negotiating objectives should include as a goal the development of international rules against export targeting. Such an objective was part of the negotiating objectives adopted by the Congress in the Omnibus Trade and Competitiveness Act of 1988. As no progress has yet been made on this objective, it is appropriate for the Congress to renew it as a goal in any new fast track legislation.

IV. Conclusion

Unfair trade practices continue to present serious threats to many U.S. industries and their workers, including the U.S. steel industry. Until international rules clearly prohibit all forms of unfair trade, U.S. industry will be left at a disadvantage in world competition. It is incumbent upon the Congress and the Administration to work together to fashion a trade policy for the United States that will deal decisively with these issues.

Moreover, until such time as more effective agreements against unfair trade practices are implemented, existing U.S. trade remedy laws such as the antidumping and countervailing duty laws provide the only effective and internationally-recognized remedies against many forms of foreign unfair trade practices. These laws are essential to ensuring that international economic competition is based on free market principles, and that government intervention and tolerance of private anticompetitive practices are not allowed to distort market forces. They should be vigorously enforced and, wherever possible, strengthened.

Thank you for the opportunity to present our views on this most important subject.

Flashlight Tariff Coalition
Suite 1200, 818 Connecticut Avenue, NW.
Washington, DC 20006
April 1, 1997

A. L. Singleton
Chief of Staff
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

RE: U.S. Trade Policy Objectives and Initiatives

Dear Mr. Singleton:

We are submitting this statement on behalf of the Flashlight Tariff Coalition to the House Ways and Means Committee, Subcommittee on Trade in response to its Advisory of February 25, 1997, No. TR–3, requesting comments on the above captioned subject.

The goal of the Flashlight Tariff Coalition is to eliminate tariffs on flashlights and flashlight parts around the globe. The elimination of tariffs would enhance the competitiveness of the firms that manufacture flashlights on a worldwide basis and create a level playing field for all producers. In addition, the elimination of duties would increase U.S. exports of flashlights and would directly benefit consumers through both short and long term cost savings.

Specifically, U.S. exports of flashlights have more than doubled in the last five years. Exports of domestically produced flashlights would increase even more if duties, often as high as from 20% ad valorem to 57% ad valorem, were eliminated in key export markets in Europe, Asia and Latin America. In addition, the U.S. MFN tariff on flashlights is also relatively high—17.5%.

In order to achieve this goal and receive the anticipated benefits, the Coalition supports the following two efforts underway abroad and in Congress—regional and multilateral trade initiatives, and the enactment of Fast Track legislation:

(1) The Coalition strongly supports the pursuit by the Administration of regional and multilateral agreements which could result in the elimination at the earliest possible date of tariffs on flashlights and flashlight parts. The Coalition is now working with the Clinton Administration to achieve this end in both the Asian Pacific Economic Cooperation Forum (APEC) and the Summit of the America negotiations for a Free Trade Area of the Americas (FTAA). At the appropriate time, the Coalition will seek to have flashlights considered in a possibly expanded Information Technology Agreement and in the Transatlantic Business Dialogue (TABD) market access discussions.In addition, the Coalition is working to gain support for this goal in countries in Asia, Latin America and Europe.

(2) The Coalition strongly supports early enactment by this Congress of Fast Track legislation to provide the Administration with the broad negotiating authority it needs to participate in the regional and multilateral trade initiatives it is now pursuing. Fast Track authority is crucial to the achievement of the Coalition's goals.

Without Fast Track, the U.S. will not be able to participate fully in regional and multilateral efforts to improve market access through the reduction of tariffs. Other countries will benefit from these negotiations, that will continue regardless of U.S. participation.

The following U.S. companies, which represent a majority of American flashlight companies, support the goals of the Coalition:

—Black and Decker Corporation, Towson, Maryland;
—The Coleman Company, Inc., Golden, Colorado;
—Dorcy International, Inc., Columbus, Ohio;
—Eveready Battery Company, Inc., St. Louis, Missouri;
—Garrity Industries, Madison, Connecticut;
—Lumilite Products Co., Portland, Oregon;
—Mag Instrument Company, Ontario, California;
—Panasonic Industrial Company, Secaucus, New Jersey; and
—Tandy Corporation, Fort Worth, Texas.

In addition, the Coalition has been working with manufacturers and government officials in key countries in Asia and Europe to gain their support.

In conclusion, we thank the Subcommittee for this opportunity to provide these comments and urge the full Committee to move swiftly on broad Fast Track negotiating legislation to provide the Administration with the tools it needs to implement its trade policy initiatives. We would be happy to provide any further information the Subcommittee may require.

Sincerely,

JAMES B. CLAWSON
Executive Director

[By Permission of the Chairman]

STATEMENT BY
THE HON. DR. RICHARD L. BERNAL
AMBASSADOR FROM JAMAICA TO THE UNITED STATES

SUBMITTED TO THE HOUSE WAYS AND MEANS
SUBCOMMITTEE ON TRADE

APRIL 1997

Thank you for providing me an opportunity to submit a statement on the US/Caribbean trade partnership in connection with the Subcommittee's investigation on US trade policy objectives and initiatives.

I. INTRODUCTION

This year marks the 15th anniversary of the address in which Ronald Reagan proposed the Caribbean Basin Initiative (CBI) to strengthen the economic and security relationship between the United States and the countries of the Caribbean Basin. Congress responded to President Reagan's challenge by enacting the Caribbean Basin Economic Recovery Act (PL 98-67) during 1983. Since then, the CBI has stimulated commercial linkages, promoted the development of a thriving private sector in the Caribbean, and created a natural market for thousands of US exporters. In many respects, the CBI has been an unqualified success.

Despite these accomplishments, the CBI is now beginning to show its age as new policies are established that eclipse the US/Caribbean partnership or render the CBI provisions almost meaningless. Moreover, US budgetary constraints and foreign policy considerations have either diverted US attention or concentrated it on one or two immediate crises. Although the United States continues to vocalize support for a strong US/Caribbean relationship, it has implemented policies that have channeled resources and personnel to other parts of the world.

Among the islands of the Caribbean Basin, such a policies are extremely harmful. Many of these smaller economies are extremely fragile, depending on a single crop or service to earn crucial foreign exchange. These economies can be extremely susceptible to external shocks or the corrupting influences of narco-traffickers, and are often not flexible enough to undertake the kinds of reforms necessary for survival in the modern international economy. Sustained and tangible expressions of US support for these countries -- through continued engagement on the trade front -- are vital to help them defend themselves against external disruption and internal resistance to change. Because the United States has a natural interest in promoting the economic development of the Caribbean, this policy of "disengagement," appears inimical to US objectives.

In the approach to the 21st century, therefore, it is appropriate for the United States to recommit and update its relationship with the Caribbean Basin, and for the countries of the Caribbean to do the same with the United States. The US/Caribbean relationship, must prepare for a number of challenges and opportunities in the next several decades, including the likelihood of a market economy in Cuba and accession to a hemispheric free trade area. To reverse the current policy vacuum, and to establish a "road map" for a reinvigorated regional economic and security relationship in the future, the United States and the Caribbean should now take a fresh look at the CBI, and jointly craft a new US/CBI partnership.

II. THE US/CARIBBEAN ECONOMIC PARTNERSHIP

Although many see the US/Caribbean relationship as altruistic or one-sided, it is truly a mutually beneficial relationship. Statistics on regional trade and investment flows underscore this point.

- Presently, the US/Caribbean commercial relationship supports more than 300,000 jobs in the United States and countless more throughout the Caribbean. During the past decade, the US/Caribbean Basin relationship has created more than 18,000 jobs a year in the United States.

- The Caribbean Basin is in aggregate now the tenth largest export market for the United States, surpassing countries such as France.

- The Caribbean Basin is one of the few regions in the world where US exporters maintain trade surpluses. In 1996, the 11th consecutive year for which the United States recorded a trade surplus with the Caribbean Basin, that surplus surpassed $2.3 billion.

- In 1996, US exports to the region passed $ 16.9 billion, resulting in a 180 percent increase in US exports during the past 11 years. Virtually every state in the union has benefited from this relationship.

- In 1996, US imports from the region reached $ 14.5 billion, completing an 11-year growth rate of nearly 120 percent.

- It is estimated that between 60 to 70 cents of each dollar spent in the Caribbean Basin is spent back in the United States compared with only 10 cents of each dollar spent in Asia.

The basis of this healthy and balanced trade relationship is a complementarity between the CBI economies and the US economy. While the US economy is highly industrialized, the CBI countries tend to emphasize more agriculture, raw materials, tourism, and, increasingly, labour-intensive manufacture. These economic patterns are natural catalysts for the trade based-economic growth.

For example, apparel has become Jamaica's leading manufactured export and has grown very rapidly. It has grown because of a complementarity involving the combination of US capital goods and raw materials being produced with Jamaican labour for US companies. The result is the creation of jobs in the textile and shipping sectors both here and in Jamaica. In addition, this integrated transnational process of production draws upon the strength of both economies to manufacture a final product that can be competitive in the US and global market. This equation again adds up to jobs, especially through the preservation of jobs and corporate entities in the Unites States which could not survive by producing goods entirely in the United States.

III. RECENT CHANGES IN THE US/CARIBBEAN PARTNERSHIP

During the past five years, a subtle but steady shift in US policy has marked a de-emphasis on US/Caribbean relations. While not all these policies have focused on trade matters, they have all threatened the economic assumptions upon which the US/Caribbean commercial partnership is based. The cumulative effect of this diminished attention on the Caribbean is the disruption of a thriving economic partnership that supports hundreds of thousands of jobs and fosters the development of regional peace and security. Four recent examples, include:

A. The Elimination of the Section 936 Program

In 1996, as part of an overhaul of small business tax credits, the Congress repealed the Section 936 program, a provision of US tax law that provides credits for firms investing in Puerto Rico and the Caribbean. Although the program initially targets Puerto Rico growth and development, it had been structured to support economic growth and development in the Caribbean as well.

The program provided a substantial source of private sector funding for Jamaican and Caribbean development programs. Since the mid 1980's, when Jamaica became eligible for the program, Section 936 funds supported over

$500 million worth of investments in development projects, including the privatization of the tourism industry. Throughout the Caribbean, Section 936 funds have supported more than $2 billion worth of investment. Because investors were able to earn tax free income on their investment income, they were able to make the funds available for development projects in the Caribbean at relatively low rates -- sometimes as much as one to two percentage points below market rates. This made the Section 936 program a particularly attractive and appropriate source of funds for Caribbean countries, who have difficulty raising capital on international markets.

B. The Decline in Foreign Aid

The Section 936 repeal exacerbates a related trend -- the decline of foreign aid resources to the region. As US fiscal realities have affected the foreign aid budget, official development assistance to the region has gradually diminished as flows have decreased and missions have been closed. In 1984, US assistance and export credits to the 24 Caribbean Basin countries equaled $1.262 billion. By 1994, that level had dropped to just over $544 million, a decline of more than $700 million.

Although many countries are eager to graduate from aid programs, the premature closure of missions and termination of projects has had a disruptive effect throughout the region, and could have a chilling effect on trade. The drop in US assistance has been felt on many economic reform and liberalization programs. Moreover, as governments lose aid resources, and if they are unable to quickly replace them from substitute donors, they may be forced to raise funds through increased levies on exports, imports, and other economic activities.

The problem become particularly sensitive with specific attention to narcotics assistance, where the Administration has reallocated resources from Caribbean Basin transit zone countries to focus attention on the so-called source country programs in the Andean region. During the past four years, US interdiction support in the Caribbean region has dropped markedly -- from a high of $1 billion in 1992 to $570 million in 1995. At the same time, enforcement officials now believe there is a resurgence of drug trafficking in the Caribbean, and estimate that as much as 40 percent of the cocaine shipped to the United States now transits the Caribbean. This decline in interdiction activity accompanied by a concurrent increase in drug trafficking, places a greater burden on Caribbean countries.

C. Bananas

A growing source of trade friction has resulted from bananas. At issue is a trading regime established by the European Union (EU) to support banana-dependent economies in former colonies in Africa and the Caribbean. Because bananas sourced in Latin America are cheaper to grow than those sourced elsewhere, the regime provides a series of incentives for producers and banana traders to purchase a small percentage of their bananas in Africa and the Caribbean. For the past twenty years, the EU banana program has succeeded in supporting economic development throughout the Caribbean, particularly in those countries -- such as Dominica -- where banana exports account for about 80 percent of all exports.

The United States has gotten involved because a single US-based company -- Chiquita Brands -- feels that the regime prevents it from increasing its 50 percent share of the EU market. Unfortunately, Chiquita, has concentrated its investments in Latin America and so is currently poorly prepared to benefit from the EU's Caribbean banana production incentives. But what should be dismissed as a bad investment decision on the part of one company has instead been trumpeted by the Clinton Administration as an example of an unfair trade practice. Although no US jobs and no US exports are at stake, and although the banana regime does not discriminate against US firms, the US Trade Representative and some Members of Congress have aggressively pushed the case.

The matter is now before the World Trade Organization (WTO), where the United States has assembled a five-nation coalition to challenge the regime. Press reports indicate that the interim report of the WTO panel has made a tentative ruling against the EU banana regime. Full enforcement of such a ruling would pose grave consequences for the small-scale banana producers, disrupting economic livelihoods throughout the Caribbean.

D. Rum and the Information Technology Agreement

Caribbean exporters of high-value rum are also facing pressure. Under the Caribbean basin Initiative (CBI) trade in rum from the Caribbean region increased substantially. In fact Caribbean rum producers have increased their market penetration of the United States by more than 50 percent under the CBI, earning much needed foreign currency and creating new jobs in the region and creating valuable new jobs in the region. The US International Trade Commission has identified rum as one of the limited number of products benefiting most from duty-free treatment under the CBI.

As part of the December 1996 Singapore WTO Ministerial information technology agreement (ITA), the United States and the EU committed to phase out tariffs on "white spirits" by the year 2000. This agreement would provide duty free access to the US and EU markets to all shippers worldwide. Left unchanged, the implementation of this agreement would have dealt a severe blow to the rum producers of the Caribbean as a result of the loss of the current market access advantage under the CBI. In addition it would also result in the erosion of any preferences which Caribbean exporters also enjoy under the Lome Convention.

In partial response to these concerns, US and EU negotiators reached a compromise under which low value rum exports would be exempted from the agreement entirely. In the US market, higher value rum exports would face the full effects of the ITA. In the EU market, higher value rum exports would enjoy limited protection through the imposition of a tariff rate quota that will be phased out over a three-year period. Whether these fixes will be enough to prevent substantial damage to the Caribbean rum industry remains to be seen.

IV. SUSTAINING US/CARIBBEAN ECONOMIC LINKS IN THE SHORT TERM

A. The NAFTA Imbalance

Clearly, the biggest issue facing the Caribbean Basin is the lack of parity of US market access with Mexico. The CBI has provided a good foundation, particularly in the era when aid from the United States is declining. It has been a good strategy of trade, and not aid, which has proved more beneficial in the long run. But the CBI has several built-in limitations. One problem is that, while it liberalizes 90 percent of the trade categories, the CBI does not liberalize 90 percent of the actual trade flows, primarily because the very goods -- such as apparel and footwear -- in which the CBI has a comparative advantage are the goods that tend to be restricted by US import laws.

The established structure of trade in the region ensures that the impact of NAFTA is substantial, both in the United States and throughout the Caribbean. In effect, NAFTA alters the successful formula for sound economic development in the Caribbean by granting Mexico access to the US market on terms more favorable than those available for CBI exporters.

As noted above, the CBI statutorily excludes a few items -- such as textiles and apparel, footwear, luggage, watches, tuna, and petroleum -- that are among the Caribbean Basin's most valuable exports. This means that a portion of each CBI country's exports will not enjoy CBI treatment. Moreover, the paralyzing effect of these exclusions becomes more noticeable as CBI economies begin to produce products that are not covered by the CBI. In 1996, the annual International Trade Commission survey on the CBI reported that average duties paid for CBI imports rose from 1.9 percent in 1984 to 12.3 percent in 1994. If

left unchecked, the current CBI formula will have a declining impact on Caribbean economic development.

In contrast, NAFTA eliminates the duty and quota treatment for these same articles, either immediately or over a phase-out period. Under NAFTA, import duties were immediately removed on the overwhelming majority -- approximately 80 percent -- of Mexican apparel exports to the United States. The remaining 20 percent benefits from an accelerated implementation of free trade, with annual duty cuts and quota liberalization set to be completed by the year 2000. To be fair, NAFTA also phases out the duties on the products for which the CBI countries already enjoy duty free treatment.

But the result is far from even. Mexico gains parity with the Caribbean countries for CBI-covered products, establishing a level playing field for those items on which Mexican and Caribbean exporters face no duty. But on the products excluded from the CBI, such as textile and apparel products, Mexico gains access to the US market, exceeding that granted to the Caribbean countries. This tilts the playing field in Mexico's favor, and gives Mexican exporters a distinct advantage over Caribbean exporters. When combined with Mexico's access to cheap energy, lower transport costs, greater economies of scale, and low wage rates, this advantage becomes quite substantial.

B. NAFTA's Impact on the Caribbean Basin

Broadly speaking, NAFTA's implementation -- and advantages over the CBI -- poses clear risks for the US/CBI partnership. The elimination of quotas and the phase-out of tariffs on Mexican products removes the advantage enjoyed by CBI exports to the US market, diverting trade flows from CBI countries to Mexico. Since the NAFTA was implemented, there has already been a measurable diversion of trade from the CBI to Mexico. Before NAFTA was implemented, the growth rate of US apparel imports from Mexico and the CBI region were on par. Three years after the NAFTA was implemented, Mexican apparel import growth rates have consistently outpaced Caribbean growth rates by a 3 to 1 margin. As this trend continues, Caribbean market share in the United States will be consumed by Mexican suppliers.

Another consequence of NAFTA's implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 3 years there has been a pause in investment in the region, as investors first waited to evaluate the NAFTA provisions and then established new operating facilities in Mexico, instead of in the Caribbean. This trend, which is now being fully realized, was anticipated by the US International Trade Commission, which reported in 1992 that "NAFTA will introduce incentives that will tend to favor apparel investment shifts away from the CBERA countries to Mexico".

As existing investors begin to source their products out of Mexico, others are rushing to transfer or close existing productive capacity -- particularly in the "foot-loose" apparel industries which can easily be relocated -- to take advantage of Mexico's market access. In many Caribbean Basin countries, NAFTA directly reverses past successes of the CBI program, effectively turning back the clock of Caribbean development. Employment is hit particularly hard by this trend, as manufacturers close factories and lay off employees. According to estimates by the Caribbean Textiles and Apparel Institute, more than 150 apparel plants closed in the Caribbean, resulting in the loss of 123,000 jobs during 1995 and 1996. This trend is particularly damaging to women, who often look to the textile and apparel sector for their livelihood.

An erosion of export access to the United States will eventually translate directly into a contraction of economic activity in the CBI region. Such a contraction would lower regional incomes, and, ultimately, the demand for imports from the United States. In such a scenario, US exports of goods and services to the CBI would decline while regional instability -- fostered by a decrease in economic opportunities -- would rise. Judging from past patterns, the resulting unemployment in the United States would be met with an

increase in immigration from displaced Caribbean workers and a rise in narcotics trafficking.

C. Caribbean Enhancement As An Immediate Remedy

While the long term solution is to determine how to fully integrate Caribbean countries -- and the specific needs of their smaller economies -- into the NAFTA or a Free Trade Area of the Americas (FTAA), a short term solution calls for the leveling of the playing field between Mexico and the Caribbean countries. As Congress and the Administration move ahead on a proposal to re-impose balance between Mexican and Caribbean access to the US market, they should ensure that the legislation on which they act encompasses several key principles:

First, the legislation must cover all products currently excluded from the CBI. As the Caribbean economies liberalize, it becomes increasingly difficult to erect artificial barriers between product categories. Improving market access for only certain textile and apparel products would have a limited effect, and would retain the anomalies that encourage unbalanced economic growth. Enacting a comprehensive bill, however, is both economically more feasible and symbolically more consistent with the notion of free and open trade.

Second, the legislation must serve as a gateway to the Free Trade Area for the Americas. One of the implicit goals of parity is to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for accession to the FTAA. While some countries -- such as Jamaica -- are now ready to negotiate either a free trade agreement with the United States or accession to a NAFTA, others may need a longer period. The Caribbean trade enhancement proposal should provide that transitional period, without locking CBI countries into a perpetual state where their trade posture is being slowly eroded.

Third, any Caribbean trade enhancement proposal must be permanent or of a sufficiently long duration to provide credibility and certainty. It is now clear that this legislation will require Caribbean countries to undertake certain obligations and implement specific measures in order to access the full benefits. Such reciprocity makes sense, but only if the reciprocal commitments maintain in force indefinitely. It would be fundamentally unfair for the United States to insist upon permanent trade liberalization from the Caribbean, but only offer reciprocal trade liberalization, in the form of enhanced market access, for a period of one, five, or even ten years. Making this Caribbean trade enhancement provision a permanent feature of the CBI will also create a viable signal that will help restore "confidence" in the Caribbean that has been eroded as previous plans have been proposed and discarded.

Fourth, on a related note, the legislation must not impose entrance requirements that are insurmountable. The 24 nations of the Caribbean Basin represent diverse economies that are at different stages of liberalization. Ideally, the legislation will not establish a new set of criteria by which countries can become eligible for the benefits, but rather link the enhanced benefits to more rigorous application of the existing CBI program criteria. In this way, countries can fully pursue trade liberalization without being harmed by a break in market access or the continuation of an unbalanced playing field.

Fifth, the proposal must be advanced with the support of all key constituencies, such as labor, business, and consumer groups, in both the United States and in the Caribbean. Too many times, the debate over US/Caribbean trade relations has been framed as a debate between business and labor, between exporters and importers, or between management and labor. Consumers, workers, employers, and government officials all benefit by stronger and healthier trade relations between the United States and the Caribbean Basin.

V. SUSTAINING US/CARIBBEAN TRADE LINKS FOR THE LONGER TERM

A. NAFTA Accession

A related issue is the concept of NAFTA accession, which takes on added importance with the on-going delay in enactment of provisions to relieve the US/Caribbean relationship from the effects of NAFTA. It also provides an important long term framework for the CBI, especially since the CBI exists now as the product of a legislated action by Congress, and not as the product of a reciprocal trade negotiation.

Although there are quite a few countries in the region that are close to meeting the requirements of joining NAFTA, there is a perception that only a handful of big emerging markets -- such as Brazil and Argentina -- should be considered for NAFTA accession once Chile has joined. It may, however, make sense to look to smaller Caribbean economies for the next stage of NAFTA expansion. First, most Caribbean economies would be complementary, not competitive, with the US economy. Second, because Caribbean economies are small, they are unlikely to disrupt the US economy. Third, there may be no better way of securing the long-term economic development of the Caribbean then by forging a close link based on reciprocity with the United States. Finally, the Caribbean is the logical place to start since many Caribbean economies have already implemented the kind of trade liberalization and economic reforms that would be called for under NAFTA accession.

Regardless of the accession queue, it is vitally important for the US Government to establish a transparent process in which there are clear eligibility criteria. Without clear guidelines, countries are focusing on political jockeying to compete to see who should come in next, rather than focusing on meeting specific criteria that is a more appropriate measure of readiness.

B. The FTAA And The Smaller Economies

For the longer term, discussions on erecting a Free Trade Area of the Americas (FTAA), which were initiated in Miami in 1994, also pose a challenge to the security and stability of the smaller economies. Although a hemispheric free trade agreement will provide a long-term framework under which a solid security relationship can flourish, the process of achieving that goal may prove exceptionally disruptive for many Caribbean countries.

FTAA participants will have the unprecedented task of erecting an FTAA that encompasses in a single trade agreement countries which differ widely in size, levels of development, extent of industrialization, and degree of liberalization. At the same time, for the FTAA to be worthwhile, it must strive toward a uniform series of standards and disciplines that are consistent with international and hemispheric trading practices. To ensure full and equitable participation, especially of the smaller economies in the Caribbean, the FTAA path must reflect several important principles.

First, there must be an orderly accession process. This can be achieved if the process is politically transparent. Orderly accession requires the establishment and enunciation of a clearly defined set of eligibility criteria, procedures for applying for membership, and a timetable for expansion. The absence of these factors creates a situation in which various arbitrary, non-economic criteria may disproportionately influence the selection and sequence of admission of new members.

Second, the path will have to accommodate considerable flexibility since it will probably not be possible for all countries to move at the same pace and arrive at a single destination. In fact, there is some concern about how quickly the smaller, less developed countries of the Caribbean region or Latin America could undertake the full range of commitments that will be expected under the FTAA. A suitable transitional arrangement must be designed for these countries and involve asymmetrically phased assumption of obligations and disciplines. An appropriate adjustment period not only will take account of the

level of development, extent of liberalization, and undiversified structure of these economies, but it also would permit time for completion of the structural adjustment process of the wider Latin American region. For example, Caribbean Basin countries could be provided fuller access to the NAFTA markets, with phased in reciprocity, to transition them to the disciplines of the NAFTA. A suitable transitional arrangement would enable these economies to complete their processes of economic reform and structural adjustment, which will put them in a position to move towards reciprocity. A premature attempt by these countries to provide full reciprocity immediately could be detrimental to these processes of adjustment, and could inhibit export expansion.

Third, the FTAA will need to contain provisions for associate or partial membership to permit countries, or sectors within those countries, to undertake FTAA commitments in a way that do not infringe upon existing obligations. This would provide an opportunity, for countries that, despite a commitment to the FTAA, are not ready for full membership or are precluded by existing commitments to sub-regional trade arrangements with trade groups outside the hemisphere. Looking back at example of the Caribbean, CARICOM members of the preferential Lome Convention are obliged to provide no-less favorable conditions to the EU than that provided to any developed country. If Caribbean countries were to provide reciprocity to the United States and Canada by virtue of an FTAA agreement, or even NAFTA membership, then these countries would be obliged to provide reciprocity to the EU under the terms of Lome. Associate membership would facilitate liberalization in a limited number of areas and obviate the enforcement of across the board reciprocity by the European Union.

Finally, the FTAA process must pay close attention to the needs of the smaller economies. While constituting a majority of the Western Hemisphere, the smaller economies are not likely to be a major determinant on what constitutes the FTAA, the path to the FTAA and the schedule for negotiations and the commencement of the FTAA. Yet without their participation, the FTAA loses its character as a truly hemispheric exercise. At a minimum, the Ministers must integrate the special needs of small developing countries in all their work, rather than confine these concerns to the Working Group on Smaller economies.

VI. CONCLUSION

Countless studies have shown that strong regional economic links are crucial, not only in creating economic opportunities throughout the United States and the Caribbean Basin, but also in supporting stable and mutual beneficial security relationships. In the dozen years since it has been implemented, the CBI has provided a key framework of economic development for the Caribbean, and has stimulated sound US/Caribbean commercial relations.

However, with the many challenges facing the Caribbean today, it is imperative that the US and Caribbean Basin Governments jointly work to sustain a healthy relationship and keep the vision of the CBI relevant. In crafting a new partnership, US and Caribbean policy makers can address concerns in a number of sensitive areas. A critical premise of this work will be the realization that Caribbean countries are full partners of, and not merely recipients of benefits from, the United States. As has been demonstrated repeatedly -- through cuts in aid, through the elimination of loan programs, through unilateral changes to the CBI program itself -- Caribbean Basin development has often been encouraged or discouraged at the pleasure of the US Government. In the future, as the United States recommits itself to this relationship through a comprehensive policy and as the Caribbean countries recommit themselves through accelerated progress on trade liberalization and economic reforms, the partnership must be based on reciprocity and mutual respect of each other's systems and sovereignty.

STEWART AND STEWART
2100 M STREET, NW.
WASHINGTON, DC 20515
April 1, 1997

Mr. A. L. Singleton
Chief of Staff
Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Re: U.S. Trade Policy Objectives and Initiatives (TR–3)

Dear Mr. Singleton:

In accordance with the Committee on Ways and Means' Trade Subcommittee Advisory, I herewith submit the following written statement for the printed record in the above referenced matter.

These written comments in response to the February 25, 1997, Subcommittee notice are submitted in my personal capacity and not on behalf of the firm's clients or my firm.

In reviewing the written submissions of government and private sector witnesses at the hearing on March 18, there was general agreement—with several notable exceptions—that there is a pressing need for fast track legislation this year. NAFTA expansion, APEC and/or FTAA programs being certain examples. Most witnesses appear to want a broadbased grant of authority. The private sector also raised concerns for the costs to U.S. communities, companies and workers of unilateral trade restrictions. The saga of Westinghouse's nuclear power plant operations should be a matter of concern for members of the Subcommittee and the Congress generally. Other issues receiving support from the business sector included permanent MFN treatment for China, renewal of GSP and others items. Public Citizen's Global Trade Watch was the major participant to ask for a thorough examination of the costs/benefits of liberalized trade.

I believe that the Committee and Subcommittee should support on a bipartisan basis the renewal of fast track. However, I believe the Congress should identify a range of negotiating objectives for fast track at the unilateral, regional and sectoral level to assure that future agreements continue to attack the hurdles which reduce the proper functioning of the market or which necessarily influence trade flows. In that regard, I would encourage the Subcommittee to include in any list of negotiating objectives, not only objectives needed to permit progress in APEC, the FTAA and the built-in-agenda of the WTO but also, objectives outlined in the Omnibus Trade & Competitiveness Act of 1988 that were not accomplished in the Uruguay Round negotiations. In testimony before this Subcommittee on November 10, 1993, I presented a scorecard before the conclusion of the Uruguay Round on how statutory objectives identified in the 1988 Omnibus Trade and Competitiveness Act were fulfilled or not. Uruguay Round of Multilateral Trade Negotiations: Hearing Before the Senate Comm. on Finance, 103d Cong. 151 (1993). Several critical issues not addressed remain important to U.S. industry, workers and communities.

Congress set out the negotiating objectives for the Uruguay Round in the Omnibus Trade and Competitiveness Act of 1988, 19 U.S.C. Section 2901 et seq.

One such objective in the 1988 Act not addressed in the Uruguay Round Agreement was the elimination of the bias in the trade system from the differential treatment provided to rebates of "direct" v. "indirect" taxes (objective 16). While this issue has been less pressing during a period when the U.S. dollar was more properly valued, it creates a major disincentive for U.S. companies producing and exporting from the U.S. Introductory Statement the Honorable Sam M. Gibbons (D-FLA) for H.R. 4050, Value-Added Tax Proposal, Sept. 11, 1996, 104th Cong. 2d Sess. (1996).

Another negotiating objective in the 1988 Act (item 5) deals with current account surpluses. While the U.S. has pursued many bilateral agreements with countries who have big current account surpluses, significant progress has not been made with some countries, particularly Japan or China. This objective should be repeated in any grant of fast track authority and should be monitored for results in fact.

Another objective Congress set out in the 1988 Act addressed unfair trade practices-including: forms of subsidy and dumping and other practices having adverse trade effects, including forms of resource input subsidies, diversionary dumping, dumped or subsidized inputs and export targeting practices. These objectives were

only partially achieved in the Uruguay Round agreements. Yet the problems of unfair trade continue to distort trade flows and resource allocation. Some problems today are essentially unaddressable. One of these would be third country dumping, particularly if dumping is occurring in many countries simultaneously. This is a growing problem in many sectors—irrational pricing in many third country markets, whether due to multi-country dumping, targeting, cross-product subsidization or otherwise. The Congress should either include negotiation objectives multilaterally, regionally or bilaterally or encourage sectoral negotiations to go beyond existing rules (a "WTO plus" approach).

The WTO built-in-agenda and the program for further negotiations agreed to in Singapore at the WTO Ministerial meeting should be part of the U.S. trade agenda for 1997 and beyond. In particular the environmental program and the negotiations on transparency in government procurement should be given significant attention.

Similarly, at the Singapore Ministerial there was agreement to explore anticompetitive issues in a Working Group to determine if negotiations should proceed. The Working Group should focus on issues not presently covered by existing WTO agreements. That focus was identified by both the U.S. and the EU in Singapore. See joint press statement of Ambassador Barshefsky and Sir Leon Brittan of 13 December 1996 ["As this is a new area of work for the WTO, complementing the Organization's existing activities, the group's work should not be extended into matters already dealt with by the WTO and its various committees. We expect the group to focus on the international dimension of competition (antitrust) rules." Statement on Competition Policy in the World Trade Organization, USTR 96–95, 13 Dec. 1996].

A major issue in 1988 and today is foreign direct investment. Because of the failure to obtain desired results in the TRIMs Agreement, an MAI has been being negotiated as part of the OECD, although completion has now been postponed to later this year. It is important that a negotiating objective of the Congress be inclusion of investment liberalization requirements in any new agreements. Such liberalization should either equal or go beyond NAFTA investment rules regardless of the size of the agreement (i.e., multilateral, regional, bilateral or sectoral).

While much was accomplished in terms of framework and at least some initial liberalization in agriculture occurred during the Uruguay Round, much remains to be tackled. Experience under NAFTA has uncovered problems in some sectors (e.g., fruits and vegetables), the numbers of TBT and SPS challenges in the WTO suggest a long battle to obtain improved liberalization and the nature of the WTO negotiations leave a very uneven field for many U.S. agricultural products. The Congress should include as negotiating objectives the harmonization of export subsidy regimes and their control reduction/elimination. Large differences in export subsidy amounts will continue to inflict harm on many U.S. agricultural industries preventing sustainable pricing from being achieved. Some sectors of agriculture might be consolidated for WTO Plus Agreements as discussed below.

With regard to sectoral negotiations, Congress should include sectoral objectives within any fast track renewal. Such objectives can include "0-for-0" tariff levels where the industry supports sectoral agreements that go beyond the WTO ("WTO Plus"). The continued current account deficit [1] in the U.S. reflects a number of continuing problems that are not easily quantified. Anticompetitive practices of foreign competitors-customers, regulations, distribution access and many other issues can drive trade flows. There have been concerns that construction trade—whether for government contracts or private work—is easily distorted. Similarly, bilateral agreements in areas like automobiles, automobile parts, semiconductors and others show the complex set of issues that must be addressed if trade flows are to reflect underlying competitive forces. As the issues that must be addressed may vary by sector, it would seem appropriate to encourage sectoral negotiations that are "WTO Plus" where the domestic industry supports the initiative. Congress and the Administration must recognize that sectoral agreements are not possible where leverage cannot

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[1] Over time, many economists and others have argued that the federal budget deficit was the primary cause of our current account deficit. As noted in Amb. Barshefsky's statement on March 18, 1997, the U.S. budget deficit is currently the lowest of any of the G–7 countries, including Japan. Yet in 1996, the U.S. account deficit hit an all-time record.

Some speakers have suggested other causes drive bilateral and current account deficits (*e.g.*, Westinghouse Exec. re: unilateral sanctions). Some of these causes may in fact affect the deficit. Others may or may not be relevant. The Congress should work with the private sector and the administration for developing a better understanding of the continuing causes of our trade deficit. Too many of the alleged causes of the trade deficit appear implausible. As Congress has repeatedly attempted to reduce the deficit over the years, it should be sure it has the best current thinking on the causes. Any such causes should be added to the negotiating objectives. Exhibit 1 to this letter shows the budget deficits and current account surpluses/deficits for the G–7 countries in recent years.

be brought to bear. Thus harmonization can include many things including, importantly, 301 actions.

Intellectual property and services are important areas for improved protections and liberalization. IP agreements going beyond TRIPS, incorporating recent agreements within WIPO, or providing earlier protection are obviously very important to many sectors of the American industry as exemplified by the statement of Mr. Holmer on behalf of pharmaceutical companies. The Congress and Administration should not only make as an objective for various fast track negotiations the obtaining of "TRIPS Plus" rights and obligations, but should also consider whether sectoral negotiations for major IP industries could help leverage IP protection by addressing other issues peculiar to particular sectors that may affect IP protection as well. IP and service issues can obviously also be addressed for some countries through the WTO accession process that is ongoing. Finally, Congress should examine ways of supplementing the training programs made available to certain countries (e.g., China) for a broader IP education and upgrade of enforcement.

On services, the WTO's ongoing and built-in agenda requires negotiations now and in the years ahead to both establish rules and liberalize trade in the area. The Congress should identify negotiating objectives for both liberalization priorities and standards/outcomes of the rules negotiations. For example, government procurement should be covered in services, should be universal and subject to mandatory phase-outs of any claimed exceptions or exemptions. The U.S. should want subsidy disciplines on services, their definition should be stricter than those applied in goods, particularly considering some of the historic concerns in financial services (e.g., cross-subsidization by the Japanese financial institutions). Finally, the U.S. should want a safeguard claim included, along the lines established for goods.

Moreover, as the recent ITA and Basic Telecommunications Services Agreements suggest, for some critical service sectors, there may be synergies in pursuing service liberalization in tandem with "WTO Plus" agreements in goods or IP issues.

There should be included as well much more ambitious objectives in government procurement and state trading liberalization than has existed in the past. With the rapid growth of trade by countries like China with substantial government-owned/controlled segments of the economy, there is an urgent need to improved transparency, due process and standards of behavior for state-owned companies. Similarly, while the Singapore Ministerial declaration starts the process of multilateralizing our Government Procurement Agreement by focusing on transparency issues, too much of the world's GDP falls under Government Procurement not to make this a high priority in all fora. The Draft Protocol of Accession for China to the WTO is disappointing in that there are no specific references to the Government Procurement Agreement in the draft Protocol.

Another important issue that needs to be addressed, is better disciplines on exchange rate movements. While most speakers on March 18 referenced the strong export growth since 1985, none of the speakers referenced the fact that exports started growing following the Plaza Accord 1985 agreement to devalue the dollar. As the Subcommittee is aware, since April 1995, the value of the dollar has appreciated 47% against the Japanese Yen, and more than 21% against the German Deutschmark.

These dramatic changes in exchange values reflect greater changes in competitiveness than elimination of tariffs in the Kennedy, Tokyo, and Uruguay Round agreements together for most products. The U.S. and its trading partners must develop mechanisms to keep current exchange rates close to the underlying value of a currency (i.e., reflecting relative changes in inflation roles).

At the same time, Congress should require the Administration to negotiate bilaterally with major trading partners whose currencies are significantly out of line with underlying value. While existing U.S. law empowers/requires the U.S. Treasury to pursue currency valuation under certain conditions [Exchange Rates and International Economic Policy Coordination Act of 1988, codified at 22 U.S.C. Section 5301 et seq.], this authority has not been used with respect to certain countries, particularly China. Id. at 5304(b). A review of trade statistics with China shows that Chinese imports underprice imports from all/most other countries by huge margins on hundreds of HTS categories. Such systematic underpricing is a strong indication of an undervalued currency. The same conclusion can be drawn from World Bank PPI data which suggest a purchasing power in China substantially greater than the nominal currency (close to 5-to-1 in 1994; The World Bank Atlas 1996 at 18). It is important that trade flows reflect underlying commercial realities. A negotiating objective for the Administration should be assuring such rationality whether through multilateral, regional or bilateral negotiations.

There is much through trade policy objectives that can and should be done that can be helpful for U.S. companies, their workers and their communities. Congress

in the past has helped obtain completion of negotiations by providing time limits to accomplish certain objectives. Any fast track legislation should include time limits and should require periodic evaluation against the objectives identified. Similarly, regional agreements should not depart from NAFTA on issues like maintenance of strong trade laws against unfair trade practices, preferential Rules of Origin, improved investment and IP protection. At the same time, aggressive use of Section 301 proved useful during the Uruguay Round to get TRIPs and service negotiations moving. The U.S. should remain vigilant in using its trade remedies to bring reluctant trading parters to the table for liberalization of issues not part of the existing WTO or that are subject to plurilateral rights and obligations only.

At the same time, review of actions under national laws other than through national courts, should not be further pursued. Regional dispute settlement should be limited to those areas where the governments involved have an interest—whether laws of others conform to regional agreement obligations. Chapter 19 NAFTA-type reviews should be eliminated.

On issues such as TBT and SPS, the U.S. must continue to pursue at all levels barriers that are not scientifically based or otherwise violate our rights under the WTO. This should not prevent the establishment of higher standards where science supports or where the potential cost of an error dramatically extends the benefit of expanded trade. Time will tell whether the NAFTA and WTO agreements will meet these objectives.

Mutual recognition agreements, such as those pursued between the U.S. and EU are potentially very beneficial and should be encouraged, although some challenge mechanism should be maintained to permit the establishment that a foreign standard accepted under the MRAs do not meet relevant U.S. standards.

On transparency, the Congress should include a requirement making regional agreement negotiating history documents and all documents post-agreement releasable to the public. Moreover, it should require the U.S. to expand access—historical and current—to WTO and GATT documents. Particularly, laws, regulations, written decisions under particular articles should be made available to the public (typically only one copy of such documents are filed with the WTO and are available to member governments to review if wanted).

On labor rights and environmental issues, Congress should create objectives of forward movement on enforcement of core labor standards in countries through regional or multilateral review and encourage establishment of improved environmental standards on a multilateral or regional basis.

Most of the comments to date have not dealt with particular geographical regions. However, the marginalization of least developed countries generally and the plight of many countries in subsaharan Africa in particular have been of increasing concern both within the WTO and within the United States. In 1996 a bill was introduced in the Congress to expand trade between the U.S. and subsaharan Africa [African Growth and Opportunity: The End of Dependency Act of 1996]. This Subcommittee is holding hearings in the near future on an African trade policy. I will forward more detailed comments on that subject at the later time. Although trade and investment with Africa should be important components in the overall U.S. trade and investment policy, the objectives of any such policy should be clear from the beginning and take into account the diverse economies involved. For least developed countries, infrastructure, institutions building and technical assistance in modification of laws may be more important than additional preferential tariff treatment, although preferential tariff treatment should not be ignored.

Finally, as Congress considers the trade policy objectives for the future, I would encourage this Subcommittee to create a policy which takes into account the needs of all citizens. With welfare reform, entry level positions in manufacturing and service industries may be of increasing importance. It is critical that Congress assure that our trade policy does not eliminate the hope of those who must find a place in the workplace in the months and years ahead. Education, training and other issues can help many and can certainly be used over the long haul. There are, however, people who must find work now. Surely, our trade policy objectives can reflect the needs of all citizens.

Sincerely,

Terence P. Stewart

Exhibit 1

Current Account Balance Excluding Exceptional Financing

[In Billions of U.S. Dollars]

	1990	1991	1192	993	994	1995
United States	(92.9)	(7.7)	(62.0)	(99.7)	(150.9)	(153.0)
Canada	(22.6)	(24.6)	(22.6)	(23.4)	(17.3)	(8.7
Japan	35.9	68.4	112.3	132.0	130.6	111.2
France	(9.9)	(6.5)	3.9	9.0	8.1	17.5
Germany	48.3	(18.8)	(21.5)	(15.1)	(21.4)	(19.8)
Italy	(17.6)	(24.6)	(29.5)	9.4	14.9	25.71
United Kingdom	(33.5)	(15.3)	(17.2)	(16.6)	93.0	(10.6)

Source: International Financial Statistics 1996 Yearbook at page 134.

Budget Deficits

[In Billions of U.S. Dollars]

	1990	1991	1192	993	994	1995
United States	(218)	(273)	(289)	(254)	(202)	(160)
Canada	(18)	(21)	na	na	na	na
Japan	(47)	58	12	(66)	na	na
France	(25)	(15)	(52)	(68)	(73)	17.5
Germany	(24)	(38)	(47)	(47)	na	na
Italy	(121)	(123)	na	na	na	na
United Kingdom	7	(10)	(53)	(62)	na	na

na=Not available.

Source: International Financial Statistics 1996 Yearbook.

Budget Deficits as a Percent of Gross Dometic Product

	1990	1991	1192	993	994	1995
United States	−4%	−5%	−5%	−4%	−3%	−2%
Canada	−3%	−4%	na	na	na	na
Japan	−2%	2%	0%	−2%	na	na
France	−2%	−1%	−4%	−5%	−5%	na
Germany	−2%	−2%	−2%	−2%	na	na
Italy	−11%	−11%	na	na	na	na
United Kingdom	1%	−1%	−5%	−7%	na	na

na=Not available.

Source: Computed from information shown above.

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