Testimony of

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On Behalf of
The National Association of Manufacturers

Before the
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On
Ongoing U.S. Trade Negotiations

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Mr. Chairman and Members of the Committee:

I am Don Wainwright, Chairman and CEO of Wainwright Industries and the current Chairman of the National Association of Manufacturers (the NAM). Wainwright Industries is a family-owned St. Louis manufacturer of stamped and machined products for the automotive, aerospace, home security and information processing industries. Like so many small and medium-sized U.S. firms today, my company and its 275 employees are strongly affected by international trade.

I am pleased to testify this morning on behalf of the National Association of Manufacturers about the importance of ongoing trade agreements. The NAM represents 14,000 manufacturing companies. Ten thousand of the NAM's members, Mr. Chairman, are small and medium-sized firms like mine.

At the outset, I want to commend Ambassador Zoellick for his outstanding leadership as U.S. Trade Representative. In our view he has worked tirelessly and intelligently to move the United States into a stronger position of trade leadership. I want particularly to point out the importance of his achievements at the Doha Ministerial meeting of the World Trade Organization (WTO), where he not only played what appears to be the key role in launching the new round of trade negotiations, but also shaped the talks to favor both furthering trade liberalization and achieving U.S. trade goals.

MANUFACTURING'S ROLE IN TRADE

I would like to begin my remarks by reviewing the importance of manufactured goods in the U.S. trade position, and the importance of trade to our manufacturing industry.

America is the world's largest exporter of manufactured goods. While manufacturing accounts for a little less than one-fifth of U.S. economic output, it accounts for close to 90 percent of total U.S. merchandise exports – nine out of every ten dollars of all the goods we export. Agricultural products account for about 7 percent of U.S. merchandise exports, and minerals for about 3 percent. Similarly, manufactures represent 83 percent of our imports and 74 percent of the U.S. merchandise trade deficit.

Trade is of great importance to America's manufacturing industry. One in every five American factory workers owes his or her job to U.S. exports of manufactured goods. Research by the NAM shows that industries that are heavily engaged in trade are those that pay the highest wages. Employees in trade intensive industries in 2000 (those in which exports and imports combined were more than 40 percent of their domestic output) paid an average annual compensation of more than $61,000 – 33 percent more than those that are the least trade-intensive.

Until recently, exports have been the fastest-growing part of our industrial economy, and we need to see more of this growth. But standing in the way of further beneficial trade growth are two factors: first, the excessively strong dollar that has appreciated 30 percent since 1997 and severely hampered U.S. firms in world markets – and at home as well. And second, the fact that America's manufacturers face a playing field that is not level. U.S. tariffs on manufactured goods imports are extremely low, making us one of the most open markets in the world – but in many parts of the world, particularly in the rapidly-industrializing developing countries, we face high barriers that limit the sale of U.S.–made products. That is why the agenda of new trade negotiations is so important to our future growth and prosperity.

OVERVALUED DOLLAR

As important as the agenda of trade negotiations is, American manufacturers' most urgent need is for the U.S. government to end the overvaluation of the dollar that is crippling our ability to export. America's manufactured goods exports have plunged over $115 billion in the last 18 months – largely due to the fact that the dollar has risen 30 percent against major currencies. The dollar is now at its highest level in 16 years.

Mr. Chairman, that 30 percent increase in the cost of the dollar has the same effect on us as imposing a new 30 percent tariff on the products we make. The result has been devastating. The companies that are being hardest hit are those that have devoted the most energy to selling abroad – particularly in the high technology areas. I was appalled to learn that since August 2000 America's exports of advanced technology products (electronics, telecommunications, aircraft, etc.) – have fallen 25 percent. America's best and most productive companies are being affected. They include firms that have received the coveted President's Export Excellence award and companies that have been cited as the most innovative in America.

As the owner of a small company, I was also saddened to see that the NAM's annual survey of small and medium-sized firms shows that the proportion of those who export at least 25 percent of their production, after rising throughout the 1990's has now fallen to the lowest level since the survey was started in the early 1990's.

The NAM has been seeking action on the part of the Administration to work with other major countries to end the overvaluation of the dollar and undervaluation of other major currencies, and I hope the committee takes a closer look at this.

TRADE PROMOTION AUTHORITY

Turning to the trade policy agenda, Mr. Chairman, let me stress the NAM's view that effective Trade Promotion Authority (TPA – or "fast track") is vital if the United States is to negotiate good trade agreements. TPA is critical to advancing and completing the various trade initiatives we are discussing in today's hearing. We are convinced our negotiators cannot obtain deep cuts in other countries' trade barriers unless our trading partners can be reasonably certain that the deals they strike are final and will not be changed by the U.S. legislative branch.

The NAM urges the Senate to take action to approve a TPA bill on a bipartisan basis at the earliest possible point this legislative session. The bill reported out by your committee by a strong bipartisan vote would seem to be exactly the type of legislation that can garner strong support on both sides of the aisle for final passage. We hope members of this committee will urge the rest of the Senate to move promptly, and that we can see TPA on the floor of the Senate, if possible, by the end of this month.

We recognize the relationship between effective trade adjustment assistance (TAA) and new trade agreements, and are supportive of an improved approach to TAA. We believe it is essential, though, that such an initiative be developed on a basis that can garner strong bipartisan support and also be reflective of budgetary realities.

THE DOHA DEVELOPMENT AGENDA

The NAM welcomes the launch of the Doha Development Agenda, the new round of multilateral trade negotiations initiated at the World Trade Organization (WTO) Ministerial meeting in Doha, Qatar. In this era of increased globalization and unprecedented economic integration, continued international engagement and strengthening of global trade rules is vital to creating a modern world in which goods, services and capital can be more freely exchanged to all societies' mutual benefit. The Uruguay Round was an important step in this regard. But it only took us so far. There is unfinished business – and much of it will be tackled in the Doha agenda.

The negotiations are called the "Doha Development Agenda" for good reason – it is time that the developing countries, particularly the least developed, become more integrated into the global trading system and obtain more of the gains from trade. The NAM fully endorses this, but we want to stress that many of the gains to developing countries will come from reducing their trade barriers and opening their own markets – just as we have gained from our own market openness.

The NAM recognizes that at the center of the WTO negotiations is the effort to address long-standing barriers to trade in agriculture, a sector which has not benefited from liberalized trade and global rules to the extent enjoyed by the manufacturing sector. We fully support the spotlight on agriculture. However, the focus on farm trade must not be to the exclusion of a priority on addressing the substantial barriers to manufacturers' trade that we still face.

Given manufacturing's overwhelming role in America's global trade portfolio, a considerable portion of the potential gains for the United States from the new multilateral negotiations will come from aggressively attacking the remaining stiff barriers our industrial exports face overseas.

Industrial Tariffs -- The most critical trade barrier that American manufacturers face when selling abroad are the extremely high tariffs in the growing new markets of the developing world, particularly Latin America, India and South East Asia. High tariffs are a major obstacle preventing the type of open markets we want to see, though we recognize that market access is affected by other WTO rules and disciplines as well.

Years of successive trade rounds under the former GATT (General Agreement on Tariffs and Trade) have brought most industrial nation tariffs to low levels – but the same is not true for developing countries. This is important to the NAM, because developing countries already account for 40 percent of our manufactured goods exports. Reducing their trade barriers would provide a huge source of future export growth for U.S. firms, and would be of enormous benefit to the further expansion of developing country economies. The record is clear that the countries that liberalize the most grow the fastest.

Attached to my testimony is a table from a recent WTO market access study, making clear the size of the task that faces us in industrial trade. For example, while U.S. tariffs on machinery average 1.2 percent and European Union tariffs average 1.8 percent, the average bound tariff rate for these products in Southeast Asia is over 20 percent and in Latin America is over 35 percent.

Reducing these tariffs will be very difficult, and the NAM has serious concerns about the ability of traditional negotiating methods to get the job done. First, as I have noted, our tariffs are already very low, except in a few sensitive sectors such as textiles and footwear. Thus we have relatively few poker chips to bring to the table.

Second, while multilateral tariff negotiations have always been conducted on the basis of "bound rates" (the negotiated maximum rate beyond which a country may not raise its tariff), most developing countries actually apply tariffs that are much lower than their bound rates – frequently half the amount. This is because most bound rates are simply too high to allow these countries to import the goods they need for their economies. But this means that they can raise their applied tariffs to the bound rate at will without owing any compensation. Additionally, when they negotiate, they insist on negotiating from the bound rates – not the applied rates. Thus most developing nations could negotiate tariff cuts that are 50% of their existing bound rates – and would still have bound rates that are at or above the rates they actually apply. Under these circumstances, the United States would in effect gain nothing from the negotiations.

One way around this, of course, would be to negotiate from applied rates, not bound rates. However, the developing countries have been very resistant to this idea – wanting to be compensated for reducing rates from their high bound levels, as this would enable them to claim a bigger "bill" in the negotiations.

We could solve this apparent dilemma by pursuing sectoral trade liberalization along the lines of the "zero-for-zero" negotiations in the Uruguay Round. The principle would be to obtain a critical mass of countries that account for the bulk of world trade in a sector and obtain agreement among these countries to bring their tariffs in the sector to zero. An excellent example is the recent WTO Information Technology Agreement (ITA), in which 47 countries accounting for 93 percent of world trade in information technology products eliminated duties on these products.

The NAM believes this is probably the most practical way to proceed, and has formed a Zero-for-Zero coalition to urge U.S. negotiators to make this a major U.S. proposal in Geneva. Attached to my testimony are four industry sector papers discussing specific industry interests in the zero-for-zero approach. We should also seek to expand the product and country coverage of the existing Information Technology Agreement.

The approach builds on a solid foundation. It has been shown to be practical and to have worked well. It solves many of the problems associated with more traditional approaches, including setting a common end point – tariff elimination – regardless of the beginning point. It gives the United States appropriate credit for the value of its market access concessions—the high-income U.S. market—which is lost in terms of unrealistic tariff starting points. It also empowers competitive industries to build a global tariff-free market for their products, maximizing the overall efficiency of the U.S. economy. Previously, Congress in the Uruguay Round Agreements Act had endorsed this approach.

Moreover, the approach offers the opportunity of moving rapidly. All 140 plus members of the WTO do not have to agree – only the countries that want to participate in the arrangement. If they reach early agreement, the tariffs can be eliminated on an accelerated provisional basis while the rest of the Doha talks continue.

The Doha ministerial declaration makes explicit provision for such early arrangements. Naturally, they would be counted as part of the overall balance of concessions at the conclusion of the entire talks.

The key will be to engage enough developing countries in the initiative, and this is where U.S. negotiators will have to focus considerable energy. In today's globalized world, developing countries need to realize that high tariffs are a severe drag on rapid growth. Industrial tariff walls keep out equipment these nations need to modernize their industrial bases and become more competitive. Lower industrial tariffs in the developing countries is not just in our interest – which it by all means is – but in theirs as well.

Trade among the developing nations is already important, and can be even more so. Between 1990 and 1999, the share of intra-developing country trade grew from 29 percent of developing country manufactures trade to 34 percent. The biggest barriers developing countries face in further expanding manufactured goods exports are not in the industrial countries, but in other developing countries – and a successful zero-for-zero initiative would be a boon for raising production and income in developing countries.

Mr. Chairman, for the new round of industrial tariff negotiations to produce concrete results for the U.S. economy in a timetable that is meaningful, the NAM believes it is essential that U.S. negotiators make the achievement of early sectoral agreements a central element of its overall negotiating strategy. From a political perspective, the early results from zero-for-zero sectoral negotiations could be critical in securing both domestic and developing countries' support for the larger Round. I hope the Committee will keep this in mind as it provides advice to the Administration.

Transparency in Government Procurement -- Another Doha priority for the NAM is achieving an effective agreement for transparency in government procurement. Government procurement represents nearly fifteen percent of the world's GDP, a potentially massive global market. U.S. firms compete very strongly and effectively in that market when purchasing decisions are based on cost, quality and other competitive factors. Our exporting firms are less successful when government purchasing decisions are made behind closed doors –- in non-transparent ways that allow bribery and corruption to come into play. Unfortunately, the latter situation describes the procurement process in many developing countries today, where public notification and due process with respect to tenders are often the exception rather than the rule.

Developing countries have not signed on to the existing WTO Government Procurement Agreement, but the proposed new WTO agreement on transparency of government procurement is one that would address many of the problems in a way that can be accepted by the developing countries. Transparency in government procurement would benefit not just U.S. exporters in competing against other exporters on a more level playing field, but would also be a major factor helping developing countries. It would be a strong force making corruption more difficult and would channel much more of their resources into efficient purchases and away from bribery.

The NAM is disappointed that the Doha Declaration appears to push off negotiations on transparency in government procurement until after the next WTO ministerial in 2003. In the interim, we urge the U.S. Government to press forward on developing the disciplines to be included in an agreement on government procurement. In addition, we urge the U.S. Government to work with other WTO Members to ensure that technical assistance on government procurement transparency is available to countries that need it.

Business Facilitation – Another area in which the start of negotiations apparently will be delayed is that of business facilitation – agreement on simpler and less costly customs and other trade rules. This is of particular importance to the 95 percent of American exporters, who like my firm, are small and medium-sized and see current trade rules as expensive trade barriers. We hope that progress here, as in government procurement transparency, will not have to wait until 2003. Additionally, small firms as well as large would benefit from WTO rules that would ensure cyberspace would remain a tariff-free area permitting the further rapid growth of global e-commerce.

Foreign Sales Corporation Dispute -- The WTO 's recent appellate ruling against the Extraterritorial Income Exclusion Act (ETI), the successor to the Foreign Sales Corporation (FSC) tax regime, is unfortunate. The ruling means WTO rules effectively favor the European territorial tax system over the United States' world-wide taxation regime. It will be difficult to alter ETI so it is consistent with WTO rules without harming U.S. industry's international competitiveness. The low-key, diplomatic manner in which Ambassador Zoellick and his EU counterpart have handled this sensitive issue up to now is admirable. Some mutually agreeable resolution must be found so the issue does not threaten broader U.S.-EU cooperation in achieving a successful new round.

One of the options that must be pursued is the possibility of settling the dispute as part of a larger examination in the Doha negotiations of how the WTO treats distinct tax regimes. We believe that the Doha Ministerial Declaration could accommodate such negotiations, and I applaud the Chairman and Ranking Member for including this objective in the TPA bill reported out of Committee.

Intellectual Property Rights -- The competitive advantage of American manufacturing relies increasingly on its advanced technology and the protection of that technology – in other words, on effective enforcement of intellectual property rights. In that regard, the United States should continue to press our WTO trading partners for full and timely implementation of the Agreement on Trade-Related Intellectual Property Rights (TRIPs) negotiated in the Uruguay Round.

While the separate declaration in Doha on TRIPs and Public Health did not legally alter TRIPs, it did clarify that developing countries that confront significant health challenges like HIV/AIDS may utilize the flexibilities in the agreement to help meet their public health needs.

We certainly encourage both developed and developing country governments to intensify efforts to address unmet health needs in the world's poorest countries. It is important, though, that such solutions not be sought through undesirable amendments to the TRIPs agreement.

Lessening the protection of intellectual property would have profound negative consequences not just for our global competitive position, but also for the flow of new inventions that will allow people all over the world to enjoy a higher quality life. President Abraham Lincoln's reminder that "the patent system added the fuel of interest to the fire of invention" applies as well to the TRIPs agreement.

Investment -- The NAM urges caution regarding consideration of a multilateral investment agreement under WTO auspices at this time. We are concerned that any agreement that could obtain consensus at the WTO would contain disciplines and investor protections significantly weaker than those currently present in U.S. Bilateral Investment Treaties (BITs) or the North American Free Trade Agreement (NAFTA). At the same time, however, we believe there should be a focus on ensuring that the Uruguay Round Agreement on Trade-Related Investment Measures (TRIMs) is fully implemented, as there has been substantial backsliding by developing countries in some areas. While understanding the need for flexibility, the basic disciplines that forbid local content and export performance/trade balancing requirements must be reinforced.

Effective U.S. Trade Laws -- Before ending my remarks on the Doha agenda, Mr. Chairman, let me state that the NAM favors the vigorous enforcement of U.S. trade laws to counteract unfair foreign practices and to encourage harmonization internationally to help achieve greater equity in competitive conditions and international trade practices. The NAM supports rules-based trade and urges the Administration and the Congress to work together to maintain the effectiveness of WTO-consistent U.S. trade remedy laws. Public confidence in an open trading system requires ensuring a level playing field for American firms in which market-distorting practices can continue to be addressed effectively. U.S. trade laws need to remain strong and to be implemented in a way that benefits the U.S. economy.

We do not believe, however, that Ambassador Zoellick and the U.S. team were wrong to agree to a discussion of trade rules in the Doha Agenda. We think, in fact, that they did a good job there. They were able to divert a full-fledged attack on U.S. trade laws by broadening the discussion into an examination of ways to strengthen the disciplines of existing agreements and of ensuring that other countries' trade remedy practices are fair and transparent.

OTHER ONGOING NEGOTIATIONS

In agreeing on trade priorities last year, the NAM's Board of Directors urged a full program of bilateral, regional, and multilateral negotiations as the most effective strategy for reducing the barriers U.S. producers face around the world.

We are pleased that such a strategy is being implemented, and we urge that these negotiations proceed as rapidly as is consistent with the full achievement of U.S. objectives.

<u>Free Trade Area of the Americas (FTAA)</u> -- The NAM is strongly supportive of actions the Administration has taken to move the Free Trade Area of the Americas negotiations forward. We look forward to the opportunity to consult closely with the Administration and the Congress as the modalities for the critical market access phase of those talks are developed this spring, so that access proposals can actually be entertained later in the year.

We concur with Ambassador Zoellick's efforts to create a "competition in liberalization" among a wide range of multilateral, regional and bilateral trade-enhancing negotiations, with the United States at the center of them all. The FTAA is the critical regional piece of that strategy, and it is imperative that the process stay on track for conclusion by early 2005. As in other negotiations, we believe a principal focus must be on removing developing country tariffs on industrial goods as expeditiously and comprehensively as possible. Progress toward a region-wide investment agreement as part of the FTAA is more promising than a global investment accord at the WTO, so long as the disciplines agreed to remain at the high level contained in U.S. Bilateral Investment Treaties (BITs) or NAFTA, rather than lowest common denominator.

To underscore the importance of the FTAA, I would like to tell the committee the NAM estimates that an effective FTAA would result in a tripling of U.S. exports to Central and South America within a decade of implementation – from today's $60 billion of annual exports to nearly $200 billion.

The NAM also looks forward to the conclusion of comprehensive agreements with Chile and Singapore later this year. We are hopeful that the strict disciplines, expanded access, and forward-looking nature of these agreements will serve as precedents for additional agreements, such as the one President Bush is considering with Central America, or regional accords such as the FTAA. Additionally, a world-class agreement with Singapore is important as the first step in obtaining further trade agreements in the Pacific. We note in particular the recent expression of interest among China and Southeast Asian nations for their own free trade agreement. We could not afford to be frozen out of the Pacific by such an agreement, and must start looking at U.S. free trade agreements in the region.

The bilateral negotiations, of course, are also important in themselves – not just as stepping stones to additional negotiations. The NAM, for example, has examined our trade situation in Chile, and has found that the absence of a free trade agreement with Chile is costing us $800 million in lost exports every year – an amount that would employ 10,000 Americans. The reason for this loss, as our study documents, is that trade is being diverted away from U.S. producers to producers in countries that already have trade agreements with Chile – such as Canada, Mexico, Argentina, and Brazil. I ask that a copy of the NAM study be included in the record of this hearing.

CONCLUSION

Mr. Chairman, in concluding my remarks, let me reiterate how important success in these trade agreements is to America's manufacturers. As I have explained, the playing field is not level; and we want it to become so. Effective agreements can do that, providing enormous benefits for U.S. firms and workers, and for raising economic growth and living standards around the world – particularly in developing nations.

Thank you, Mr. Chairman.