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Before the Committee on Finance
United States Senate
June 20, 2001

AMERICAN TRADE POLICY: The Importance of Trade Promotion Authority

Mr. Chairman and other members of the Finance Committee,

I appreciate the opportunity to appear before you once again to discuss US trade policy.

Considerable progress was made on trade in the last decade: NAFTA in 1993, the Uruguay Round in 1994 and China PNTR in 2000; agreements on telecommunications and financial services; numerous enforcement agreements; plus two recent bilateral agreements with Jordan and Vietnam.

But for the last few years the US has been severely handicapped in its ability to conduct major negotiations. And it remains so today — even as our closest trading partners, in this hemisphere and around the world, conclude preferential trade agreements to which the US is not a party. Many of these agreements will damage America's trade interests.

The most urgent next step in American trade policy is to develop the critical mass of domestic support necessary for the US to advance its international economic interests in this decade. This will require strong leadership by the president. The history of American trade policy demonstrates that very little happens without strong and persistent White House leadership — with the president himself leading the campaign. It also requires strong efforts by the Congress — which constitutionally and politically is a central player in all aspects of trade policy.

The critical ingredient required now to reestablish the US global leadership and credibility in trade — and to advance this country's economic interests in this hemisphere and globally — is prompt passage of Trade Promotion Authority. In many ways a vote on TPA — coming at a time when concerns have arisen abroad about the direction of American foreign policy and the appearance that the US is pulling back from involvement with the rest of the world — will be seen as a referendum on whether this country will sustain its leadership role on global economic issues or will let it lapse. In the latter case the void might be filled by others whose interests are not the same as ours — or the global trading system could fragment and become vulnerable to increasing economic nationalism.

BACKGROUND

Expanding global trade and investment over the last 50 years have provided enormous benefits for American workers, farmers, consumers and, businesses. We tend to take it for granted today, but this experience is in sharp contrast to the horrible economic mess the US and world got themselves into after World War I — when American leadership faltered. Protectionist measures and international financial instability were among the major factors that led to the Depression.

We should not forget the lessons of this period — nor let our leadership of the global economy be derailed by internal divisions or by complacency that the world economy will work just fine whether the US is an effective leader or not! Nor should we let the current weakness in the US economy and the world economy block progress. Trade liberalization can provide a boost to growth. Reduction in many kinds of trade barriers is equivalent to a stimulative tax cut.

Access to growing foreign markets has been a vital factor in America's economic growth for several decades, especially for our most productive sectors, such as high technology, agriculture, high value added manufactured goods, entertainment and financial services. And competitive imports have reinforced the dynamism of our economy, while broadening consumer choice, and holding down the prices of many products, to the benefit of millions of households. Chairman Greenspan made this point eloquently in testimony before this committee earlier this year.

US leadership in promoting trade liberalization has been essential to secure these benefits for the American people. It also has been vital to this country's ability to remain a strong and effective leader on global political and security matters for the last 50 plus years. If we now turn our back on global trade leadership we will weaken our global political leadership as well.

In recent years advocates of open, rules-based, transparent and non-discriminatory trade — and supporters of American leadership in the world economy — have been on the defensive. The benefits of expanding trade and investment are too often neglected, while vocal criticism of US trade policy, the WTO and globalization tend to get more visibility and public attention. The role of a strong global economy in maintaining a strong American economy is too often ignored.

It is now a matter of great urgency for President Bush, members of the Congress and leaders of the business community and other interested groups in our country to present more forcefully, and to a broader range of our citizens, the very compelling case that exists for sustaining freer trade and investment and for the extension of market-oriented rules to a broader range of countries and sectors.

By sitting on the sidelines while other countries negotiate their own preferential bilateral and regional trade agreements, the US is suffering considerable damage to its economic interests and to its position as global leader.

In making the case for expanding trade and for improving the rules of the trading system, it is important to address concerns that have been raised in recent years about the impact of globalization on jobs in our country, on the environment and on economic development in the poorer nations of the world. It is also important to refute the charge that the WTO and global trade agreements are simply designed to benefit big corporations at the expense of larger groups of citizens, and therefore are inherently undemocratic. Unless these concerns can be successfully addressed, distrust of trade institutions and resistance to further global trade liberalization is likely to grow.

The US needs a coherent and compelling trade strategy that Americans perceive as serving this country's interests.

Passage of Trade Promotion Authority must be the cornerstone of that strategy. Such authority is critical to this country's ability to execute an effective trade policy — not simply because it is legislatively important. It is important also because it provides political support for US trade policy and for America's negotiators, strengthening their credibility in international negotiations. The absence of such authority puts our negotiators at a significant disadvantage. It also gives other countries an excuse not to negotiate on issues important to the US in a new FTA negotiation or in the new global trade round to which President Bush and European Union leaders committed themselves to last week at Gothenburg.

Regarding the contentious issue of how to handle labor and environmental standards, I find it difficult to see a way of getting TPA without some wording which sets improvements in these areas as a US objective. Negotiators should, however, be given the flexibility to find areas where progress can be made without any specific outcome being mandated or any specific test for success being imposed. Congress will in any case have the last word on whatever is negotiated — and will be consulted throughout the negotiating process.

Let me now address these subjects in greater detail.

REINVOGORATING AMERICAN LEADERSHIP OF THE TRADING SYSTEM

Notwithstanding considerable progress in many areas in the 1990s, and despite the best efforts of many political leaders and officials in both parties, the US currently is at a disadvantage when it comes to major global trade negotiations and significant regional trade expansion activities. We are at a disadvantage because of divisions at home over our trade objectives and lack of TPA legislation that would make us a more credible negotiator and leader — as in the past — of trade liberalization in this hemisphere and worldwide.

During the last decade, according to a report recently released by the Business Roundtable, other nations concluded roughly 130 preferential trade agreements. The US concluded only three — although one, of course, was the highly significant NAFTA, whose trade benefits were far greater than any of the others by a considerable margin.

Nonetheless, the proliferation of preferential agreements among other nations — including major US trading partners such as Mexico, Canada and the EU — is harmful to US trade interests. These agreements provide their members with preferential access to one another's markets — while disadvantaging American agricultural products, manufactured goods and many services. Some American companies can overcome such barriers by producing abroad. But many (particularly small and medium-sized companies) cannot.

American workers and farmers are at a particular disadvantage. They cannot easily relocate across borders. Moreover, those concerned with the rights of workers and the environment abroad surely cannot take pleasure in knowing that negotiations are taking place among other nations in which American influence on these subjects — however inadequate they may deem such influence to be — is non-existent, because the US is not even at the table.

There are currently more than 20 sub-regional and bilateral trade pacts in Latin America and the Caribbean alone. Many more are being planned. Since 1997, when the Clinton administration failed to obtain “fast track authority,” Chile has negotiated preferential deals with Mercosur, Canada and Peru. The EU has recently signed a free trade agreement with Mexico; it is now in talks with Mercosur, Caribbean nations and Chile.

To cite the consequences of but one of these agreements — in the Canada-Chile FTA Chile has eliminated its across the board 11 percent tariff for Canadian goods while US exporters continue to pay that duty. Extrapolate from this example the many other agreements of a similar nature around the world and you see the complexity, and kind, of new impediments American exporters face. I might add that over twenty new agreements of a similar nature have been proposed for preferential trade among Asian nations.

The Business Roundtable Report correctly warns that FTAs in which the US is not a member are harmful to American interests not only because of higher tariffs but also because they “provide fertile ground for preferences” in such areas as telecommunications and financial services. And they permit other nations to “embed their national or regional design and engineering technologies in the standards and regulations adapted by other countries” as well as set harmful precedents by, for instance, adapting agreed rules on e-commerce that are inconsistent with US interests.

Were this process to continue and broaden, American, exporters and workers would suffer more discrimination with respect to tariffs, non-tariff barriers, and services — and be vulnerable to more discriminatory product standards, regulations, investment requirements, etc.

Moreover, if the US does not enjoy the benefits of special trade access, its products and services are more vulnerable to the imposition of new barriers abroad. Under NAFTA, Mexico kept its markets open to US goods following the peso crisis earlier in this decade, in contrast to its imposition of restrictions against US exports during the peso crises of earlier decades. In contrast, during the financial instability in

the late 1990s, new barriers were imposed on imports from the US by other countries in this hemisphere, with which the US had no bilateral trade agreements.

A RECORD OF SUCCESS ON TRADE

The broader point, however, is that in addition to the need to take the initiative on trade liberalization in order to avoid growing discrimination against American products, there are a broader set of benefits from trade expansion to be realized. Many of these tend to be overshadowed or drowned out by critics of US trade policy and globalization.

Great progress was made on trade in the last half century to the benefit of large numbers of Americans and citizens of many other nations as well. Since 1992 alone, world tariffs have been cut by one third, industrial goods quotas have been eliminated and there have been tighter rules imposed on subsidies. American exports have risen by 75 percent during this period. Trade rules have been broadened to reduce distortions on a wide range of agricultural goods, services and intellectual property. A growing number of developing nations, and those in transition from socialism to the market, now see participation in the global trading system as enhancing their domestic reforms. The recent success of Ambassador Zoellick in Shanghai underscores that China's leaders fully understand that by participating in the market-oriented rules of the world trading system they give renewed impetus to their own domestic efforts to restructure their state enterprises and agriculture.

There has been a tendency on the part of some detractors to blame global competition and technological change for disrupting economies and costing jobs — for harming the environment and undermining workplace standards. The facts however tell a different story. Foreign trade and investment are playing an instrumental role in helping large numbers of people in this country and others to enjoy higher standards of living and providing consumers with a wide range of competitive products from which to choose. From our farms to our factories, from our insurance companies to our software producers, exports have been vital to the growth in high-value-added jobs, increasing corporate profits and creating incentives to invest in new technologies and to adopt competitive new business models.

A few facts are in order here. In contrast to arguments that freer trade is harmful to American domestic interests, the following points prove otherwise. In the last decade, as the US was implementing both the Uruguay Round and NAFTA, unemployment fell below 4 percent, US growth and investment set a record for their duration, and inflation plummeted. US industrial production grew by nearly 50 percent. There was no compromise of environmental standards. And small- and medium-sized businesses benefited greatly — accounting for over 90 percent of this country's exports.

For the one-half of American households who own stock, exports have been an important source of strength for companies in which they have invested. For those who are concerned by the recent drop in the stock market, imagine how much worse it would be if this country were to accept the notion that trade expansion and open markets were harmful to our interests and were to retreat from our global role as leader in negotiating trade expansion. We know from the experience after World War I how dangerous to

stockholders and to the entire economy — most especially American workers — such a strategy is.

Those who argue that trade and investment have hindered development in the world's poorer nations ignore the fact that large Asian countries such as China and South Korea, poorer African nations such as South Africa and Mauritius, and modernizing Latin American nations such as Chile and Mexico have harnessed the benefits of trade and investment to lift large numbers of their citizens out of poverty.

Former Mexican President Zedillo and his successor President Fox are both strong advocates of harnessing the competitive forces of international trade to their country's advantage. As President Zedillo put it, "In every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets and opening itself to the influx of foreign goods, investment and technology — that is by participating in globalization. Truly progressive minds sincerely committed to the advancement of poor people in developing countries should be converted into firm allies, not enemies, of globalization."

In most cases foreign factories have raised workplace and environmental standards in developing nations — and those countries that have experienced rapid growth due to trade have more resources to devote to social and environmental problems. It is the most closed economies — those behind the old Iron Curtain, for instance — that have demonstrated the lowest regard for workers' rights, the environment and other social considerations. The more closed the economy the greater the likelihood that very large numbers of its citizens suffer from poverty and poor environmental practices — and are deprived of access to the flow of communications, commerce, visitors and ideas that enhance human liberty and creativity.

The vast majority of environmental problems, child labor abuses and poor workplace standards would exist even if there were no foreign trade or investment, because they reflect the stage of development of the country in question or the type of domestic policy it pursues. More, not less, trade and investment have proved to be the best way to improve workplace and environmental standards and reduce poverty.

Those of us who have seen and experienced the benefits of expanding trade and investment opportunities have not made a strong enough case to a broad enough group of citizens for trade liberalization, harmonious regulatory practices and the need for effective multilateral rules for the global trading system. Whatever its imperfections, a rules-based, market-oriented system is far better than one based on arbitrary decisions of governments — or a system that fails to promote open, non-discriminatory commerce. If the current system breaks down into discriminatory regionalism or aggressive beggar-thy-neighbor policies, prosperity and political cooperation around the world will suffer.

THE RESISTANCE

Some fear that globalization — and the WTO — will lead to a new race to the bottom in so far as labor rights and environmental standards are concerned. One

common argument is that the WTO, and the trading system in general, should be harnessed to press nations to improve labor and environmental policies — with penalties if they do not. But it also is argued by some that the WTO is too powerful and can impose its will on the US to compromise domestic environmental policies and goals.

The WTO cannot be a source of leverage in behalf of every good cause or desired improvement — however meritorious — in areas outside of trade policy. So, for the most part, other means of achieving such goals will have to be employed.

In this regard increasing the role and authority of the International Labor Organization (ILO) should be a high priority. It should be done in parallel with efforts to increase trade liberalization.

Where domestic measures in areas other than trade do have an effect on trade flows — for instance environmental or health standards that discriminate against imports, or subsidies that both distort trade and lead to wasteful use of natural resources —WTO rules can play an effective role.

Government officials would clear up a lot of misimpressions by better explaining the limits of the WTO's influence in pressing governments to take actions that are not linked closely to trade as well as the areas of domestic policy in which it has a legitimate role because they are linked closely to trade.

How such issues are dealt with in coming years will play a critical role in determining how effective US trade policy will be. Some in this country are concerned that tying market access to the achievement of improved environmental standards or workers rights — with trade penalties imposed for violations — will lead to a spate of new import restrictions. And many developing country leaders see them as a subterfuge to justify the imposition of new barriers against their goods.

At home labor unions are concerned about competing imports and investment moving abroad to take advantage of countries with low labor and environmental standards. And environmentalists fear that some countries will lower standards to maintain competitiveness or attract investment — or that some kinds of production and exports degrade the environment. In some cases there is a feeling that the system serves corporate interests at the expense of others.

This longstanding set of issues and tensions is not likely to be resolved soon. But it is not in the interest of this country, or those favoring improved environmental or labor standards, to hold up progress in resolving a wider range of trade and investment matters because of an impasse on these controversial issues. Even the most ardent advocates of improvements in labor and environmental standards should recognize that as other nations reach agreement on Free Trade Areas among themselves, and develop strategic trade alliances that do not include the US, American influence in the trading system will diminish. So the US will have less and less ability to achieve even modest progress in these areas. Specifically, the more trade agreements reached among economies that resist many of the things unions and environmentalists want, the weaker the US influence on such issues ultimately will be.

NEXT STEPS

The key point now, it seems to me, is for Congress to pass TPA as soon as possible. If language on labor and environmental standards is to be included in this legislation, as those close to the Congress tell me it must in order for TPA to pass, it should (as suggested in earlier in this testimony) designate progress in such areas as an objective — without tying our negotiators down to specific outcomes (which we would not do on other items either). And TPA legislation should avoid a “cookie cutter approach” — which calls for one formula on these issues, or one set of criteria for judging progress, to be used in every trade negotiation and with every country.

Labor and environmental issues were covered differently in NAFTA and in the US-Jordan Free Trade Agreement. Other constructive proposals have included eliminating environmentally damaging subsidies in areas such as agriculture and removing barriers to trade in environmental goods and services. Some of these formulas, or others, might be tried in the FTAA, for instance.

In the case of Canada, for example, a country in which public opinion is strongly in favor of environmental and labor rights, an accommodation was reached with Chile, which addressed these issues without turning the subject into a lever for protectionism.

Congress should give US negotiators the flexibility to come up with arrangements to address these issues without ex ante tying them to any particular formula. An ongoing consultative process between Congress and US negotiators is preferable to putting negotiators in a legislative straightjacket.

It might be possible in some cases to negotiate a few additional bilateral trade agreements without TPA. But this is far from certain. Even Chile has said it would take the precaution of not submitting legislation to its congress until the final deal was first passed by the US Congress. But there is an enormous difference between relatively narrow bilateral agreements and a broader FTAA or a new WTO round. Absence of TPA would deprive US negotiators of needed credibility and be seized on as an excuse by other countries to hold back in the negotiations or to avoid addressing the tough issues on which the US wants to make progress.

Efforts to develop a consensus to pass TPA should be undertaken urgently with the White House and in the Congress. The White House and Congress should also recognize — as I know many in this Committee do — that in a substantial number of cases countries with which the US is negotiating will refuse to include toughly worded, or in many cases any, provisions that relate their performance on such issues to market access in the US, or any other nation, if such provisions make them vulnerable to trade restrictions. In such cases other means will be needed to advance labor and environmental goals.

The US should be prepared to use its market and its influence to try to achieve improvements. Giving consumers more information about environmental and labor practices — utilizing private sector monitoring groups or voluntary standards — could harness the force of the market to improve conditions. Consumers could incorporate

their view of a country's or company's labor, human rights or environmental practices in their purchasing decisions. The transparency provided by the Internet is increasingly being utilized to convey information on such practices.

The challenge is to address legitimate labor and environmental issues without imposing new barriers on international trade and investment, the growth of which will reduce poverty and improve living standards in developing nations. Trade agreements could in some circumstance promote US objectives in these areas. Other institutions like the ILO and the multilateral/regional development banks also can be very useful in improving both labor and environmental standards.

CONCLUSION

The US needs to get off the sidelines and back into its accustomed role of leader of the global economy — again spearheading the process of trade liberalization and championing improvement of institutions of the global economy. The longer we wait the more harm will be done to our economic and political interests. The more effective our leadership, the greater the potential benefits to millions of American workers, farmers, consumers and businesses. New Trade Promotion Authority is needed. So is broader public support and understanding of this country's central objectives in the global economy.