

STATEMENT BY MICKEY KANTOR BEFORE THE
UNITED STATES SENATE FINANCE COMMITTEE

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Thank you Mr. Chairman, Senator Baucus and members of the Committee for the opportunity to appear before you today.

The shaping of international trade policy is not a theoretical exercise. There are profound consequences to the choices the United States will make as we pursue an ever more expansive trade agenda in a world driven by globalization. This agenda requires U.S. attention and leadership, poses questions and challenges which are daunting, requires consensus and has direct consequences for the American people.

In order to construct consensus, U.S. policy makers need to develop credibility for a realistic, pragmatic trade regime. It is no longer true that we, as a nation, either do not see or care about the connection between trade and our economy. It is clear that the U.S. economy is no longer self-contained – those days are long past. Our standard of living, jobs, economic growth and international influence and leadership are inextricably connected to trade policy choices. Although U.S. pursuit of new agreements and, therefore, expanded markets through trade agreements have dramatically risen in the last decade, a strong consensus on open trade has not developed.

This is the area of concern where I would like to offer a few observations. Hopefully it represents a practical analysis. How do we realize the benefits of trade against a backdrop of deep public concern, indeed, in some cases, strident opposition? How do we take advantage of the potential of the global economy in the face of tear gas in the streets of Seattle? How do we continually and constantly build support among American workers, farmers, consumers and business people for an aggressive international trade agenda?

Many of our challenges will involve political questions – but we must not allow them to become partisan questions. No significant trade legislation in our modern history has been achieved without bipartisan consensus. Look at the last decade: Fast Track in 1991, NAFTA in 1993, the Uruguay Round in 1994 and PNTR for China last year – all of these required bipartisan leadership and a bipartisan majority. No future trade initiative will be possible without support from both sides of the aisle.

The challenge we face is how to achieve success while confronting difficult hurdles and obstacles. Any consensus must not only satisfy a bipartisan majority in the Congress but address the pressing concerns of the American people. It is, therefore, imperative that we build lasting credibility with a pragmatic trade policy. Common sense dictates that we not only promote and implement a policy that addresses the needs and concerns of U.S. workers, farmers, consumers and businesses but also recognizes the aspirations of developed and developing nations alike.

For the United States we must implement policies that keep us competitive, ensure that growth is sustainable and reflect our values. It must be an approach that appreciates that economic security has become a vital part of national security in an interdependent world, driven by technology and ever more globalized.

In broad terms, it dictates agreements that continually eliminate trade barriers, create enforceable rules, harmonize standards in an upward direction, ensure that we finally reach a level playing field as to obligations and that recognize legitimate issues of sovereignty.

Not everyone wins in the short term as a result of individual trade agreements. Some people will lose their jobs. Therefore, U.S. workers must be able to rely on a vigorous trade adjustment assistance program supplemented by new ideas and programs, such as wage insurance, that will result in less anxiety and pain for these workers.

The developing world must view continuing trade expansion and more open markets as beneficial – both short and long term. Trade policy cannot be developed in a vacuum. Debt restructuring or relief, longer phase in of trade obligations and the opening of markets in the developed world to the least developed economies will help build trust and support.

In my view, a long term trade agenda would involve new bilateral agreements, address serious problems with the European Union and accelerate liberalization of the Asia Pacific Economic Cooperation Forum (APEC). These would serve as stepping stones towards larger multilateral progress. Second, we need to take on new challenges such as bribery and corruption in international trade, how to deal with worker rights and the environment in trade policy, digitized trade, discrimination against U.S. audio-visual products and the requirement that we successfully negotiate services and agriculture in the WTO.

The obvious starting point is to address the pending trade agenda – the trade agreement with Jordan, the Vietnam agreement, the reauthorization of GSP, the Andean Trade Pact and a strengthened approach to promoting the earliest implementation of the Free Trade Area of the Americas (FTAA). The Administration is pursuing this agenda and deserves support for their efforts.

But in order to pursue a vigorous trade agenda, trade promotion authority (TPA) for the Administration is vital – both symbolically and in real terms. It is difficult to initiate trade negotiations without such authority and even more difficult to complete an agreement in the absence of what we formerly called “fast track.” More significantly, TPA symbolizes our national commitment to trade expansion and international leadership. President Bush and Ambassador Zoellick need this authority in the form of legislation that builds credibility for trade and is supported by a bipartisan majority. Ambassador Zoellick has indicated the Administration’s support for this approach and I applaud him for it.

The debate surrounding TPA has, in the last number of years, been largely an argument over principal negotiating objectives. The controversy has focused on whether or not TPA would involve core labor standards and environmental protection as principal negotiating objectives. Two points should be made clear:

1. Labor and environment are only two vital areas, in addition to traditional objectives, which should be in TPA legislation. Other areas should be covered as well including digitized trade, bribery and corruption, agricultural issues such as state trading corporations and export subsidies, audio-visual concerns and biotechnology;

2. There are substantial reasons, economic and political, which dictate that labor and environmental concerns should not only be included in TPA but these issues should be treated exactly like other negotiating objectives, e.g., investment and intellectual property rights. It is important to note that both the Business Round Table and the AFL-CIO support the inclusion of labor and environmental provisions in principal negotiating objectives.

The inclusion of core labor standards in the principal negotiating objectives of the TPA is justified, indeed mandated, by reason of economics, credibility and values. If we are going to be successful in constructing a supportable policy it must ultimately rest on creating a level playing field for U.S. business and workers, grounded on standards that are “harmonized up,” not an exercise in a race to the bottom. These core labor standards which have been endorsed through the International Labor Organization (ILO) by nearly every nation on earth include:

- Elimination of forced labor
- Practices that abuse child labor
- Freedom of association and the right to collectively bargain
- Elimination of discrimination in respect of employment.

As recently as 1994, multilateral trade rules did not cover agriculture, services, investment or intellectual property. It would seem bizarre today not to discuss new trade arrangements in the absence of these subjects. Increasingly the global economy made inclusion of these topics essential to a meaningful discussion of world trade. Subjects heretofore considered internal to a country’s economy now have profound external implications. We are truly “in each other’s pockets.”

The other side of this rhetorical coin is that the inclusion of worker rights or environmental rules in trade agreements has long been a staple of U.S. trade agreements and legislation. The 1988 Trade Act included worker rights as a principal negotiating objective – similarly GSP, Section 301, the NAFTA, the Caribbean Basin Economic Recovery Act, the African Growth and Opportunity Act of 2000 and the 1999

U.S.-Cambodia Textile Agreement, have included these types of provisions.

A country's failure to adhere to core labor standards constitutes an unfair comparative advantage. U.S. workers, businesses and farmers are put at a comparative disadvantage if core labor standards and the environment are not included in new trade agreements. A legitimate comparative advantage might include the cost of financing, land cost, proximity to market, special skills or wages. But not, by contrast, child or forced labor or denying freedom of association or denial of any other core labor standard. A failure to enforce core labor standards through trade agreements places U.S. goods and services at a disadvantage and tempts business to relocate to the detriment of U.S. workers.

But our trading partners will also be well served by these commitments. Studies indicate that the implementation and enforcement of core labor standards tends to grow the GDP of the initiating country. In addition, support for a market economy and enhanced democracy are aided by these changes. Studies also indicate that the size of the middle class increases, as does the stability of the country. In the short term, by contrast, exports from nations which implement these standards will shrink but later will recover.

Implementation and enforcement of core labor standards will raise standards of living and thus spread the benefits of trade. To the extent these benefits inure to more and more people, income gaps will tend to shrink.

Legitimate competition in trade as well as stability and economic growth lend credibility to trade and trade policy. The support of the American people for an expansive trade policy is dramatically enhanced. For example, a study of U.S. public attitudes entitled "Americans on Globalization" commissioned by the Center for the Study of Public Attitudes and the Center for International and Security Studies at the Maryland School of Public Affairs, University of Maryland, dated November 22, 1999 found:

In principle, a majority of Americans supports the growth of international trade. However, the benefits of trade to date are seen as barely outweighing the costs for most sectors of society, except for the business community. A strong majority feels trade has not grown in a way that adequately incorporates concerns for American workers, international labor standards and the environment. Support for fast track is low, apparently because it signifies the increase of trade without incorporating these concerns. Americans are very quick to favor withholding trade in support of these and other concerns. To the extent these concerns are addressed, a strong majority said it would support the further growth of international trade.

Americans indicated overwhelming support in the poll for two central concepts — a reciprocal lowering of trade barriers and a desire for labor and environmental concerns to be included in trade agreements.

In the cited poll, 61 percent of Americans agreed that America should lower its trade barriers if another country is "willing to lower its barriers to products from the U.S."

The following question was asked in the same poll:

Currently there is some debate over whether the World Trade Organization (WTO) should consider issues like labor standards and the environment when it makes decisions on trade. Some say the WTO should consider these issues because they are closely related to trade. . . . Others say the WTO should not consider these issues because . . . trying to bring in these other concerns will interfere with the growth of trade. Do you think the WTO should or should not consider [these issues] when it makes decisions about trade?

By a huge majority, 78 percent of Americans believe that the WTO should consider labor and environment when it makes decisions, versus 18 percent who disagreed.

Given the strength of the economic argument for workers' rights and environmental considerations in trade agreements, it would be appropriate to note this approach similarly supports American values. Certain broad principals should underlie our approach to these issues:

Labor and environmental provisions should be treated like any other principal negotiating objective, both as to standards for enforcement and the means of enforcement to be used in the event of a violation. All trade obligations should be treated equally.

Agreements should ensure that standards are harmonized upward.

A full range of enforcement mechanisms should be placed on the menu of options including consultation, negotiation, incentives, fines and trade sanctions. Any enforcement mechanism concerning any of the many commitments made in an agreement should be as flexible as possible, tempered by the assurance of enforcement.

The enforcement mechanism should cover actions and lack of action which "affect trade" and require, among other considerations, that parties effectively enforce relevant domestic laws.

The existence of sanctions as part of a menu of alternatives in a dispute settlement mechanism makes an enormous difference when it comes to effective enforcement. In many cases, the credible threat of sanctions was critical to achieving the desired result. We saw this with beef in Korea, with IPR protection in China, with magazine sales in Canada – and in a host of other disputes.

Again, it is useful to turn back the clock ten years. At that time, public confidence in the old GATT system had cratered. Why? Because no effective mechanism existed to enforce obligations. As the GATT system proved, lack of a credible enforcement system leads to lack of compliance. Lack of compliance, in turn, results in a diminution of confidence and is part of what makes the public cynical about international trade.

Winning public support for trade requires us to keep up with the times – to continue to address the issues that arise as the world economy evolves. One clear example today is the digital economy. When we concluded the Uruguay Round in 1993, there were a grand total of 130 sites on the World Wide Web. Today, there are 476 web sites devoted to pop singer Britney Spears alone. E-commerce is a business as large or larger than most of the world's economies.

Our trade policies have not caught up.

The Internet and electronic commerce have changed the way we do business in the digital economy and our trade policies must keep pace. Today more than 300 million people around the world are online; by 2005 about one billion people will be connected to the Internet, and by 2004 business-to-business electronic commerce will grow to more than \$7 trillion. Given the importance of this sector, U.S. negotiators must ensure that new trade agreements safeguard intellectual property and facilitate trade in digital goods and services. This is one further example of an issue which must be dealt with.

There is another area which I believe is critical to any discussion of strengthening the constituency on international trade – and that is enforcement of our domestic trade laws. These laws, including Section 201, our antidumping and countervailing duty laws and Section 301 – all seek to address specific problems with international trade.

Our domestic trade laws provide remedies for some of these abuses – and we should apply our laws without apology.

Make no mistake, when we use our laws we will face international criticism – though our laws are fully consistent with the WTO. What's even more irritating is the criticism we will hear from the so-called trade experts in the media and at think tanks, most of whom have never been within ten miles of a trade negotiation. They will say that application of our domestic trade laws violates the sanctity of "free trade." They're wrong. It is a failure to enforce our trade laws that undermines free and open trade. Americans are far more likely to support future trade negotiation if they believe that their government is their champion. In some cases, that will mean tough action through the WTO – or through our domestic trade laws.

Our Constitution gives Congress primacy on international trade. Our domestic trade laws are one manifestation of that primacy and I encourage you to continue to play a role as strong advocates of the U.S. national interest.

It is not in the U.S. interest to indicate that our domestic trade laws are subject to alteration in a trade negotiation. By suggesting

publicly or privately that U.S. trade laws are open to negotiation, public support is undermined.

Drawing lessons from history is an easier task than charting the future. In the area of international trade our experiences over the past century provide clear guidance. The U.S. economy has always prospered when we have opened ourselves to international competition. By contrast, our history has also witnessed the crippling effects of closing our borders to trade.

Building credibility for open trade in the U.S. will continue to challenge your wisdom and patience. Your leadership in ensuring that we address an ever more interdependent world by strengthening and enforcing our domestic trade laws and trade agreements, taking on the new issues of trade and paying attention to the legitimate concerns of the developing world, will serve us well.

Our broad course may be obvious – but that does not mean it is easy. American leadership on the international stage has always required the support of the American people. We are still seeking the formula that will result in strong support of the American people for international trade. Clearly, a true spirit of give-and-take will be necessary.

This Committee has placed itself in the middle of a critical discussion about how to strike that formula. I look **forward to being part of that discussion today.**