

**MANAGING GLOBAL AND REGIONAL TRADE  
POLICY WITHOUT FAST TRACK  
NEGOTIATING AUTHORITY**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED SIXTH CONGRESS  
FIRST SESSION

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JULY 14, 1999  
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# **MANAGING GLOBAL AND REGIONAL TRADE POLICY WITHOUT FAST TRACK NEGOTI- ATING AUTHORITY**

**WEDNESDAY, JULY 14, 1999**

**U.S. SENATE,  
SUBCOMMITTEE ON INTERNATIONAL TRADE,  
COMMITTEE ON FINANCE,  
*Washington, DC.***

The meeting was convened, pursuant to notice, at 3:00 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Gramm, Baucus, Rockefeller, and Robb.

## **OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN OF THE SUBCOMMITTEE**

Senator GRASSLEY. I would like at this point to call the hearing of the International Trade Subcommittee of the Committee on Finance to order and thank everybody for their attention to this hearing, those who are in the audience as well as people who are testifying who have taken a great deal of time out of their busy schedule whether they are from the private sector or the public sector to be with us to discuss this very important issue of managing our global and regional trade policy without the President having negotiating authority under the usual rules of fast track.

In about 130 days, the United States will host the top trade officials of the 134 nations of the WTO in Seattle to launch the ninth series around multilateral trade negotiations. And this will be the ninth round since 1947.

It was United States' leadership that created the modern world trading system as the best way to rebuild global economic prosperity following the devastation of World War II. Did we succeed in creating a new global prosperity? Obviously, we have. And just look at the record.

In 1947, when we started post-war trade liberalization with the Geneva Round, the total value of world exports was \$50 billion. Today, the total value of world exports is \$7 trillion, more than 3½ times the total economic output of the United States.

Free trade has enriched every American family. And for statistics on this, I would refer to the President's 1998 Economic Report. The added economic benefit to each American through expanded trade is \$1,000 per year. Or as we measure families of four, \$4,000 per family. This is equivalent of an annual \$4,000 family tax cut.

Where can you get a \$4,000 tax cut these days? Even in the tax cut environment we are talking about here in the Congress of the United States, we do not come up with figures like that. So trade is good for everybody.

Best of all, we have also kept the peace in the process, even during the bleak days of the cold war. As nations have become highly dependent upon one another for their economic success, it seems to me that the potential for destabilizing world conflict has faded.

But with the repeated failure to renew the President's trade negotiating authority, the momentum of trade liberalization has slowed. And when momentum slows, eventually the process stops.

So we have this hearing to look at the extent to what is the momentum that trade liberalization has slowed without the President having negotiating authority and how vital U.S. interests are being affected. I see three problems with not having negotiating authority for the President under the process that these GATT agreements and WTO agreements have been reached.

First, because the President does not have negotiating authority, many of our trading partners now question whether the new round of negotiations can succeed, especially if we have a lot to do in a short of amount of time.

Some downplay this concern by saying that the authorization is not all that important. They say either that a bilateral approach is sufficient or that just getting negotiations going is enough for now, that negotiation authorization can wait until a deal is ready to be signed by the President.

They point to other international agreements that we have signed without Presidential authority, but if a bilateral approach was all that we needed to make free trade a global reality, our trade strategy would still be dominated by an item-by-item bilateral trading of concessions.

Now, the United States can effectively use bilateral approaches, sometimes here and sometimes there, but the fact is we abandoned the wholesale use of negotiation bilateral concessions in global trade talks long, long away.

Instead, the United States has used a multilateral approach where the parties adopt commentary cutting formula or use the sector-by-sector approach as we did in the last Uruguay Round.

Moreover, world trade talks aimed at big issues involving 134 nations are very different from aviation treaties and lesser trade deals concluded without fast track. The stakes are higher, the problems are bigger, the issues more complex, and the consequences of failure far greater.

Second, trade negotiations are getting much more complicated and deal with tougher issues. The history of the eight previous rounds shows that the more ambitious the negotiations and the greater the attempt to liberalize trade, the more difficult it is to negotiate. That was certainly the case in the Uruguay Round.

The Uruguay Round agreements on services, agriculture, textiles, and clothing, all products that had largely been excluded from GATT rules were somehow especially important, but also especially tough to handle.

The new round will be just as tough, maybe even tougher. Agriculture is still highly protected around the world. It is a sensitive

volatile area. We need all the leverage that we can get to deal with just that one very difficult issue.

Finally, the lack of Presidential authority is clearly damaging our most important pending regional trade negotiations, the Free Trade Areas of the Americas talks. According to many reports, Brazil is losing faith in the United States' resolve to conclude FTAA negotiations as scheduled by 2005. Because of the lack of fast track trading authority, Brazil has put the free trade of America negotiations on the back burner.

On March 16, 1999, we had Brazilian Foreign Minister Luiz Felipe Lampreia say and say it right here in Washington that the United States is slowly moving its commitment to the FTAA because there is no will to give the President trading negotiating authority.

Brazil is one of the leading economic powers in Latin America. It is the dominant economic force of the Mercosur Customs Union. Brazil's proportion of regional GDP is almost twice that of the other Mercosur countries combined.

It would be a very great loss for the United States trade policy if the lack of negotiating authority prevents us from completing these free trade of America talks on time and on favorable terms.

The European Union certainly is not waiting. They see the disarray of United States trade policies a golden opportunity to open new markets right in our own backyard. While the United States watches from the sidelines, the EU and Mercosur have opened formal trade talks on forming a free trade area.

So with much at stake, we have to consider the consequences of going into a new round of trade negotiations in a sense, as I see it, with a hand tied behind our back.

Both the trade representative and the Commerce Department have done good jobs of promoting United States trade interests, but they cannot function as effectively as they should, it seems to me, without strong consistent leadership that only the White House can give and only give it quite frankly if he has this trade authority to negotiate. We would not send our armed forces into battle without tanks, ships, or planes. We should not send our trade negotiators to the bargaining table without Presidential negotiating authority.

Before we turn to our distinguished witnesses, I would like to read just a portion of a letter that I received from former President Bush on the importance of renewing fast track authority.

And I will put the whole statement in the record, but just let me quote a little bit. "Dear Mr. Chairman. I write to encourage and support your efforts and the efforts of your colleagues to renew the President's long expired authority to negotiate trade agreements on behalf of the United States. In just a few months, the United States and 133 other nations will launch the ninth series of multi-lateral trade negotiations in Seattle. The new round will attempt to build on the progress of the last round. Much remains to be done. Agricultural tariffs are still much too high. Agricultural exports are critically important to the U.S. economy with almost one-half of American wheat and more than a third of American soybeans traded on the global market. High foreign tariffs drive down farm income and destroy farm jobs. It is extremely important that

we enter the new round of trade negotiations from a position of strength, united in our purpose, and firm in our commitment to free trade. The best way we can do this is to renew the President's trade negotiating authority now before the talks get underway."

[The letter submitted by Senator Grassley appears in the appendix.]

Senator GRASSLEY. Now, I would like to turn to our witnesses. And we obviously are going to start with the people who are at the table. We will start with the Honorable Richard W. Fisher, Deputy United States Trade Representative and Hon. David L. Aaron, Under Secretary of Commerce for International Trade, U.S. Department of Commerce in Washington, DC.

Would you like to say something before we start because otherwise I am going to continue.

#### OPENING STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM TEXAS

Senator GRAMM. If I may, Mr. Chairman?

Senator GRASSLEY. Yes.

Senator GRAMM. Let me say I am very happy to be here. I want to thank you for holding this hearing. And I just want to raise a concern. I had the opportunity during the recess to visit with the Chinese premier. And I was very concerned about the fact that obviously there is great unhappiness in China, the bombing of the embassy, the constant frictions with regard to Taiwan, and obviously a great deal of unhappiness both collectively in terms of the rejection of the Chinese proposal, but unhappiness on the part of the premier because he came to this country, made what he thought were very substantial concessions in order to get Chinese accession to WTO.

Those accessions were rejected largely because of insistence of a textile protectionist measure which flies of the face of the spirit of WTO and the insistence upon a dual track settlement mechanism for China that is different than our settlement mechanism with any other country on earth.

And one of the things that I would like to have our witnesses address if they could, and I hope I am here when they do, but what are we doing to try to get these trade talks started again? It may be that the premier believes that he can wait and negotiate an agreement with the next administration, but what if something happens before then that would make it more difficult or impossible to complete such an agreement.

I know members of this committee to the extent that I heard their views and I heard a lot of their views when we had the meeting with the ambassador. Members of this committee were pretty strongly in favor of Chinese accession and happy especially with the banking sector, the insurance sector of the agreement, certainly overwhelming support for the agricultural agreement.

And I think there is growing concern in the Congress that we missed a golden opportunity. That is already missed. And there is no sense crying about what has already happened.

But I would like to know what the administration is doing to get these trade talks back on track. What are we saying to the Chinese? What are we doing to try to get this process started again?

And I thank you, Mr. Chairman.

Senator GRASSLEY. Thank you.

Ambassador Fisher, would you like to start out either with your statement or in response to what Senator Gramm asked? And if you want to respond to him, I will be glad to give you extra time.

**STATEMENT OF HON. RICHARD W. FISHER, DEPUTY U.S.  
TRADE REPRESENTATIVE, WASHINGTON, DC**

Mr. FISHER. Well, thank you. First, let me thank you, Mr. Chairman, not only for an eloquent statement which I plan to plagiarize from significantly if you will give me permission. I thought the \$4,000 tax cut analogy is very pithy and to the point. And if you do not mind, I plan to use that in the future.

Senator GRASSLEY. I would be honored.

Mr. FISHER. Thank you very much.

And Senator Gramm, very quickly, you made a comment when we were briefing you on China before your trip and the members of your committee which I will never forget. And you said if you had to spend your livelihood buying things for your mother and selling them to Charlene Barshefsky and me, that you would go broke. We want to maintain that image in your eyes.

And in terms of your discussions which I have been briefed on in China, I very much want to address the issue that you have raised. And I think perhaps it is appropriate to address the chairman's initial point if I may and then perhaps come back to that in the question and answer period.

Let me first begin then by offering my thanks to you, Senator Grassley, and to the committee. You have been consistent in your support of our efforts to open markets worldwide, to expand trade, to enforce the laws and the various trade agreements that we have undertaken.

As you know, there have been many during this administration. We count them up to some 300 from little to big. But in terms of our initiatives in every part of the world and our fundamental efforts to strengthen enforcement, this committee has been extremely helpful. And we are grateful for it.

The good news is that we do operate in a world economy that is far more open and more fair than ever before. And we are experiencing the dividends of that in terms of our own domestic lack of inflation, tremendous employment. Jobs have been created. Some 18 million jobs have been created by the private sector.

And the fact that we now have significantly higher family living standards, this is not only due to fiscal discipline and other good things, but also trade has played a critical role in making that possible, both exports and imports, as you like to point out, Senator Gramm.

Our trade agenda covering the WTO, regional issues, and broader issues should help us build and extend these achievements. And we aim to do so. And to that end, we are preparing now, as you mentioned, Senator Grassley, for the WTO ministerial conference which Ambassador Barshefsky will chair in Seattle in November.

This will kick off a new round of international trade negotiations which offer immense promise to our farmers, to our businessmen and women, and to our working people. And we are now consulting



with the Congress and with private sector groups and others on specific negotiating objectives.

But broadly speaking, our goals include reduction of trade barriers, elimination of export subsidies, and respect for science in agriculture, liberalization of services, reduction of industrial tariff and non-tariff barriers, and reform of the WTO including greater transparency in dispute settlement.

I have just returned from Auckland, New Zealand, Mr. Chairman, where the ministers of the 23 APEC economies endorsed a thorough program for achieving market opening to be pursued at the Seattle WTO ministerial meeting.

The program that has been endorsed by the APEC ministers, again, 23 countries would embrace liberalization in agriculture and services, the so-called built in agenda of the WTO, industrial or nonagricultural tariff reductions, and action on the eight so-called ATL sectors. That is chemicals and energy equipment, and environmental goods, fish and fishery products, toys and forest products.

In addition, the APEC trade ministers agreed to take proposals to cut or eliminate tariffs in five more sectors, in fertilizer, in rubber, and in civil aircraft, oil, seasoned food to the WTO at the ministerial.

At the same time, we are negotiating with 30 economies on their accessions to the WTO. A number of these have made significant progress this year. The Senator from Texas referred to China. We intend to recognize and celebrate our progress in these negotiations at Seattle. And perhaps, later I can talk about your specific concerns, Senator, with regard to the People's Republic of China.

We are pursuing an active trade agenda in every region of the world. In the western hemisphere, we have reached important agreements this year with Canada on agriculture and magazines. We are seeking concrete progress in talks in the Free Trade Area of the Americas, Senator Grassley, which you referred to earlier. And I would be happy to expand on that further during a discussion.

And we are working with the Congress on legislation to enhance the Caribbean Basin Initiative. In Europe, we are pursuing common interests in the Transatlantic Economic Partnership as we meanwhile address disputes most recently through imposition of retaliatory action on banana and beef.

In Asia, in addition to pursuing the headline grabbing accessions of China and Taiwan, we are pursuing market opening and deregulation in Japan, strengthening consensus for WTO action agenda on accelerated tariff liberalization which I referred to earlier. And we have made significant progress towards a trading commercial agreement with Vietnam.

In Africa, we are supporting reform, promoting extended and expanded trade and investment ties, and encouraging Africa's full integration into the world trade system, something which we hope to advance in terms of engaging developing nations at the WTO ministerial. A particular priority of ours has been Congressional approval of the African Growth and Opportunity Act.

In the Middle East, building on our free trade agreement with Israel, we have inaugurated a program that aims to bolster the peace process to support for regional integration.

In all cases and in all regions of the world and in all fora, we work to ensure that our market opening agenda complements and supports efforts to protect the environment, advance core labor standards, and ensure the transparency and accountability of trade institutions.

As we pursue this agenda, the President has affirmed repeatedly his call, Senator Grassley, for what you have asked us to talk about today which expedited agreement implementation procedures generally referred to as fast track.

We applaud the committee's support for this important authority. We applaud the interest that you have in this particular issue and the eloquence with which you have stated it. We stand ready to work with you and other members of Congress to move forward on this important goal.

And as such, we have been consulting, I think as you know, Senator Grassley, and members of the committee, with members of the Finance Committee staff on the timing and content of Congressional development of any legislative ground of negotiating authority and will continue to do so.

The President in his State of the Union address and just last month in Chicago called for a new consensus on trade. He said trade should lift the lives of all people and that we must find the common ground on which business and workers and farmers and environmentalists and government can stand together. This is the policy of the Clinton administration.

It is critical to provide broad authority to negotiate agreements that reflects our common values. And consistent with that approach, we believe fast track should bolster the traditional bipartisan support for trade policy and allow us to pursue an agenda that reflects consensus goals.

It is a tool which can help us negotiate with greater credibility, as you pointed out, Senator, and with greater effectiveness, strengthening our ability to pursue our vital economic interests, open markets to increased growth, and the ultimate objective of all of us to raise living standards.

Fast track in the past served as a method for ensuring timely but full debate on trade agreements with the certainty of a positive or a negative Congressional vote. With respect to our current agenda, it would be very helpful, as you pointed out, Senator Grassley, in our future negotiations which we seek to conclude in the next decade.

Many major U.S. trade policy goals, of course, do not require fast track. These include monitoring and enforcing trade agreements, include completion of WTO accessions, market opening and deregulation in Japan, and regional initiatives, such as the Asia-Pacific Economic Cooperation and Transatlantic Economic Partnership with Europe, regional integration in the Middle East, and the President's partnership with Africa.

The lack of legislative fast track authority since 1995 has not fundamentally impeded our ability to achieve many of these goals thus far. I think the record shows, Mr. Chairman, that we have done a pretty good job without it.

However, looking ahead, a Congressional decision to grant fast track will not only be helpful, but would be essential if we are to

create the type of world economy that Americans expect in the next century. Our commitment to worker's rights and environmental protection, for example, reflect longstanding fundamental values of the United States. A new fast track proposal should appropriately balance the need to open markets with attention that these vital issues deserve.

We realize that some countries, as you mentioned in your opening statement, Senator Grassley, may use the excuse of a lack of fast track negotiating authority in order to avoid engaging in further liberalization initiatives. You mentioned Brazil.

In the case of APEC or the WTO negotiations on agriculture, Japan might hide behind the absence of fast track independently or perhaps in cahoots with the European Union. We view this as purely a diversionary tactic. In other cases, countries cite a lack of fast track negotiating authority, expressing a genuine concern about our willingness to press the envelope of trade liberalization.

The Clinton administration has made it clear that we will press the envelope of trade liberalization and that we desire fast track to give us the means of doing so. To be sure, we have accomplished much without it. We will continue labor mightily to still do more.

And as others before us together with our trading partners, we will launch a broad range of initiatives, including agriculture in Seattle even if we do not have fast track negotiating authority in hand. Still, we know that the U.S. will need to secure fast track in a timely way, both for the purpose of closing multilateral initiatives launched and for accomplishing our broader trade goals.

And thus, we look forward, as the bell rings, Mr. Chairman, to working with you to develop trade opportunities and reassure the world that when it comes to leading the world towards meaningful trade liberalization, we mean business. Thank you.

Senator GRASSLEY. Thank you, Mr. Ambassador.

Mr. Secretary?

[The prepared statement of Mr. Fisher appears in the appendix.]

**STATEMENT OF HON. DAVID L. AARON, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC**

Mr. AARON. Thank you very much, Mr. Chairman, in particular for holding this hearing because we believe that it can contribute to forging the consensus which is necessary to achieve a fast track negotiating authority on a mutually acceptable basis.

Exports today remain important to the U.S. economy. Indeed, they are essential. They have accounted for more than one-third of total economic growth in the 1990's. These gains have provided jobs for millions of Americans.

The proven contribution of trade to our current prosperity has, however, not convinced most Americans of the value of trade. And unfortunately, there is no consensus regarding the way forward on trade. That translates into a lack of support for measures, such as fast track negotiating authority that would make us more effective in the international trade arena.

There are opportunities out there, but to fully reap their benefits, we believe that international trade negotiating authority, fast track, should be renewed as the President noted in the State of the

Union address. It lends credibility to our negotiators. And it will be essential when it is time to bring negotiations to a close.

But even without all of the necessary authorities to advance our policy objectives, we must continue to do all that we can with the tools that we have because if we are passive, other countries will come in and as the expression goes "eat our lunch".

Many, notably the European Union, are already casting hungry eyes on export markets we have traditionally dominated. Latin America is a good example. We cannot afford to take for granted the markets that have been responsible for almost half of U.S. export growth since 1995.

The region continues to knock down internal trade barriers in anticipation of hemispheric free trade through the FTAA. We have strongly encouraged this openness because it has greater economic growth, expanded market opportunities, and encourages democratization.

However, we are not the only or even the main beneficiaries of this free trade trend. By last count, more than 30 regional and sub-regional trade agreements have been made within the region while we stood on the sidelines. Chile, for example, has trade agreements with every nation of the western hemisphere, except the United States. And it is now talking to Korea.

Other than NAFTA, we are barely maintaining our share of the export market. And U.S. exporters are competing against foreign firms that enjoy preferential tariffs that we do not.

What is the answer to this competitive environment? Primarily, as I have said, staying in the arena and doing all that we can with what we have. But beyond that, we must build support among the American people for trade.

How do we get that support? Assure the American people that their government either has in place or is pursuing policies and programs to make sure that trade benefits them.

We also need to reassure our people that future trade negotiations will address their legitimate concern that social, labor, and environmental standards will be maintained and that global trade will not be a race to the bottom. To do this, Commerce has major programs in place: (1) to ensure compliance with trade agreements; (2) to enforce our trade laws; (3) to promote U.S. exports; and, (4) to put the facts before the people through education programs.

Compliance and enforcement are high priorities at the Commerce Department. Our market access and compliance units, Trade Compliance Center is our nerve center. All of our country market access officers and all are industry sector experts are deeply involved in the compliance effort, especially on behalf of smaller companies that lack the time and resources to challenge trade barriers on their own.

And I may add, Mr. Chairman, that your personal support and that of this committee has been essential in ensuring that our compliance efforts are properly funded. And I want you to know that that is very much appreciated.

Our intensive monitoring tells us that most countries are trying to live up to their trade agreements, but where they do not, we act, first, by using bilateral persuasion and if that does not work cooperating with USTR under dispute settlement procedures.

For instance, we have been trying to get Korea to live up to its obligation to let U.S. companies compete fairly for contracts at a \$6 billion international airport. Korea has refused. So we and USTR have taken the matter before the World Trade Organization.

That case is an exception. Most countries, Korea included, yield to our arguments. A case in point, Mr. Chairman, is Korea allowing the sale of high-efficiency washing machines, many made in Iowa I believe after initially barring them on a technicality.

We are also tough in enforcing fair trade laws. Our strong response to last year's surge in steel imports clearly demonstrated our resolve to the world. Just this week, we announced an agreement to reduce Russian imports of hot-rolled steel by 80 percent and cold-rolled steel by half. This will build on previous actions we have taken that we have already reduced steel imports by one-quarter from last year's surge.

Coupled with our compliance and enforcement is a vigorous program of export promotion. There are tremendous opportunities, particularly for small and minority business. And they are our focus.

We have a major ongoing effort to help small business, rural businesses, minority and women-owned businesses to export through expansion of our web sites and other information capabilities. We are developing a whole range of new electronic commerce products that will reduce market entry costs and open up new business opportunities.

Ninety-seven percent of exporters are small to medium-size businesses. And between 1992 and 1997, the number of U.S. exporters nearly doubled, from 112,000 to 209,000. We are committed to taking that number even higher.

And finally, there is education. The facts support the advantage of exports to the economy and the American people, as you so eloquently pointed out in your opening remarks, but the facts unfortunately do not speak for themselves.

Secretary Daley has realized the importance of public education and has launched his trade education initiative. He has been traveling around the country. This week, he was in North and South Carolina, telling the trade story to organizations and individuals and just as important listening to their concerns.

Mr. Chairman, in closing, let me repeat what the President has said. Globalization is not a policy choice. It is a fact. Trade is essential to the future of our farmers, businesses, and workers. We must continue our efforts toward trade liberalization, but we must also seek the support of our people. And we must make very sure that our policies merit that support. Thank you very much.

[The prepared statement of Mr. Aaron appears in the appendix.]

Senator GRASSLEY. Thanks, both of you. We will have 5-minute turns for each of us for questions and in order of arrival, myself, Senator Gramm, then Senator Rockefeller, then Senator Baucus, and then Senator Robb.

Ambassador Fisher, you mentioned APEC. And that is where the United States has joined these other Asian nations and Pacific Rim countries for free and open trade and investment for the region.

Your administration has said that it has residual, limited authority under the Uruguay Round agreement whereby it can claim tar-

iff reductions in several areas. However, the administration does not seem to have residual tariff authority for other sectors for which APEC is pursuing voluntary liberalization.

Does not the lack of trade negotiating authority harm the ability of the United States to fully engage APEC in a broad range of trade liberalization measures?

Mr. FISHER. I think you are referring to, Senator, here the sectors that we have talked about, the so-called advanced tariff liberalization sectors. They vary, as I mentioned earlier, from chemicals to fish and fishery products, from energy equipment to environmental goods and medical equipment and scientific instruments.

And you are correct. In certain areas, there is residual authority. In others, there is not. Also, by the way, what is known as the VAT 6 which is actually 5 in addition to autos, fertilizer, rubber, civil aircraft, oil, seasoned food are items which at the APEC ministerial we agreed would be advanced in terms of the industrial tariff agenda for the WTO ministerial.

And you are correct that to complete that negotiation of those reductions and to change the current practices that we will have to have the authority for fast track and approval. And this is why we need to seek it in a timely manner.

Senator GRASSLEY. Yes. On another point, and I did in my opening statement speak about the Latin American, South American countries especially not wanting to wait or getting impatient with the United States not having negotiating authority for this issue and the European Union moving in. And I think that there is no doubt that that is happening and the Mercosur is very much interested in proceeding along that line. So I will not repeat any of that stuff. It is all very clear.

But have we not damaged our ability to compete with the European Union and Latin America by not having fast track negotiating authority?

Mr. FISHER. Well, first, on the European activity in the hemisphere and in Latin America, if you look carefully at what came out of that summit that they just had with the Latin American leaders and the Europeans, there is very little specificity. There is no timeframe defined. There is no exactness to what they discussed.

And one thing that we found is that the Latins will use us in order to leverage possible gains from Europe and vice versa. We are much further along in terms of our own structure for a Free Trade Area of the Americas. We have our negotiating groups, nine negotiating groups currently working drafting the outlines, what we call annotated outlines on what they need to proceed.

We are in the process of finishing up for the end of this year real tangible business facilitation measure that can be implemented affecting, for example, customs practices.

But you are right, Senator, that just as in every trade negotiation, one reaches a critical point in which parties must make very difficult decisions. They must change their laws. And they must spend political capital back at home that you need to have the authority of which you speak. We are not at that juncture yet.

I noted carefully your comments about Brazil. The foreign minister of Brazil is a good negotiator. And we do not accept the fact

that this should retard the process of putting the ground floor of the FTAA in place and in fact beginning the erect the building.

We have already done the mechanical drawings. We are now building the structure. Put that Christmas tree on top of the structure to complete it. We need this authority. They know that. But it is not an excuse not to get started. And we have already gotten started and are on our way.

Senator GRASSLEY. The extent though to which they feel that maybe we are not as serious about it without trade negotiating authority may cause them to seek other routes, do we take seriously then the statements of people like the foreign minister of Brazil or the Canadian trade minister, Mr. Marchi, when he said no self respecting country will want to negotiate twice? They will want to do it right which means doing it once. Do we listen to that?

Mr. FISHER. Of course. We have listened to Mr. Marchi and we have listened to you. And we agree. We want this authority. You are preaching to the choir here. We want this authority. And we are going to seek it.

Senator GRASSLEY. All right. Will the President submit a proposal to Congress to renew trade negotiating authority just like he did in October 1997? And if he will not, why would he not do that?

Mr. FISHER. Senator, we are in the process of consulting with members, working with this committee and with other groups within the Senate and within the House and again, looking to see what can be developed on this front.

As I understand this committee, the full Senate Finance Committee has not yet put forward a fast track initiative, but we are eager to work with you to accomplish that and to get this affected so that we do not face the situation where we once again are frustrated with this goal.

I do not know, David, if you want to add anything.

Mr. AARON. No. I think that is right. The key here is that we need a consensus in the Congress and a consensus between the Congress and the Administration. And even beyond that, I think we are lacking a consensus in the country as a whole. And we need to, all of us work together. And I think this hearing and this kind of dialogue here hopefully will make a contribution to that.

Senator GRASSLEY. With all due respect, and there is Democrats on this committee who have said this better than I could, but I think it takes the President's leadership and not necessarily waiting for the Congress to get things moving.

I will pass to Senator Gramm.

Senator GRAMM. Well, Mr. Chairman, let me just begin where you are leaving off. If you are waiting for a consensus on free trade, you are going to be waiting for a very, very long time.

I think you all have done a very good job at saying nice things, but the reality is, this administration has not had the courage to produce to push fast track. I believe we have the votes in the Senate to do it, but I do not believe that your administration has the courage to propose a fast track bill and to push your own people to support it.

And I would simply amend what the prime minister of Canada said by saying, no self respecting country would be without fast

track authority. It is not the people that would not deal with one. I think it makes us look bad.

And I think if you want to point the finger at anybody, it is Bill Clinton who has not been willing to expend the capital to get a fast track agreement.

Now, I want to ask several short questions. And then, I want to ask Ambassador Fisher about China. But, Mr. Chairman, I am not going to be here for the next panel, but I cannot see Sam Gibbons sitting in the audience and not say something.

I had the pleasure of serving with Sam in the Congress. There were many issues we disagreed on, but one of them that we always agreed on was free trade. And of all the issues that I have dealt with in public life, trade is the most difficult issue. It is the most difficult issue to get people to understand. It is an issue if you are going to be a proponent of it, you have to have tremendous political courage.

And I was always proud of Sam Gibbons in a sea of protectionism in the House and as a Democrat, his willingness to stand up for free trade. It was an inspiration to a lot of people.

Let me ask a couple of sort of short answer questions. I think there is a consensus that Taiwan for accession. If we cannot get things reconciled with China and therefore we do not have an agreement with China, are we going to move forward with Taiwan or are we going to hold them up for political reasons?

Mr. FISHER. Senator, in the case of Taiwan, there is a working party meeting, as we call it, within the WTO taking place this month in July. There will be another working party meeting on September 10th.

We have completed our bilateral negotiations with the Taiwanese or at least we are much further along than we are with the People's Republic of China. We have made it very clear in every instance that these proceed on their tracks as long as they are commercially meaningful agreements. And we do not see the United States here and you do not see the United States interfering with this process.

Senator GRAMM. Well, I hope that is true, Richard, because I think it is very important that we not play politics with this. If they are ready, we have an agreement, I think it is important that we move forward with them. And I think quite frankly a willingness to do that is somewhat of a prod to both China and the United States to get on with our agreement.

So I hope we do not play politics and hold back Taiwan because either we or they or a combination of the two have sort of put stumbling blocks in our way.

Mr. FISHER. I think as far as our trading partners are concerned, Senator, there is further work to be done in their case with Australia, with Canada. And in the case of Hong Kong, the phrase that was used in the last working party meeting is "completed but not concluded."

But again, I think you should stay tuned to these working party meetings to see how this will progress ultimately.

Senator GRAMM. Let me say with regard with African trade, I watched on television when the President went to Africa. His proposal was about as modest as a proposal can be. We tried to pass



the bill in the Finance Committee. We had an amendment which required U.S. fabric and U.S. thread which when you have to ship it to Africa, sew it, and bring it back to the United States really killed it.

I never saw any evidence whatsoever that the administration was willing to fight for the African free trade bill. Mr. Secretary, can you tell me anywhere that the administration has done anything for that bill, other than what the President said in Africa?

Mr. AARON. I believe, Senator, that we have worked diligently with members of your committee staff and with the chairman on the so-called Africa bill. We have pursued this with other members of the Congress. I think we have worked very hard to try to get it, but this particular issue has been a difficult one to resolve, but we were not pessimistic about it. And we are hopeful that we can get a successful conclusion if we can get it out and onto the floor.

Senator GRAMM. Well, I notice that any time you all run into a special interest group that is opposed, things stop happening. When the textile industry for just sheer meanness, if I might say if they have any representatives in the audience, but sheer meanness came out against this bill.

If all the labor in Africa were dedicated to textiles, it would not put a shirt on 1 in 1,000 people in this country. It was almost irrelevant, just for meanness, they came out against it. But it seems to me that when they did, the administration just evaporated.

And again, I go back to what the chairman, and I will end because the light has come on, you cannot wait for a consensus to form around trade. There is not going to be a parade that you get in front of on trade unless you make the trade, unless you make the parade. It is not going to happen. And I do think we have a golden opportunity.

And I do not doubt that Ambassador Fisher and Ambassador Barshefsky have done a good job with the hand they are holding. The plain truth is, as you said, Mr. Secretary, the world is going on without us in trade. And I am eager to get on with it. Thank you.

Mr. FISHER. Senator, may I just make a comment if you would allow me? In terms of the Africa Growth and Opportunity Act, this is the one act the President mentioned specifically in his State of the Union address.

Every member of the cabinet of the President has been involved in consultations on capital hill. We went through a hearing with the Senate Finance Committee, as you well know. We have worked with the House. And there is a bill that is moving forward in the House.

To be sure, we can always do things better, but we have a real commitment to this bill, not just a trip that was made to Africa, but real effort, Senator, being made here to push this forward and see this realized into law.

Senator GRAMM. Thank you.

Senator GRASSLEY. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Ambassador Fisher, I first just wanted to compliment you in all the work that you have done in many areas. The one that comes

to mind is the agricultural agreement with China, particularly the TCK problems.

Mr. FISHER. Thank you.

Senator BAUCUS. I very much appreciate that and how difficult that was and also, even though there was not an agreement agreed to yet, the provisions that were on the table that look like they are about to be agreed to. I very much urge you to continue with that.

My guess is that the PRC will want to come back this year. My hope is, all of us that after the leadership meeting at the seaside resort in July or August, whenever it is, that they then will be able to work out a way where they can come back and talk to us.

I do though want to somewhat follow up on the points made by the chairman and also Senator Gramm. I do not think it is a matter of having courage, but the fact is given the dynamics of how government works in the United States with the media, etcetera, if we are going to get fast track passed, we are going to need Presidential leadership. It is just that simple.

It is going to mean that the President is going to have to sit down with organized labor and try to work something out, the same thing with environmental groups because as you well know, a lot of Americans think that NAFTA caused low cattle prices or caused low grain prices, caused job displacement.

I know in most cases, that is not true, but nevertheless that is the feeling in large parts of our country.

And it is nice to hear. And I do not mean to be at all critical on some of the points that you both made about programs and reaching and this and that kind of thing. The proof is in the pudding. As a practical matter, the President and his people are going to have to sit down and the White House staff is going to have to sit down and work something out with Commerce and with the USTR's office.

Congress follows; it does not lead. Congress basically follows the wishes of its constituents. We are always a few steps behind. We hope to be very close, but sometimes we are not as close as we would like to be. It really takes Presidential leadership in the modern media age because only the President has the bully pulpit in the White House and could command national news attention, etcetera, to get something going.

So I very much urge you to urge the White House in conjunction with all the other agencies to find a way to solve this thing.

The problem is we are not a parliamentary form of government, as you know. Prime Minister Blair and other prime ministers, it is easy for them because they are the government. It is not the case in here in our country with our checks and balances.

So it is difficult. It is a difficult for a President to push something through like that, but it has to be done. And I just will strongly urge you all to figure out some way to do that.

Some of my specific concerns are how do we leverage, say, Europe when we sit down and start to negotiate? Europe to some degree is thumbing their noses at us with the beef hormone matter and bananas. And some are worried that Europe is just going to pay the bill and continue to not abide by the dispute settlement decision.

That will be a blow to WTO. It will be a blow to the process. And I do not have the answer here, but I do think that if we are going to get fast track passed, we have to start to have some solutions of the beginnings of how we are going to solve those kinds of problems and not let the Europes of the world get away with, well, we will just pay the fine and it just does not conform.

What thoughts do you have about that: first, about the dispute settlement mechanism that so far it is not working as it should and, second, what leverage do we have on Europe on agriculture particularly?

Mr. FISHER. First, Senator, as far as dispute settlement is concerned, it is hard to say the system is not working. We have taken over 20 cases and have won almost all of them. The two cases you mentioned that were referred to by inference which are the banana and beef cases in the case of the EU are critical cases.

They are very important. I mean, after all, in the sense Europe and the U.S. certainly are the mother lands of the law. They are the principle architects. They are key architects in the system that was designed to put the WTO together. These are the only two cases in agriculture or any other field in which defendants have refused to implement panel results.

Senator BAUCUS. It is a precedent though?

Mr. FISHER. It is a terrible precedent.

Senator BAUCUS. It is your most recent decision.

Mr. FISHER. And it is a principle.

Senator BAUCUS. And it is a big outfit. The European Union is a big outfit.

Mr. FISHER. And again, you know the numbers here. We have been authorized in terms of our retaliation. You referred to that earlier. Together, it is over \$300 million. Your concern is a real concern. And we are ready to negotiate with them on these issues.

One of the things that we can do and we plan to do in terms of this WTO ministerial is engage in discussions for institutional reform of the WTO. One of the issues we are especially interested in is greater transparency in the dispute resolution process and better early warning systems of something that is coming down the pike and other ways to make this institution work even still better. That is a redundancy, even still better, but still to make it work better.

But we do not expect Europe to ignore this process to the degree to which you mentioned. It would have disastrous consequences if they were to do so. And we expect to have these issues resolved.

At the same time, we know that we have to update the institution, make it more transparent, and basically make it more cooperative or help it be more cooperative in terms of dispute settlement. And that is one of the emphases we expect to place on in the Seattle discussions.

David, I do not know if you want to add anything.

Mr. AARON. If I may, Mr. Chairman. I would just like to comment a little bit on agriculture, the European Union, and the upcoming round. As we prepare for this round, I think one of the really startling and amazing things is that we see that the European Union is pursuing the strategy which I call the ABA strategy, the anything but agriculture strategy.

They are finding every possible issue and saying it ought to be in this round. It is investment and competition policy and electronic commerce. I mean, there is not anything that they cannot stuff into it I believe in the hopes that very little will come out of it.

And I think that reflects the fact that this, their strategy towards the round is centered as it was in the Uruguay Round on defending their agricultural policies.

Conversely, I think we have to make agricultural liberalization the centerpiece of our efforts in the next round. There is no question that agriculture is the least liberal economic area in world trade to the great detriment of countries all over the world, to the great detriment of consumers all over the world, and quite frankly to the great detriment to the United States and the American farmer who is the most efficient in the world.

So we have to make agriculture really a centerpiece or the centerpiece, I am prepared to say, for progress in a real round that is going to accomplish something.

Mr. FISHER. May I be a little more blunt?

Senator BAUCUS. I hope you are.

Mr. FISHER. Yes. I want to be more blunt.

Senator GRASSLEY. I want to make sure Senator Robb gets a chance to ask questions.

Mr. FISHER. I apologize.

Senator GRASSLEY. You can go ahead, but I want to make sure he gets questions because we are in the middle of a vote. And I am going to go over and vote now. And then, would you folks stay here when he is done asking questions that I do not have to adjourn the meeting? Thank you.

Mr. FISHER. May I, Senator Robb?

Senator ROBB. In that case, thank you, Mr. Chairman. I will ask, will you be blunt, please? Mr. Fisher. The common agricultural policy, Senator Robb and Senator Baucus, is the world's largest single distortion of agricultural trade. It is one of the world's largest single distortion of trade in any sector. Eighty-five percent of the world's agricultural export subsidies are in that program.

Senator BAUCUS. Right.

Mr. FISHER. David is right. This is a key goal of our round. It must be to continue the reform of agricultural trade. And we need to focus as a bulls eye the common agricultural policy of Europe.

And so as a result, what we are calling for, and again, the APEC ministers endorsed this concept, major reforms, including substantial tariff reduction, reduction of domestic supports linked to production, and critically the elimination of export subsidies.

It is not just, by the way, APEC, but the FTAA ministers have agreed in principle on eliminating export subsidies. The Carence Group which includes several major nations have done so as well. And I might add in the context of the point that Senator Gramm was making, China has agreed to renounce them in its WTO accession.

So there is plenty of precedent here. We are serious about this issue. And this is a core agenda item for the new round which we hope to embark on in Seattle.

Senator BAUCUS. Thank you.

Senator ROBB. Let me just ask a general question here since the vote has begun. In fact, let me ask even a preliminary question. That is whether or not we are hung up on either acronyms or definitions. When we switch from MFN to NTR, we seem to change the dynamics, the atmosphere a little bit.

Fast track, does that have any baggage that there is some other way of referring to providing the chief executive with authority to negotiate a trade agreement that might change?

Mr. AARON. I might comment. Senator, as I understand the history of fast track or traditional trading authority, it really began in the 1970's here in the Senate and I believe here in the Senate Finance Committee when an effort was made to develop a form, in effect something that would be comparable to the rule that can come out of the Rules Committee in the House so that something cannot be amended on the floor.

Senator ROBB. I am not really quarreling with the mechanics. I am just asking that if somehow changing the name or the way we refer to the process might expedite anything? If you do not have any views on that, I am not to going to pursue it.

Mr. AARON. Well, I think we are trying to term "traditional trading authority" now, both to underscore the fact that it is for trade and, secondly, that it has been traditional that the President have it. So if that gets us even 1 vote, we would be very happy.

Senator ROBB. Let me ask you this, in terms of where we are right now and given the lack of urgency that appears to exist on the administration's side, notwithstanding your appearance here today and the unwillingness of Congress to move forward without some demonstrated urgency and leadership on the part of the Executive Branch, where are we being hurt and where does it not make any difference with respect to trade agreements that would matter?

What are the consequences, in other words, for not having fast track authority for the President at this particular moment?

Mr. FISHER. Senator, I have spoken at length about this in my spoken statement and in my prepared statement, but let me just summarize it if I may.

First of all, in terms you referenced NTR in your preface, in your previous question, in terms of the accessions of other nations, this is something that is not a necessary part of the tool kit.

In terms of different programs we have undertaken to settle bilateral disputes to embark on the enforcement issues of which we had a discussion earlier of, say, beef and bananas and so on, fast track is not a necessary part of the tool kit.

It is when we come to a point where we have to change our laws or spend significant political capital to change structures in a comprehensive negotiation, such as we view taking place as a result of the Seattle launch where we are talking about changing agricultural regimes in their entirety, services, broad range of a menu of industrial tariff cuts, sectoral liberalization that is very significant and cross cutting, that we need to have a broader authority. And it is really an authority to implement, not to embark on the negotiations, implement the outcomes.

So that is where we are being hurt. And thus far, Senator, we have accomplished a great deal without this authority in so many

different fora. And again, without repeating them, just refer to the statement.

Senator ROBB. I will take that for the record.

Mr. FISHER. But that is where we need to have the implementation authority with which you speak and David so carefully defined.

Senator ROBB. Are we going to be a player in Seattle if the President does not have this authority?

Mr. FISHER. Again, we will embark on this road of significant liberalization in all of these areas. We certainly can begin the process without this authority in hand. We cannot complete these negotiations without this authority in hand.

Senator ROBB. Understood. Let me just ask you, are there any other heads of state, prime ministers—obviously, Senator Baucus talked about the advantages at least in this context of having the full authority of government. Whereas, we have a Federal Government where the Executive Branch and the Legislative Branch share power.

Are there any other chief executive officers of their respective states that are limited in the same way that the President of the United States is limited in getting some pre-authorization from Congress before preceding with negotiations?

Mr. FISHER. Typically, Senator, most of them have parliamentary systems where they do not have to get this kind of authorization to proceed with a negotiation.

Senator ROBB. And, of course, in a dictatorship, you do not need authorization either.

Mr. FISHER. I would say that we do have some difficulties with the European Union because while the European Commission has the authority to negotiate, when you get down to the last final tough issues, they have to go back to the member states all the time.

And you may recall, in the last days of the Uruguay Round there was a constant flow and turmoil of that kind of consultation.

Senator ROBB. Forgive me if this was covered in your opening statements. I got the end of Mr. Fisher's statement. And I got all of Mr. Aaron's statement. And I picked up part of it.

But with respect to the labor and environmental standards that have sometimes been a major issue and certainly end up energizing some segments of Congress and have some impact on administrations, what is the administration's position with respect to those hot potatoes?

Mr. FISHER. I think the President has been very clear in his State of the Union speech, in his speech in Chicago recently that we have a fundamental commitment to worker's rights and environmental protection, that these reflect longstanding fundamental values of our country and our constituency, and that any new fast track proposal needs to adequately balance the need to open markets with attention to these factors.

So we are of the view, Senator, that these must be taken into consideration in providing us with the implementation authority which we seek.

Senator ROBB. That covers a fair amount of wriggle room in terms of how you address it. And I really would not expect a more specific answer at this particular point.

One last question. I am going to have to vote. We have less than three minutes left on the vote I am told.

The question of grassroots effort that the administration is engaged in at this point, you heard Senator Gramm in particular and others suggest that without a very strong effort on the part of the administration that the likelihood that Congress is going to self start anything in this area is fairly remote.

Is the administration currently engaging in a grassroots type effort to work with constituencies and/or members of Congress beyond this testimony and occasional visits? And you have both made reference to occasional visits here on the hill.

Mr. AARON. Yes. Secretary Daley has a program of going to eight different regions of the country. He is spending several days in each country, meeting with different members of not only the Congressional delegations, but also local people, union people, environmental groups.

This week, he was in North and South Carolina where he I think had five or six different cities that he visited and made a serious effort and is making a very serious effort to educate people on the importance of support for trade and indeed fast track as an expression of that.

Mr. FISHER. Senator?

Senator ROBB. I am going to ask you using a military term instead of adjourn temporarily, I am going to ask you to stand at ease for just a moment or two until the chairman gets back. I am not going to be able to return myself, but I thank you. And he should be coming back through the door at any moment. If I do not leave now, I will not make the vote. And I thank both of you.

Mr. FISHER. Thank you.

Mr. AARON. Thank you.

[Whereupon, at 4:05 p.m., the hearing was recessed, and at 4:10 p.m., the hearing was resumed.]

Senator GRASSLEY. I am only going to take time for one follow-up question because you folks have already given us an hour and 15 minutes of your time.

And this would come to you, Ambassador Fisher, because of Secretary Aaron saying that agriculture should be the focus of the new round. And I agree with you very much there.

How does that statement square with the administration's so-called early harvest proposal where the easy items would get done first and the hard ones like agriculture kept to the end? Is there any problems there?

Mr. FISHER. Well, we share the concern of the agricultural community that we need to maximize our leverage to ensure that the WTO negotiating agenda enables to meet our objectives for substantial agricultural reform and liberalization.

Senator, while you were out of the room, we had a discussion about agriculture and how it is at the core of what we want to do and how volatile the system of the common agriculture policy is.

We have been very careful thus far to ensure that we focus on the content of the negotiations before agreeing to what the Geneva

negotiators the modalities. And this is to make sure that this stays in the front and center.

And in terms of the content, we have again the so-called built-in agenda on agriculture and services at the core of these discussions. We agree with others that industrial or nonagricultural market access should be added to the negotiating agenda to provide us with leverage for agricultural purposes.

And I think that that is probably the best summary I can give you. We clearly view this as the core, as Under Secretary Aaron mentioned. And we are seeking as much leverage as we can to make sure that we are able to effectively bring about the changes in the agricultural regime that we desire.

In terms of early harvest and that nomenclature, even in the Uruguay Round, we had an early harvest at the Montreal mid-term review, if you remember.

And what we are attempting to do this is to ensure that negotiations move faster than the Uruguay Round and use the opportunity of the Seattle meeting itself to mark achievements like this Accelerated Tariff Liberalization Program that we initiated at APEC.

David, I do not know if you want to add anything.

Mr. AARON. I would just like to make 1 point. There are areas, for example, transparency in government procurement which is an accompaniment to our efforts to curb bribery in international business dealings and level the playing field for American companies.

If we can get an agreement like that, we think we ought to go ahead with it. The ITA-2, the Information Technology Agreement Mark 2, if we can get that done and we are making progress on it, we think we ought to try to wrap that up.

But I think we are very mindful of the need for significant trade-offs to get the agricultural liberation that we need. And we are not going to trade away any trade goods that are necessary for that purpose.

Senator GRASSLEY. Well, I thank both of you for your kind attention to the subcommittee's work and today's hearing. And I have some questions I may submit for answering in writing, but I am going to move on now. And thank you very much. And you may go.

I would now call to the table our next three and last witnesses as panel number two.

Obviously, the former Congressman, Sam Gibbons, has already been spoken of here by my colleague, Phil Gramm. And I would associate myself with the remarks that Phil Gramm has stated and also have followed the leadership of Sam Gibbons on trade issues for the period of time that I have been in Congress. And I appreciate very much his very consistent point of view for free trade.

And so Sam Gibbons is the former U.S. Representative, State of Florida, and also the former Chairman of the House Ways and Means Committee.

And then, we have Robert D. Hormats, Vice President of Goldman Sachs International in New York, and the Honorable William T. Pryce, former U.S. Ambassador to Honduras, now Vice President, Washington Operations, Council of the Americas.

So we will start with Mr. Gibbons and Dr. Hormats and then Ambassador Pryce.



**STATEMENT OF HON. SAM M. GIBBONS, FORMER U.S. REPRESENTATIVE, STATE OF FLORIDA, FORMER CHAIRMAN, HOUSE WAYS AND MEANS COMMITTEE, WASHINGTON, DC**

Mr. GIBBONS. Thank you, Chairman Grassley. I appreciate the opportunity to come here and talk with you about the trade policy of the United States with our fast track. I find it is very helpful whenever I begin thinking about a subject like this to really think about who I am and who we are.

And let us talk about who we are right now because I think we need to put ourselves in perspective, not that we are not guilty of doing that all the time, but it helps to kind of direct our thoughts.

We Americans are just a little over 4 percent of the nearest population. We have the responsibility of husbanding about 30 percent of the world's wealth. We are responsible for world leadership in trade because we are the largest market on earth and because we are the largest trading nation on earth.

We talk about ourselves as being the only super power. Our responsibility is really not to be a super power, but to have the power to preserve the world peace. And we do that.

And a part of preserving the world peace is by making it possible for the world to be interdependent and dependent upon each other for the goods and services that we need. And those who trade together have a history of not fighting each other. And so we Americans have a unique role.

That really leads me to the uniqueness that I wanted to talk about here today and perhaps because of my experience where I am best qualified to talk and would appreciate any questions or suggestions that you might have, Mr. Chairman, or any members of your committee.

But with all our uniqueness in America, there is nothing in the world as unique as the U.S. Congress, any place on earth. Some of the members here have touched upon that. It is that every uniqueness of the Congress that causes us the problems that come about by not having what we call fast track authority.

The House and Senate are unique, but the Senate is the most unique body on earth. I can not only take a trade agreement and completely rewrite it, it can hold it forever in consideration. It can deny the President the operation of it. It can do all kind of things.

I did not come here as a former House member to denigrate the Senate at all, but just to talk about its very uniqueness. And it is the very uniqueness of the Senate and the very uniqueness somewhat of the House that causes the dilemma that we have by not having trade negotiating authority for the President.

Now, I think, and I have to talk very bluntly here, that fast track is a thing of the past. It was a poor name for a good process. And one of the things that we need to go is to get rid of the poor name for a relatively good process, such as we were able to do or the Congress was able to do with "most favored nation treatment."

Fast track gins up in the minds of the public and in members of Congress who are not adequately informed on this all kinds of suspicious things. They are going to be bypassed. They are not going to get any further consideration. They are going to bowl over; that their views will be buried in the whole process when such was not the intention of the process.

The process was allowed, was generated right here in this room in the Senate in the early 1970's to get around the problem of how do we consider changes in substantive American law with any kind of cohesiveness to allow us to take action?

And the whole process of the President bringing back a trade agreement for consideration presents certain problems. Essentially, you have to take or leave a trade agreement as soon as it is agreed to. If you do not, other nations just will not negotiate with you. They will not give you their best deal. They will say, well, we have to deal with the Senate. We have to deal with the House. Let us not give you the best deal. So, Mr. President, you do not get much. And so in effect, the power of the United States to negotiate is negated by that.

So the process of what we named and misnamed as fast track was a good process of bringing something back in the trade agreement, passing it through the House and through the Senate, picking up the ideas of the House and Senate members as to how that perhaps could be slightly modified without destroying the agreement. And that is all that fast track is. It is a bad name for a good process. and we need to get rid of it.

Now, there are things that we can do without fast track. And I want to talk just briefly about those, Mr. Chairman, without violating my 5 minutes too much. We ought to go ahead and negotiate, and I am talking about the administration now, an agreement with Chile without fast track.

Bring it back here. And if the Congress begins to tear it up, the Chileans can say the heck with the agreement. It is no good anymore, but it ought to be done. We need to do that because we owe it to Chile. We have been promising them a free trade agreement since I was a little boy. And that has been a heck of a long time ago. And we need to get it done. We need to live up to our word. And Chile would be not a pushover to negotiate with, but it is because we are not directly competitive. We are complimentary of each other's system. We can work out an agreement with Chile.

We need to get rid of this insane policy that we have towards Cuba that prohibits us from selling food and medicine to the Cuban people. It does not make any sense. We do not need fast track to advance that agenda which is a peaceful agenda and a humane agenda.

We need to prepare for the WTO negotiations that are—or I should say the round of talks that are coming up very rapidly in Washington in November. If we do not lead, nobody is going to lead. It is going to break down into a bickering session in which no real progress will be made. So we have to lead.

We have to seriously consider talking about labor and environment in our negotiating agreements because abuses of fair labor standards and abuses of fair environmental standards are really unfair trade practices. In the United States, we sort of have come to the conclusion that the polluter must pay the cost of his pollution activities, get it out of the cost of his goods.

Now, when the polluter can pass on that cost to society, he can sell his goods in our market at an unfair advantage. And we need to recognize that. And we need to prepare ourselves and negotiate on these environmental areas as if they were an unfair trade prac-

tice like we do in subsidies or things of that sort, our government subsidies.

And the same is true for labor. We do not expect anybody on earth to adopt the Fair Labor Standards Act or the Taft-Hartley Act or anything like that, but where there are unfair labor standards, they can become trade practices by passing on uncompetitive prices through unfair treatment of exploited labor, whether it be child labor or prison labor or whatever kind of labor is something that we need to protect our own industries from.

So I think the multinationals can handle this problem. They do not see it as a big problem. But small American businesses, the kind of things that we find most in our districts cannot compete in a world in which there are different environmental standards and there are different labor standards that are so different that really become unfair trade practice standards.

Well, the world does not stand still, as you know, Mr. Chairman. And unless we get moving on a process that we can agree to, and it is going to be difficult, I do not believe the President is in the position to lead as much as I want him to lead and as much as Senator Gramm urges him to lead.

He has only a year and a half in his term. He is an injured President. He has a Presidential election coming up. It is going to be tough one. There is a tough fight going on in the House and somewhat in the Senate about who is going to control the House and the Senate.

We are going to have a hard time leading with that kind of environment that we have. So we ought to spend our time doing what we can do. Let us get Chile out of the way. Let us get Cuba out of the way.

Let us put a decent name on what we call fast track and call it by something that describes the process and does not raise all kinds of hackles in people's minds about what is going on.

If we do not do it now, the rest of the world is going to pass us by. They are passing us by. They are today entering into all kinds of preferential trade agreements that put us at a disadvantage. We have to get moving. It is our responsibility. And it is in our own personal interest.

Thank you, Mr. Chairman. And I am sorry I have used the red light so long.

Senator GRASSLEY. Thank you, Congressman Gibbons.

Dr. Hormats?

**STATEMENT OF ROBERT D. HORMATS, PH.D., VICE PRESIDENT, GOLDMAN SACHS (INTERNATIONAL), NEW YORK, NY**

Dr. HORMATS. Thank you very much, Mr. Chairman. I really appreciate the chance to testify before this committee. I have testified on many occasions. I have always found that this committee has exercised a very constructive leadership role in trade and many other areas.

And I particularly want to compliment you, Mr. Chairman, for holding these hearings on an extremely important subject. And there is a great concern in my mind and perhaps other that this subject would be lost without people of your vision, holding hearings so that people can again refocus on this.

I also want to say that it is a great privilege to be on the same panel with my old friend, Sam Gibbons. We worked together a great many years. And I found his testimony particularly compelling.

And I think there is a real concern here that in the current environment, it is going to be awfully hard to revive fast track in this overall political environment which we find ourselves today in. And it does require the Executive Branch to take the lead. And whether that is likely to occur remains in doubt.

The previous panel I think did not do anything to dispel that doubt. And as much as I support most of what they are trying to do, I think the point that there is—it is not going to happen as a result of some consensus between the Congress and the Executive Branch. The Executive Branch is going to have to take the initiative. And then, the Congress will I believe work with it. But the beginning has to come from the Executive Branch.

I would just like to make a few specific points. First, I do think that the question before us, whatever the name, is the credibility of the American negotiators.

And it has been the case that the American negotiators do not have credibility without fast track authority or something tantamount to fast track authority that gives them the credibility that they can negotiate and that the results will not be unraveled by amendments on the hill. And otherwise, it is going to be very hard to negotiate with any country.

Second, I think it is increasingly clear that there has been after a period of considerable progress under the Bush administration and the early part of the Clinton administration during this decade, after that progress there has been a serious loss of momentum in the process of opening foreign markets to American goods and services over the last few years.

And I attribute this in part to lack of fast track authority that the U.S. cannot take advantage of many opportunities to negotiate expanded market access. It puts us on the sidelines as others negotiate free trade areas in this hemisphere and elsewhere. And it undermines U.S. leadership in the overall multilateral process.

I think the second reason that this momentum has been lost is that there has been a lack of high-level effort to explain persuasively to the American people the enormous stakes this country has in a more open global trading system and the importance of that system to the creation of high-paying, high-quality jobs in agricultural, in industry, and services.

And some degree of national consensus is required if we are going to regain the momentum. And that means explaining to people how important trade is to the United States in the job creation.

And I think it also means reassuring people that there are robust domestic safety net programs like training to help Americans who are displaced by change either technological or competitive change or changes in trade patterns.

Let me just make a few points because my time is short. First, I think that restoring fast track is important because it demonstrates to the world that the U.S. was ready, willing, and able to continue to drive the world toward more open markets.

Without American leadership, and we have seen this in the past, it is awfully hard to conceive of a successful round in the WTO or any other major negotiation. American leadership is critical to that.

Second, Europe is a much stronger, much more muscular player in the global trading system today, notwithstanding its weak roads and the weak Euro. Europe is going to play a stronger role.

And the U.S. at precisely the time that it is required of us to play a strong role to match the Europeans particularly in agriculture as the past panel indicated is going to be a major issue of contention. At precisely the time we need to be a stronger player to match the Europeans, we have to negotiate with one hand tied behind our backs.

And the last, lack of fast track authority has pushed American trade policy off track, both multilaterally and bilaterally.

Just a couple of points, in addition to agriculture which is a major priority in my judgment, critically important in dealing with the Europeans, as has been suggested, there are other issues like e-commerce. This has really grown, very important in the American economy in the future.

It has grown up in an environment that is relatively unregulated so far. But as it becomes more important commercially, the tendencies of governments around the world to tax and regulate perhaps over tax and over regulate is going to be a big problem.

And if it is going to be shaped in a market-oriented technology friendly, the United States is going to have to take the lead.

If I may just conclude on a couple of points. One, I think during this financial crisis, a lot of efforts that have been made over the last 50 years to strengthen the trading system have proved their worth, as opposed to the end of the war period when there was a financial crisis, the trading system collapsed.

Virtually, no country today has resorted to protectionism, in east Asia, Latin America, and elsewhere. There has been a noticeable absence of a retreat to protectionism in this financial crisis among emerging markets.

That has been very important. It is a testimony that the strength of the trading system and to the mutual responsibility that countries have to one another to adhere to the rules. This has been very helpful to the American economy and to American exporters.

Second, I make the point that if the United States fails to lead in this area, and we have the strongest economy in the world with the lowest unemployment among major economy, other countries that are weaker that have high rates of unemployment are going to be exceedingly reluctant to move saying that if the Americans do not have enough confidence to negotiate trade liberalization, why should we?

And the third point is that the financial system is very dependent on the trading system and vice versa. We have escaped from a major financial crisis.

But if the trading system deteriorates and emerging economies cannot export, we cannot export or our exports are impeded by new barriers or a lack of a negotiation to reduce old barriers, I think that does have an adverse affect on the financial system. And to endanger the stability of the trading system would over a period

of time also endanger the stability of the financial system because the two are interrelated.

So we should also look at this both as a trade issue and a financial issue. We have dodged the bullet on the financial crisis once. If the world retreats to more economic nationalism and fails to maintain the momentum toward open markets, it is certainly a negative effect for financial markets around the world.

And for all those Americans who have mutual and pension funds and stocks, this is an issue they should be concerned about as well. Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Dr. Hormats.

Ambassador PRYCE.

[The prepared statement of Dr. Hormats appears in the appendix.]

**STATEMENT OF HON. WILLIAM T. PRYCE, FORMER U.S. AMBASSADOR TO HONDURAS, VICE PRESIDENT, WASHINGTON OPERATIONS, COUNCIL OF THE AMERICAS, WASHINGTON, DC**

Mr. PRYCE. Thank you very much, Mr. Chairman. I want to thank you on behalf of the Council of the Americas for the opportunity to testify and salute you for what you have done to advance the cause of free trade.

As you know, the Council is a leading business organization dedicated to promoting regional and economic integration, free trade investment, open markets, and the rules all throughout the hemisphere. And the Council's membership represents the majority of private investment in Latin America.

This afternoon, I would like to discuss the opportunities that exist in Latin America for U.S. business and describe some of our experiences and concerns about the current status of our negotiating position.

My abbreviated testimony would be to state simply that we need fast track fast. Without such authority, we are standing still, slipping backward in the management of our global and regional trade policy.

The 1994 Summit of the Americas in Miami began the process of hemispheric integration. And in April of 1998, the Presidents of the hemisphere's 34 democracies met in Chile and directed the opening of the negotiations to create a Free Trade Area in the Americas.

The FTAA represents the potential market of 800 million people to whom we can sell our goods and services. It is a huge market for everything from cellular telephones to industrial machinery.

Improving our overseas market, as I say, is critical to U.S. economic growth. And we should be doing everything we can to advance the FTAA process, but the lack of trade negotiating authority is a serious impediment.

We have heard privately from other country negotiators time and time again, most recently during negotiations in Miami earlier this year in clear and blunt terms that our lack of fast track is hindering progress.

And lack of progress, as we all know will impact the United States most of all because our trade barriers are on average much, much lower than those of our neighbors because our continuous

leadership on trade liberalization and our continued economic growth depends greatly on our ability to bargain to lower high trade barriers protecting other markets.

As you know and as you mentioned, Mr. Chairman, there have also been public statements on the subject. Brazilian Foreign Minister Luiz Felipe Lampreia charged earlier this year that the U.S. is slowing its commitments to the FTAA. And Brazil's former ambassador stated that he would not buy stock in the prospect that the FTAA will finish on time.

Canadian Trade Minister Sergio Marchi has also singled out our lack of fast track as an impediment to progress.

While the United States continues to debate the benefits of free trade, other countries are gaining the edge as they negotiate preferential trade agreements with countries in the region.

Two years ago, Canada and Chile implemented a free trade agreement that eliminates Chile's 11 percent across the board tariff on imports from Canada. This has hurt the U.S. companies because they are put at a competitive disadvantage to the Canadian firms.

Last month in Rio, the heads of state of the European Union and the Mercosur countries signed a commitment to initiate formal talks toward a free trade agreement that would take effect in 2005. And talks are scheduled to begin in November.

In short, while the United States is asleep on trade expansion, others are marching along with us. And they are shaping a trade agenda without our input. And it is folly to think that we can stay inactive and still stay a leader. There is only one country that will look out for American trade interest. And that is the U.S. itself.

Mr. Chairman, I would like to mention very briefly the North American Free Trade Agreement which became a focal point in the fast track debate in the House last fall. Unfortunately, the reality that NAFTA has been a great success was lost in the hyperbole of that discussion.

The agreement reduced Mexican and Canadian trade barriers. And it has made our neighbors our two top trading partners. And NAFTA has helped strengthen the U.S. economy. During its first 5 years, U.S. goods exports to our NAFTA partners combined increased by about \$93 billion or 66 percent.

Were it not for NAFTA and the strength that NAFTA gave to the U.S., Canadian, and Mexican economies, the Asian flu and the Russian flu would have had a much greater negative effect on the U.S. economy. In fact, half of the manufactured goods export loss to Asia was made up by increased U.S. exports to Mexico and Canada which grew by \$10 billion in the first 8 months of 1998.

Similarly, U.S. agricultural exports to Mexico and Canada grew by just under \$1 billion during the period, making up one-third of the agricultural loss to Asia.

Later this month, the Council will be releasing updates of our NAFTA state studies that detail the important positive aspect of NAFTA in 21 different states in all regions of the country, thus demonstrating that NAFTA has had a widespread, major, and enduring over the last 5 years.

Once again, these studies will show that exports have climbed dramatically. Under NAFTA, U.S. businesses benefitted from great efficiency. U.S. workers have benefitted from the creation of high-

wage, high-skill export-related jobs. And U.S. consumers have benefitted from lower prices and greater choice. These are trends we should be proud of.

And NAFTA is an agreement our government should not run away from. As examples, as you probably know, exports from Iowa under NAFTA have increased 98 percent since the agreement was implemented.

Mr. Chairman, the FTAA represents an opportunity to link the 34 democracies of the western hemisphere by broadening and deepening relations in ways that benefit the U.S. economy and its citizens.

Either we take the lead now or the agenda will be set without us. And we will not be able to shape that agenda in ways that will benefit the United States the most. Let us not cede this opportunity to other countries. Thank you, sir.

[The prepared statement of Mr. Pryce appears in the appendix.]

Senator GRASSLEY. Thanks to all three of you. I will direct questions to a specific person, but if anyone else wants to help answer or rebut anything that the other panelists says, that is all right.

I would like to start with you, Sam.

Mr. GIBBONS. Yes.

Senator GRASSLEY. Since you worked with several Presidents during a very long and distinguished career, how important is it that the President—or I guess I should say how important is the President himself, and whoever that may be, in leading the effort to renew fast track negotiating authority in Congress?

And is it possible or even feasible for Congress to push for trade negotiating authority if the President is not completely engaged in that effort?

Mr. GIBBONS. The answer to your question is the President is indispensable in all of that. Having said that and being a Democrat and having respect for Bill Clinton and for Mrs. Clinton, I have to say I do not see it in the cards that he is going to lead this time.

He has injured himself by his own conduct. He has a lot of other issues on the table. He has a vice president he would like to see be made president. And he is—as far as money to the Democratic Party is concerned, he is very dependent upon the AFL-CIO.

And so it is just not in the cards that we are going to get much out of Bill Clinton in the way of leadership right now on this thing. Now, I hate to say that. I hope to hell I am wrong, Senator Grassley, but I am afraid I am right. And it ought to be said.

But that does not mean that we should stand still in the water because the President is not either prepared to lead or willing to lead. There are things that we can do without his leadership.

And I mentioned Chile. I mentioned we should at least show some momentum there, but he is going to have to do the negotiating there. He is going to have to turn his own negotiators loose on Chile and go and get it done and bring it back here and see if he can get it approved even without fast track authority.

And he can do that on CBI parity, something that we badly need to do to those poor islands down there in the Caribbean who are badly hurt by the fact that they do not have CBI parity and are losing jobs down there because Mexico has a better deal with the



United States than they have. So that ought to be done. And I think it can be done without fast track.

But to answer your question directly. The President is indispensable in it, but I think we are doing some wishful thinking if we think this President is going to lead much in this area. I hate to say that, but I think it is right.

Senator GRASSLEY. You have met, Sam, with key Latin American officials. What do they tell you of their country's willingness to engage in trade negotiations with the United States without fast track trading authority?

Mr. GIBBONS. Well, all of them would prefer to have fast track trading authority. That goes without saying, without need of any elaboration. It is an advantage. And I guess to negotiate on the Free Trade Area of the Americas agreement, the FTAA, you are going to have to have something that resembles fast track.

Now, as I said in my direct testimony, I think that fast track is a very poor name for a pretty good process. And we really need to rename the process because a lot of people do not understand our jargon. And they think, they kind of harbor up a lot of hobgoblins when they do not understand it. So I think that we need to call fast track by a better name.

I have done some thinking, but I have not come to any positive conclusion about what we ought to call it, but it is not negotiating authority. The President does not have the negotiating authority.

What we are talking about is will the Congress consider the negotiation after it is brought back and live within the spirit of the negotiation? In other words, take it or leave it.

I find that the process is ameliorating. When something would come back, a document would come back, an agreement would come back from the administration that they had made, it was always couched in very broad and general language.

And there were certain changes that we were able to make in the House and the Senate that ameliorated the political situation enough in the House and the Senate so that we could get it accepted on a take it or leave it basis. We still need that process, but it is not fast track. It is a very slow track really.

And what we need is something that describes what we in the House and the Senate are doing. We are giving orderly, serious consideration to the proposal. And we are agreeing not to hold it up on parliamentary grounds.

We do not have as much trouble in the House. You are a former House member. And you remember over there that we have something called the closed rule that gave us an enormous advantage in getting consideration on the House floor of any legislation.

But the Senate being as it is, and I am not criticizing the Senate, I recognize the Senate's unique role in our history, but the Senate has got to come together, its leadership, and decide we are going to carry this thing out. We are not going to exercise all of our individual prerogatives as Senators. And we are either going to take it or leave it.

But let us not call it fast track. Let us call it an orderly consideration of the President's international agreement. Now, an international agreement is far different than a domestic agreement. We

have real broad authority and could exercise it and rightly so on just domestic problems.

But this is an international matter we are considering. And we made an agreement with a person that has sovereignty of their own that they are proud of. And they do not want their agreement torn all apart by the House and the Senate.

And so that is what we are up against: renaming a process that was fairly good, fairly effective and getting on with what we can do, recognizing that our government is probably not going to be able to come up with what we used to call fast track.

Senator GRASSLEY. Thank you, Sam.

Does anyone else want to answer?

Mr. GIBBONS. I think it covered the ground.

Senator GRASSLEY. Ambassador Pryce, do you want to add to that?

Mr. PRYCE. Yes, sir. I would like to say, one, that I have the greatest respect for my colleague. I learned so much from Representative Gibbons, but my experience has been and what people say is that it would be very difficult even with Chile I think to get any kind of an agreement without the ability to vote an agreement up or down.

And people constantly say, why would we come to you? And I frankly doubt that Chile would come to us. It is very, very difficult. And they tell us all the time, you guys are not serious. You do not have any chips. Why did you come to the poker game?

Senator GRASSLEY. Dr. Hormats, a question for you, at the time when the United States firms have seen markets collapse because of the Asian crisis, it seems to me that the free trade agreement for the Americas becomes doubly important as a source of sales and jobs for American firms.

And by then, obviously, even if things move forward, the Asian crisis hopefully is over. Hopefully, we are on the up side now. But do you think that this is the case that obviously there is a great market there that makes up for other segments of the world turning downward?

Dr. HORMATS. I think that the FTAA is, as your question suggests, very important. In our hemisphere, the potential for increased exports is enormous.

And we as a major global trading power should be pursuing trade opportunities with the whole world. And we are doing it to a degree in APEC, although the process there has been dealt as your question correctly points out a major setback as a result, first of all, of their weakened economies during the crisis.

And, second, some of the momentum toward trade liberalization in the APEC context has temporarily, I hope not permanently at least, been lost. And some of that is going to shift to the WTO.

The FTAA is extremely important. It is extremely important in part because these are very large markets. And it is a natural extension of NAFTA for us to have a free trade area with other countries in the region, second, because these countries themselves using this hiatus, this loss of momentum on our part have negotiated arrangements which now strengthen their hand vis-a-vis us, particularly Brazil's, and, third, because the Europeans are going to begin to move more and more into those markets.

Now, I do not think that the discussions between Mercosur and the EU accomplished very much, as Dick Fisher indicated earlier, but I do think the Europeans are trolling. And they are going to keep trolling in our waters for a long time.

This would have been unimaginable had the momentum toward FTAA been sustained. Now, it is not sustained. So they are going to do it.

But I do think you are absolutely right. We ought to be building a strong infrastructure of market openness in this hemisphere for its own sake because that is important and also because there has been as you point out volatility in other areas which have slowed our exports to those regions. So in that context, the hemisphere takes on a particular importance at this point.

Senator GRASSLEY. Ambassador Pryce, you were in government at the time I believe you were at least when we first started talking about it in the early years of the Clinton administration of Chile being an extension of NAFTA and even Mickey Cantor saying the question is not whether Chile is going to be a part of NAFTA, it is only a question of when.

Yet, today because it would not wait for the President to get trade negotiating authority renewed, Chile is not a part of NAFTA and apparently does not seem to care much about it now.

What are some lessons from your involvement that we should take away from the failure to get a fair trade deal with Chile?

Mr. PRYCE. Mr. Chairman, I think the very clear lesson is that we are not going to be able to negotiate seriously with any country even though the conditions are there. That is the mutual benefits are there. And we will be competing in many areas.

If we do not have the ability to negotiate, it is not going to—if we do not have the ability to negotiate on an up or down basis, there will not be a possibility of negotiating agreements.

I might add that we are trying. And I think the U.S. Government is trying very hard now to make as much progress on the FTAA as possible without negotiating authority, looking for things that can be done without going back to Congress.

Right now, the Council of the Americas and other organizations are trying to support a business facilitation conference here in the customs area to encourage governments to take actions which do not require legislative action, but these are small things. And even that, we are at a great disadvantage because we do not have the authority.

Senator GRASSLEY. Ambassadors come to my office frequently to visit with me. And usually it happens to be about trade issues as well. From your experience in the foreign service, how would you evaluate the role or the perception of the United States' leadership? And specifically, does fast track authority contribute to the perception of U.S. leadership in a significant way?

Mr. PRYCE. It decidedly is not going to contribute to our perception of leadership. The fact that our country is not able to negotiate hurts us tremendously because other countries, other ambassadors, other governments feel that without the ability to be a real player in negotiations we lose our leadership.

As we said, the Europeans are trolling. Hopefully, our market and the potential will enable us to come back to serious negotia-

tions when we get fast track. And I am optimistic that because it is needed so badly, one way or another, sooner or later, hopefully sooner because the country needs it. And I think the country will recognize that, but we are hurt significantly and have been every time we have not had negotiating authority.

Senator GRASSLEY. I think that is what those ambassadors that talked to me imply, maybe not as directly as you just said it, but that the perception of U.S. leadership and world trade is just as important as the reality.

Dr. HORMATS. Yes. And if I may respond?

Senator GRASSLEY. Yes, please.

Dr. HORMATS. I think you are absolutely right. And I think there are two parts of this. One is that American leadership is important because they know from the past that we have been the driving force in trade liberalization.

Second, our absence our fast track and absence of leadership is a very convenient excuse for countries that do not want to move to not move. So they simply say, well, the Americans with their strong economy and low employment are not moving ahead on trade liberalization. We have therefore an excuse not to move because our economies are weaker, we have higher rates of unemployment.

So it is very comfortable for them to simply sit there and not do anything, hiding essentially behind the lack of an American authority to implement fast track. And I think that that is very troublesome in a world where the momentum toward markets, open markets is very important to growth in agriculture and high technology and everything else. That momentum being lost is very harmful to the growth of many sectors of our own economy.

Senator GRASSLEY. Ambassador Pryce, you mentioned business facilitation majors. These, of course, are customer-oriented majors. They are not market-opening majors. Is not market access what makes fast track indispensable?

Mr. PRYCE. Yes, Mr. Chairman, it is. And as I said, these are business facilitation measures. If we could find ways, for example, to expedite high-value customs shipment under bond, if we could find ways to facilitate electronic travel, these would help, but they do not change the fundamental fact that we are not lowering tariff barriers.

We are not really impeding the major competitors. We need to get something done. And I think that is important to show that the FTAA process can make some progress. And we are working very hard to do that. But these are sort of clearing the under brush for the real ones.

Senator GRASSLEY. One last question to all of you, the same question. And maybe, I should preface it with my personal feeling that we have lost some momentum and some leadership that the United States has exerted over the 50 years on this issue of liberalization of world trade.

How easy is it? If you agree with me, how easy is it to recover momentum in global trade negotiations once the momentum begins to slip, if you agree it has slipped?

Mr. GIBBONS. Mr. Chairman, first, I want to commend you for what you are doing to maintain that momentum. But let me say,

once you begin to slip and lose momentum, regaining it in the world's view is going to be extremely difficult. It is much harder to regain momentum than it is to maintain momentum.

And unfortunately, we have lost our momentum. That is one reason I suggested that we try to do some things while we are repairing ourselves and not lose momentum anymore than we already are.

I am really worried about the way we are headed, Mr. Chairman. And I am really appreciative of what you are doing to focus attention on that. We are getting ready to slip into a very, very bad era if we do not start negotiating from a position of real strength.

And we need to assure our negotiating partners to the extent we can that we are not going to tear up the agreement once the President has reached it when it reaches the House and the Senate floors. That is what they are interested in.

And that means that we as parliamentary bodies, the House and the Senate have to make the internal changes ourselves in our own attitudes and in our own rules that we can call it something like fast track.

Now, I say we ought to rename fast track because it scares people because they do not know what it means. It does not adequately define the process. The process that we are talking about is something that is very simple. We will give orderly consideration to the President's agreements once he brings it back.

He does not need negotiating authority. He can go out and negotiate with anybody on earth about anything else and bring it back. The question then is what he needs is some kind of assurance that when he gets back here to the Congress that his agreement is going to be agreed to in spirit and in the letter and not torn all apart.

That is what we are talking about. And that is what is needed. And that is what the foreign countries are looking to because they realize that the House and the Senate are different than any other legislative body on earth. No legislative body on earth possesses the powers that the House and the Senate possess.

They all envy our powers, but they certainly do not trust us with those powers. And we have to assure them as best we can that we are not going to tear up an agreement once it gets here.

Senator GRASSLEY. Dr. Hormats and then Ambassador Pryce.

Dr. HORMATS. Yes. Again, let me echo Sam's point. I think your leadership in this is very important. And I commend you on it and hope you will continue to keep these issues before the Congress and the American public.

I think that there are just a couple of points that I would like to cover in response to your question. It is as your question suggests difficult to regain momentum once it is lost, but it is doable, it is possible.

The problem is that, first of all, it is different from the Uruguay Round this time because in the Uruguay Round there was just a delay in obtaining fast track authority.

In this particular environment, two things have happened. One, the President asked for it and did not get it which makes them even more suspicious around the world. And second, the way the China WTO issue was handled makes foreigners wonder also

whether an agreement reached will not be having the rug pulled out from under it subsequently.

So those two developments I think make it harder to regain credibility, although it is doable if there is the kind of clear mandate for fast track or something tantamount to fast track which ensures an orderly consideration process on the hill and gives the negotiators sufficient credibility.

What that will be, I do not know. Fast track is the best method of doing that even by another name. It is hard for me to figure out what another alternative could be, but I do think fast track is very important.

I would just like to make one additional point. And that is that we are talking about this question and the inability of the administration to take the initiative vis-a-vis the Congress in an environment.

And it is sort of a defensive attitude on the part of the United States, at least the way foreigners perceive it at a period of time when we are enjoying the best period of economic growth in this century and the lowest rate of unemployment in this century in this century and the lowest rate of inflation in this century.

We have an economy, at least in the last 50 years, which is the envy of the world. And we are appearing to the world to be very defensive of our trade and do not have a consensus of an open trading system or a fast track.

I shudder to think, Mr. Chairman, what would happen if this economy were to weaken over the next couple of years or we were to suffer some economic setback that is very hard to perceive at this point, what we would do in that environment, how much more difficult it would be to get a consensus for open trade or a consensus for fast track.

That would be really I think an enormous problem for us and make it even more difficult to regain the momentum that your question suggests. And then, of course, all the prospects are for a continued deterioration of the American trade imbalance which again makes it more difficult to obtain this consensus.

It should not because a weakened trade balance should say to Americans, we should go out and negotiate more trade liberalization around the world. Unfortunately, the politics work, the wider the trade balance, the more defensive we become and the more reluctant certain quarters in this country are to negotiate trade liberalization.

So I worry about the fact that we are doing so well now and we are defensive and do not have a consensus for fast track and do not have an administration initiative. If things get worse at home, I am afraid the situation will get a lot worse in terms of the politics of fast track or any other kind of trade mandate. Thank you.

Senator GRASSLEY. Ambassador Pryce.

Mr. PRYCE. Mr. Chairman, I certainly agree that the inability to have fast track or a similar be the substance of fast track hurts us very much in terms of our momentum. And it will be difficult to regain the momentum, but I also agree with Dr. Hormats that it is possible.

But one of the bit worries is that while we do not have it, we are getting left behind the door. Other people are moving on and things are happening that we are not part of.

So when we get it back, once we get it back, yes, we will be able to negotiate again, but what will happen in the meantime? We lose markets. Other people move in. And this hurts the American people. It hurts us significantly. So I think that is our real danger.

And also, I agree that perhaps fast track has a bad name, although it is brought us tremendous advantages in world trade. It has made us a leader. It has given us prosperity. And it should not cause the problems that it does.

But if we found another name, perhaps that would be good. Call it a negotiating authority.

But an orderly process is not really what can do the job. What has to be done is some process so that when somebody negotiates something, we take it back. And they have a reasonable expectation that it will not be significantly changed.

And if it is changed, then there is no agreement. Then, you have to start over again. And if you have to go back to the other country and see if the changes are acceptable. And the other country will say, well, we will make these changes and we want other changes. And it will have to come back.

So I think that is why we have fast track so that you vote an agreement up or down. And it would be very difficult to negotiate without something close to it.

Senator GRASSLEY. The name fast track feeds the synergism people have about Congress that everything here is done with a fast deal or a fast buck or something of that nature.

So you are absolutely right. And we may come up with that magic day and a magic name, as Senator Moynihan did one time with the issue of most favored nation. And that was passed as normal trading relations which it is.

Well, I not only thank you, but I am going to have to say goodbye to you at this point because I am going to go over to the floor to participate over there. Thank you all very much.

[Whereupon, at 5:04 p.m., the hearing was concluded.]

# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. DAVID L. AARON

### INTRODUCTION

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee today to discuss the topic of trade policy and fast track negotiating authority. This is a timely discussion as we prepare for the Seattle WTO Ministerial Conference later this year. At that time, the world's trading nations are expected to launch another round of negotiations which will enhance our trading opportunities. My distinguished colleague, Deputy U.S. Trade Representative, Ambassador Richard Fisher, has addressed the need for fast-track authority which would provide additional impetus and support for the ongoing efforts of the Administration to open foreign markets to U.S. goods. Ambassador Barshefsky, with the support of her team and that of the Commerce and other agencies' staff, have done an excellent job to increase U.S. export opportunities. With fast-track, we could do more.

First, however, I want to address an underlying, fundamental issue which has prolonged the debate over fast-track authority. As I see it, one of the most important issues that confronts us in the trade arena is the lack of domestic consensus regarding the importance and impact of international trade and the best means to address it. That remains the central fact in the debate about fast track. At the Department of Commerce, we are keenly aware of this problem. Today, I would like to discuss some of the opportunities that lie before us as well as some of the challenges we face and what we in the Commerce Department are doing to try to build domestic support for our important trade agenda.

Trade makes a tremendous contribution to the strength of our national economy and to the economic well-being of our citizens. Our standard of living is the envy of the world. However, recently exports have leveled off as a result of the global economic downturn. At the same time, a booming U.S. economy has resulted in steady import growth, contributing to record trade deficits. As global economic conditions improve, it is essential that we continue our work of opening markets and promoting U.S. exports. If we are to maintain the best jobs and best wages, a strong export sector will be key to sustaining economic growth and rising living standards; we must take every opportunity to maintain and improve the system of trade.

In the ten years ending in 1997, U.S. exports gained over 140 percent (adjusted for price changes) and accounted for one-third of total economic growth. These gains have provided job opportunities for millions of Americans. And these jobs pay wages that are significantly above those in the rest of the economy. The U.S. economy is inextricably linked with the world economies through trade. Relative to the size of the economy, total trade (exports and imports) has risen from about 9 percent of GDP in the early 1960s to 24 percent today.

The balance of trade in goods and services was in deficit in the amount of \$164 billion in 1998 and at an annual rate of \$218 billion thus far in 1999. Exports declined 0.4 percent in 1998, the first outright decline since 1985, and in early 1999 were down 1.2 percent from the same period a year ago. Imports, however, continue to advance on the strength of the U.S. economy. This not, however, a reflection of a loss in U.S. competitiveness, but rather the weakness in the global economy outside the United States. With a continuing strong economy imports continue to grow at a rate consistent with our domestic growth. The United States more than any other economy in the world is at the forefront of the new digital information economy. This puts us in a superior competitive position. Our competitive strength will be clearly demonstrated as the global economy picks up.



## OPPORTUNITIES FOR U.S. IN INTERNATIONAL TRADE

Mr. Chairman, we face many opportunities in the near term to build on these competitive strengths, and we are working hard to seize them for the benefit of American firms and workers. We have the opportunity to conclude multilateral market opening initiatives in the WTO by the time of the Seattle meeting. We expect to launch talks then for further liberalization in the WTO where we will work for more market access in services and further reductions in tariffs among other issues. We are also working at the regional level, as in the Free Trade Area of the Americas initiative, to open those markets as well.

To reap fully the benefits of these opportunities, the President—and the Administration—believes that traditional trade negotiating authority should be renewed, as he noted in the State of the Union, “to advance our prosperity in the 21st century.” It is an important tool that lends credibility to our negotiators. And while it is not necessary to launch negotiations as we have done in the Free Trade Area of the Americas and expect to do in Seattle, it will be essential when it is time to bring those negotiations to a close.

**Sectoral Initiatives**—One of the most immediate opportunities before us is the “Accelerated Tariff Liberalization” initiative. The United States and our APEC partners are seeking agreement this year on a global tariff reduction package worth \$1.5 trillion in world trade in eight sectors: chemicals, energy, environment goods and services, fish, forest products, gems and jewelry, medical and scientific equipment, and toys. As a result of this agreement, U.S. industries could gain significant market access in foreign markets as duties as high as 60 percent will be eliminated. Last month, APEC Ministers also agreed that the sectors of food and oilseeds, civil aircraft, fertilizers, and rubber tariffs should be addressed in the tariff negotiations of the new round. U.S. worldwide exports of the industrial products (aircraft, fertilizers, rubber, and food products) account for more than \$155 billion.

In another important tariff area, the Administration remains strongly committed to opening markets for information technology products and the U.S. information technology industries are solidly behind our effort. If successful, the ITA II will eliminate tariffs within four years on many products which were not covered in the original ITA.

**Electronic Commerce**—An area where we are seeking to ensure that governments do not do anything on tariffs is in electronic commerce. Currently, cyberspace is duty-free and we are seeking to make permanent the current moratorium on tariffs on electronic transmissions.

**Transparency in Government Procurement**—The annual global government procurement market has been estimated at over \$3.1 trillion. However, the vast majority of WTO Members do not have binding international obligations in the area of government procurement, primarily because they are unwilling to accept the market access commitments of the Agreement on Government Procurement. As a result, the United States has been pressing for conclusion this year of an Agreement on Transparency in Government Procurement. The WTO has made considerable progress and with more hard work, we believe an agreement is possible by the Ministerial.

**New Round**—Beyond these initiatives that we hope to achieve by the time of the Seattle Ministerial, we expect to launch broad based negotiations because the cornerstone of our trade policy remains, as it has been since World War II, to reduce tariff and trade barriers globally, as well as regionally and bilaterally. Despite years of negotiations, though, there is no question that American exporters still face formidable barriers in some parts of the world. That is why the President called for a new round in his State of the Union address this year.

Our focus is on the “built-in” agenda of services and agriculture to which we may add industrial tariffs. Of course, many aspects of upcoming WTO agriculture negotiations will present important opportunities for U.S. processed foods exporters as well as others but today I would highlight two particular areas of opportunity for the manufacturing and services sectors.

We need to work on reducing the gap between bound tariff rates and applied tariff rates. It is inconceivable to me that a country could apply a tariff of, say, 15 percent to our exports for years—high as that may be—yet face no penalties under international trade rules for raising that tariff several times over up to the bound rate if it chooses to offer protection, for example, to a new investment. To ensure that we receive the benefits of tariff reductions we need to look at other barriers in customs, standards or certification requirements that can be important obstacles to market access.

The new round offers the possibility to improve access for U.S. services providers in overseas markets. Working in coordination with USTR, Commerce is leading our industry outreach effort, holding roundtables with industry groups to determine

their views and priorities. Too few countries made meaningful market access commitments in the services area during the Uruguay Round and this is the time to make further progress.

Priorities for us include a broad range of service sectors with deeper commitments in telecommunications, together with fundamental improvements in commitments on distribution, audiovisual, construction, travel and tourism, the professions, finance, education and health, and others as well. We will seek to prevent discrimination against particular modes of delivering services, whether through electronic commerce or through a commercial presence in the host country.

*Regional Opportunity*—An example of opportunities that lie before us at the regional level is the Free Trade Area of the Americas. The FTAA will remove trade barriers, offer preferential access to Latin markets, establish clear and transparent rules, and improve conditions for workers and the environment. Latin America already accounts for 21 percent of U.S. merchandise exports, up dramatically from under 14 percent at the beginning of this decade. The region has been a key contributor to the export-led expansion which has fueled one-third of all U.S. economic growth since 1992. In fact, Latin America has been responsible for almost half of all U.S. export growth since 1995. Further, excluding Mexico, Latin America is the only region of the world where the United States has consistently run a trade surplus in the 1990s.

Tariffs are a clear example where we have much to gain and little to lose, since tariffs in Latin America are four times higher than in the United States on average. In fact, because of the many U.S. preferential duty programs more than half of our imports from Latin America already enter the United States duty-free, and the average U.S. tariff on Latin goods is a low 2.3 percent. In contrast, most U.S. products face a minimum tariff of 5 percent in Latin markets and more typically 10-20 percent in the larger markets.

The advantages of strong trading rules in an FTAA are no less important. U.S. exports benefitting from Latin America's unilateral market openings and economic reforms need to be locked in. The peso crisis demonstrated the usefulness of Mexico's NAFTA commitments in keeping its market open to U.S. goods and its economic policies on course. By way of comparison, prior to the onset of its current fiscal crisis, Brazil enacted several measures to discourage imports, such as restrictive import financing, import licensing requirements, and an increase in Mercosur's common external tariff.

In the more foreseeable future, FTAA Ministers have agreed to implement meaningful business facilitation measures as a demonstration of "concrete progress by the year 2000." The immediate focus is on 10 customs-related business facilitation measures designed to ease the process of doing business within the hemisphere.

Mr. Chairman, we need to continue to level the playing field and reaping opportunities by engaging our trading partners in all these areas-sectorally, multilaterally and regionally. This Administration is not resting on past accomplishments—we cannot afford to, especially in today's turbulent trade world that is changing so rapidly in terms of markets and technologies.

#### CHALLENGES FOR UNITED STATES LEADERSHIP

Clearly behind your call for these hearings today, Mr. Chairman, is the sense that we face many challenges at the international level and domestically. Many countries are seeking and forming trading alliances with their neighbors and even across oceans, and in this respect the EU has been particularly active. We can meet many of some of these challenges by making use of existing institutions, international rules and other tools available to us to continue to provide leadership. However, some of these problems have nothing to do with our domestic debate about trade and the availability or absence of fast track would not necessarily fundamentally change the dynamics. However we must continue our efforts to build the consensus on trade domestically for we do need fast track.

*Latin America*—One of the areas where we most need to do something about increased foreign competition is right here in our own hemisphere. We cannot afford to take for granted the markets that have been responsible for almost one-half of all U.S. export growth since 1995. Latin nations, strongly encouraged by the United States, have moved beyond their traditional closed markets to embrace greater market openness and increased competition. We have welcomed this change, because it has created greater economic growth, expanded market opportunities, reinforced economic reform and buttressed the emerging democratization of the region.

But at last count, more than 30 regional and subregional trade arrangements were active within the region without U.S. participation. Chile, for example, either has or is negotiating trade agreements with every democratic nation in the Western

Hemisphere, except the United States, including free trade agreements with Mexico and Canada, and is now entertaining overtures from Korea. Just last week, Brazil announced agreement with the five members of the Andean Pact to reduce or eliminate tariffs on more than 2,800 products. Just last week, Brazil announced agreement with the five members of the Andean Pact to reduce or eliminate tariffs on more than 2,800 products.

Other than with NAFTA partners, we are barely maintaining our share of the hemisphere's purchases, as U.S. exporters find themselves competing against foreign firms that enjoy preferential tariffs that we do not. For example, in 1997, the American Chamber of Commerce in Chile identified more than one-half-billion dollars in lost U.S. sales—these were specific instances—to firms situated in countries that had preferential trade agreements with Chile. That's between 10 to 15 percent of our annual exports to Chile. If the same ratio were to apply to all our Latin markets outside Mexico, lost U.S. sales would approach \$9 billion.

Second, the European Union—traditionally our strongest competitor in Latin America and especially in Mercosur—is turning its attention to the region. Having watched the United States realize a seven point gain in import market share with Mexico in the 1990s—largely at the EU's expense—the European Union and Mexico are now negotiating a free trade agreement which they expect to conclude this year. We are closely watching these talks to ensure that they are consistent with obligations that Mexico undertook in NAFTA and with obligations under the WTO.

A key EU objective on the trade front in Latin America is to achieve at least parity with the FTAA. Many observers expect the EU's resistance to agricultural liberalization to be the stumbling block in these talks, and the United States will be vigilant to make sure that any agreement struck—with either Mexico or Mercosur—strictly complies with the WTO criteria of covering substantially all trade and raising no new barriers to third parties.

*Europe*—Last year, the EU launched accession negotiations with Poland, the Czech Republic, Hungary, Estonia, Slovenia and Cyprus. Those which are slated to join at a later time include: Romania, Latvia, Lithuania, Slovakia and Bulgaria. The U.S. Government fully supports EU enlargement into Central and Eastern Europe (CEE) in a manner which encourages further economic reforms and facilitates these countries' continued transition to market economies.

U.S. commercial interests in the region, however, are being negatively affected by transitional trade arrangements that were put into effect prior to accession. Since 1991, the European Union has had association agreements with Poland, Hungary, the Czech Republic, the Slovak Republic, Romania, Bulgaria, Estonia, Latvia, Lithuania, and Slovenia. These agreements grant preferential tariff treatment to EU products and establish schedules for gradually reducing CEE tariff rates on EU non-agricultural products each year until the tariff rates reach zero. For U.S. products, higher most-favored-nation (MFN) rates are maintained at average tariff levels three times higher than ours and EU's MFN tariff rate and, on average, eight percentage points higher than the tariffs that U.S. products face when entering the EU market. Some U.S. industries, such as the auto industry, have complained that these tariff differentials hinder their business prospects in the CEE markets.

A permanent solution to this issue is to encourage CEE countries to reduce their MFN tariffs on industrial products to the level of the EU's common external tariff as soon as possible rather than only when they accede to the EU. I have made this a high priority. In June, I sent Assistant Secretary for Market Access and Compliance Patrick Mulloy to the key countries of Poland, Hungary and the Czech Republic to raise this important issue. He received a commitment to work with us and to respond with a counter-proposal which would seek to address this problem. We will continue to seek a satisfactory resolution.

The Administration is increasingly concerned over the question of access to the European Union market for U.S. agricultural exports derived from bio-engineering. The United States has long viewed the EU's process for approving new agricultural products through bioengineering as being too slow, non-transparent, and scientifically unjustified. Unfortunately, the problem is getting worse. Strong European public opposition to the use of genetically modified organisms (GMOs) in food now threatens to stop the EU from approving any new bioengineered products.

To establish agreed rules for trade in biotech products and to foster greater understanding and acceptance of the U.S. approval process for GMOs, the United States is engaged in a number of international and bilateral initiatives. The Transatlantic Economic Partnership's, or TEP, Biotech Working Group is one such forum where the United States is working with the EU to address issues of mutual concern. In spite of changes underway to the EU approval system, we certainly intend to hold the EU to the commitment it made at the recent U.S.-EU Summit to launch a pilot project on simultaneous approvals. At the G8 Summit last month, leaders asked the

OECD to look at the implications of biotechnology in light of increasing concern over food safety for consideration at the G8 Summit in Japan next year. We have much work ahead of us in this area, but we are committed to finding solutions as the stakes are so high for the United States.

The TEP process of close consultation and information exchange is ongoing, and I have high expectations that we will be seeing some tangible, real benefits coming out of the TEP in the coming months. The Leaders at the recent U.S.-EU Summit took note of this—TEP was mentioned by them in the joint press conference which was held at the end of the Summit, and the work of the TEP was highlighted in the Senior Level Group Report to the Summit.

During the Summit, an Early Warning mechanism to better manage U.S.-EU trade issues was announced. The TEP Steering Committee was identified as one of the key channels for providing such advance warning of potentially contentious, politically sensitive issues. Thus, TEP will play a key role to better address sensitive issues, such as "hushkits." I expect that the U.S. and the EU will actively use the TEP to further eliminate economic barriers between us and promote cooperation among our regulators.

*Africa and Middle East*—In February 1999, South Africa and the EU reached agreement on an FTA which may be ratified by the South African Parliament some time in the fall of this year. While we endorse a free trade agreement, as with any arrangement that the EU concludes in Latin America we will examine this agreement for consistency with WTO requirements. There is the clear possibility that the EU-South African agreement could have adverse implications for U.S. exports to South Africa as European suppliers will enjoy duty-free access to the South African market, while U.S. companies will face an average tariff of 8-36 % in sectors which comprise the bulk of our exports (total over \$2 billion). U.S. exporters are not yet fully aware of the implications of the FTA, because its full terms have not been disclosed and we do not know its tariff stagings. However, U.S. soda ash producers and truck manufacturers have indicated some concern. We will use the U.S.-South Africa Trade and Investment Framework Agreement Council later this month to seek clarification on the final terms of the agreement.

Over the past few years, the EU has begun to negotiate bilateral preferential trade agreements with countries in North Africa and the Levant. These agreements, when final, will create an area into which European exports will become more competitive due to the elimination of tariffs. Since both the United States and Europe export similar products to this region (technology, consumer products, and agricultural goods), U.S. market share will erode. In many cases, European goods are already less expensive due to lower transportation costs.

*Asia*—The ASEAN Free Trade Area (AFTA) was established on January 28, 1992 as a scheme to lower tariff rates on manufactured products produced in member countries. Under AFTA, the ASEAN countries have made significant progress in regional economic integration, tariff reduction, industrial cooperation, and customs streamlining and harmonization. This integrated internal market of 500 million people is designed to make ASEAN a more attractive site for investment. Economic Ministers agreed to move ASEAN's deadline for tariff elimination under AFTA to 2002, several years ahead of the original deadline, for six ASEAN countries—Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Vietnam, Laos, Cambodia and Burma are on more extended time tables to bring tariffs down. While some members recently admitted that they will be unable to eliminate barriers by the agreed time frame (due to the financial crisis), the process continues to move forward. As these agreements become effective, U.S. competitive access to these markets can be adversely affected by the margin of preferential access ASEAN members will enjoy in each other's markets.

*Domestic Concerns*—Mr. Chairman, as we are aware, while these challenges at the international level are before us we face an equally challenging climate here at home. Despite the many great opportunities before us and the markedly higher standards of living that the phenomenal increase in cross border trade—nearly 14 fold in the past half century—has brought for almost all trading countries, especially the United States, in a recent poll, 58 percent of Americans agreed with the statement that foreign trade is "bad for the U.S. economy because cheap imports hurt wages." Only 32 percent agreed with the statement that trade is good for the U.S. economy; it creates foreign demand, economic growth and jobs." There is a clear disconnect between the fact that the American economy has never been in better shape and the fact that the benefits of free trade are still unclear. Why? Because the vigorous economic expansion of the 1990s hasn't helped all Americans, and many of the needs of those who Alan Greenspan calls the "victims of progress" have not been addressed.

The labor community has concerns. While the unemployment rate is at a 29-year low and wages are rising, the share of U.S. income going to many American families has continued to fall. While trade is a small force underlying this trend—and technology has played a predominant role—trade is more visible to the public. As Secretary Herman said recently, we need a way to include worker protection in a formula for sustained economic growth. Trade and adherence to core labor standards must become mutually reinforcing objectives in our economic policy. Trade negotiating authority would enable us to advance a progressive agenda which includes stronger linkages between the WTO, the ILO and non-governmental organizations.

Similarly, the environmental community has expressed concerns that trade might lower environmental standards become a race to the bottom. But trade liberalization and environmental policies can and should be mutually supportive. As the President stated in his remarks to the WTO last year, "Enhanced trade can and should enhance—not undercut—the protection of the environment." The U.S. is taking the lead in promoting improved environmental and conservation standards worldwide. For example, in Japan, our efforts to open their housing markets led to their acceptance of the U.S. standards on energy saving insulated glass. This trade initiative has effectively led to the export of improved environmental standards that will conserve energy in Japan. We are seeing great support for our initiatives to eliminate trade-distorting subsidies in fisheries and agriculture which can have important positive environmental effects. The Administration discussed a number of proposals to further integrate trade and the environment at the WTO High Level Symposium on Trade and Environment in March 1999, and we are continuing to discuss ways to further this integration.

#### COMMERCE EFFORTS TO BUILD DOMESTIC SUPPORT

An important element in gaining support of more Americans for free trade is to assure them that trade works to their advantage and that their government has policies and programs in place to help. At the Commerce Department we are constantly improving current programs to assure compliance with trade agreements, enforce our trade laws, promote U.S. exports and educate Americans about the importance of international trade. These efforts, I hope, contribute to building support for our trade agenda. I want to thank you Mr. Chairman, along with Chairman Roth and Senator Moynihan, for your help in making sure our compliance and enforcement programs are adequately funded by our appropriators.

*Compliance*—Mr. Chairman I believe that a component in building that support is to assure Americans that that the agreements we negotiate are honored and that American firms and workers obtain the benefits and opportunities intended. It is also one of the best ways to help create confidence among business, labor, and the general public that trade agreements actually work and actually create new business and employment opportunities. Hence, compliance and enforcing our trade laws are a priority throughout the International Trade Administration. The Trade Compliance Center coordinates our compliance activities but all our country market access officers, our industry experts, as well as our Commercial Service officers overseas, are involved.

Our increased monitoring tells us that most countries are attempting to live up to their trade agreements, but we have seen some actions inconsistent with obligations. We have been trying to get Korea to live up to its obligation to allow American companies to compete fairly on contracts for its new \$6 billion airport. Despite months of effort, we have had to turn to the dispute settlement process through USTR and a WTO panel has been formed to hear our complaint and we expect to prevail.

But we have successes too. We have been successful in getting Korea to reinterpret its standards so as to allow the sale in Korea of high efficiency washing machines that use a step-down transformer. The manufacturer was told it violated Korean electrical codes even though the machine was safe and efficient and was being exported to many other countries. Our team of MAC and TD as well as our US&FCS officers at the Embassy cleared the way for the U.S. company to begin exporting by successfully marshaling U.S. government technical and standards experts and working with the Koreans to resolve the issue without appealing to the WTO. Congressional interest in this issue also helped convince the Koreans to resolve it.

We helped a small company in Auburn, Indiana, making specialized bulk packaging products for the chemical industry, which was being shut out of the European market by a European competitor who got product standards changed to exclude its product design. We got European governments to remove the discrimination, and saved over 300 Indiana jobs.

By the company's own account, ITA's work kept a Poulsbo, Washington, company from possibly going out of business by convincing the Singapore Government to stop a local company from selling pirated versions of the U.S. firm's directory of importers. Until we stepped in, the company said it was powerless to stop the loss of its global markets to pirates.

We worked with the Swedish government to end a local jurisdiction's regulations in Sweden that had prevented exports of a U.S. chemical product.

We have tailored much of our work to smaller companies, because they lack the time and resources to deal with foreign governments—or our own government—on trade barriers. Our Internet website usage ([www.mac.doc.gov/tcc](http://www.mac.doc.gov/tcc)) has quadrupled in the past year. Our website is undergoing renovation and will go public with a redesigned online presence before close of this fiscal year.

The significance of compliance advocacy lies in attempting to resolve problems rapidly without the necessity of the United States having to enforce its rights through formal dispute settlement mechanisms. It also creates confidence that the United States is actively monitoring and ensuring that our exporters receive their rights under our trade agreements.

**Tough Trade Law Enforcement**—Key to the Administration's support of trade liberalization is the strong and swift enforcement of the fair trade laws which ensure that U.S. industries and American workers are not injured by imports of unfairly priced or subsidized goods. Commerce vigorously enforces the fair trade laws—during the first six months of this year alone, we have either completed or are in the process of conducting more than 65 antidumping or countervailing duty investigations.

Over the past year, Commerce has conducted or is conducting antidumping and countervailing duty investigations on hot-rolled steel, cold-rolled steel, cut-to-length plate and a variety of stainless steel products. Commerce has also taken a number of important steps to enhance and improve overall enforcement of these laws including: 1) expediting a number of investigations to provide swifter relief to the industry; 2) instituting a new policy on "critical circumstances" to address import surges by putting importers on notice earlier than ever before that they could be liable for retroactive dumping duties; and 3) other modifications to our dumping methodology.

Other enforcement efforts undertaken over the past year by Commerce in response to the steel crisis include enhanced subsidy and import monitoring efforts. In response to concerns raised by the steel and semiconductor industries, Commerce's Subsidies Enforcement Office expanded its activities and worked closely with USTR to evaluate industry concerns about possible new subsidies abroad. As a result of these activities, the U.S. government has actively engaged countries that have announced new programs before their implementation to seek changes. We have taken a strong stance on steel-related subsidy issues such as the privatization of POSCO, Korea's largest steel company, and the sale and disposition of Hanbo Steel. The Subsidy Enforcement Office established an import monitoring program to monitor imports for potential surges and price movements that may indicate unfair trade. Much of the focus of the program over the past year has been on steel—we currently monitor imports of most major steel products and cover major steel exporters such as Japan, Russia, Brazil, Korea and the EU. As part of this import monitoring program, Commerce has been releasing preliminary monthly steel import statistics approximately three to four weeks before the release of the official statistics to provide the industry with the most timely accurate data on steel imports.

Regarding China's WTO accession, we have insisted that we maintain our ability to apply our nonmarket economy methodology in future dumping cases. This is crucial for ensuring that our firms and workers are not devastated by unfairly priced imports from China.

We have also made our commitment to strong enforcement clear in the multilateral context by fending off attacks on the fair trade laws. For example, within the WTO Working Group on Trade and Competition, Japan and others have made a number of attempts to initiate a discussion of replacing the dumping laws with laws on competition. We have made it clear that such discussions are untenable and that any future work on competition issues in the WTO would need to exclude dumping. We have also made it very clear in discussions regarding the new round that we will oppose any effort to include the antidumping agreement in negotiations in order to weaken those laws. We are firmly committed to ensuring that the integrity of the fair trade laws is maintained.

**Monitoring Bribery**—Twenty-one years ago, the United States Congress passed the Foreign Corrupt Practices Act (FCPA). Later, in the 1988 trade bill, Congress directed the Executive Branch to seek an agreement in the OECD to address bribery. This Administration with the strong support of the business community and Congress, has achieved that goal by concluding the Convention on Combating Bribery.

ery of Foreign Public Officials. Through the Convention, thirty four nations have agreed to enact criminal laws that will follow closely the prohibitions found in our FCPA and separately agreed to disallow the tax deductibility of bribes. So far 15 of the 34 signatories accounting for 60 percent of OECD exports, have deposited their instruments of ratification of the Convention and it entered into force in February 1999. We are working with the State and Justice Departments and our General Counsel to continue efforts to encourage the remaining signatories to ratify the Convention. There is a huge amount of money at stake. Just last year, there have been allegations of foreign bribery in 55 contracts worth \$37 billion. Over the past five years, we received allegations that bribery of foreign public officials influenced decisions on 294 major commercial contracts valued at approximately \$145 billion.

Commerce, working with other agencies, completed on July 1, 1999 the annual report mandated by the Congress in the law implementing the Convention which was enacted last December. Our first report included descriptions of domestic laws enacted by participants, an explanation of laws to prohibit the tax deductibility of bribes, and other information requested by the Congress. We will continue to monitor country implementation of the agreement and will work with business associations, NGOs and other groups that have an interest in the Anti-Bribery Convention and can be helpful on monitoring. We will also continue to collect and analyze signatories' laws on bribery and work to inform the public of the benefits of the Convention.

*Export Promotion Efforts*—Our export promotion services are reaching out to an ever-wider universe of potential exporters to help them bring the benefits of exports to their communities. Every company needs to consider the potential impact of trade on their business outlook. And given the high level of competition in the global marketplace, a company's best defense may be a good exporting offense. By reaching out to every company, particularly small companies, we are building domestic support for trade.

We are aided in this effort by a new understanding of the breadth of our small and medium sized enterprise (SME) client base. Between 1992 and 1997 the number of small businesses involved in exporting increased 87 percent. The most recent data on small and medium-sized exporters show that in 1997, almost 97 percent of exporters were small or medium-sized companies but accounted for only 31 percent of the value of U.S. merchandise exports. In addition, 63 percent of all SMEs that exported products sold goods to only one market, so there is clearly room for these companies to export more.

Commerce is undertaking a number of new and innovative efforts to reach out to small and medium-sized enterprises. This year, our Advocacy Center is implementing an initiative to expand U.S. Government advocacy outreach to more small, medium and minority-owned businesses throughout the country. And we opened the U.S. Trade Center at the Ronald Reagan International Trade Center Building this year to make it easier than ever for a company to take the first step toward global export counseling and assistance from the Commerce Department and the other federal agencies providing export services and financing (1-800-USA-TRADE).

Commerce is also working hard to respond to the rapidly changing needs of the exporting community. Through our Innovation 2003 Initiative, we have begun shifting our product focus from a standard, off-the-shelf approach towards full customization based on the needs of clients.

We are engaging an array of new E-commerce products that will reduce market entry costs and open up a world of business opportunities. Virtual trade shows showcase U.S. products and services in distant markets at a fraction of the cost of on-site participation. Video conferencing puts American companies in front of prospective foreign business partners without costs of travel. And electronically delivered market research, trade leads, and business contacts will enable clients to receive information updates instantaneously.

We are also putting our global network of trade professionals in over 100 U.S. cities and more than 80 countries into the hands of traditionally under served or disadvantaged communities. The total number of businesses owned by minorities increased 60%, from 1.34 million to 2.2 million over five years. To better serve this growing business segment, through our Global Diversity and Urban Export Initiative we are working with national and local organizations, conducting outreach activities, and integrating minority-owned firms into our programs. This Initiative seeks not only to boost exports, but to enhance the economic development of minority communities through trade.

Our Rural Export Initiative is helping companies located in rural areas to enter into export markets via the Internet, satellite communications, and other state-of-the-art technologies. Our domestic network provides these companies with access to

export assistance, global market research, and international trade services such as freight forwarding and banking otherwise unavailable to them.

Over the past year, Commerce sponsored a series of 12 conferences about the Euro and EMU preparedness. These conferences brought together leaders in business, education and government to discuss the euro and its implications for U.S. businesses in the future. There were also more than two dozen other Euro-related events initiated by U.S. export assistance centers across the country.

By more closely coordinating our trade finance and promotion programs with those of the states, we hope to encourage them to play a bigger role in helping U.S. small businesses to export. By combining our efforts with our national and international presence, we can make sure that our efforts complement, rather than compete, with each other.

We are working with the National Governors Association on a number of projects. We want to help them better coordinate governors' trade missions and match their most competitive sectors with overseas markets. They want us to develop a one-stop web site where governors can get information about agency programs, as well as information to plan and complete successful trade missions. And we plan to leverage our resources to fill in the "gaps" between state and federal programs.

*Secretary Daley's Trade Education Initiative*—Secretary Daley has realized that it takes more than government programs to change views regarding international trade. He knows that a deeper understanding in the public of the value of international trade to our economy and national well-being is a central factor in finding the way forward on trade. By the time of the Seattle Ministerial he will have visited a dozen cities, having an honest face-to-face dialogue with people, trying to build a pro-trade majority at diners, and on the factory floor. The tour is a partnership with the President's Export Council, Virtual Trade Mission, U.S. Chamber of Commerce, and Business Roundtable and other organizations active on international trade issues. The tour represents a coordinated effort involving leaders in government and the private sector—all committed to broadening this understanding and helping develop a new national consensus on trade.

There are three main messages of the tour, each targeted at the local, "grass roots" level: first, to put a more "human face" on trade by illustrating what it means for "everyday Americans"—including workers, consumers, and small business owners—and build a new trade consensus on how to promote greater trade and advance the rights of workers and protection of the environment. Second, the critical role of trade in local economic development, including the promotion of good, high-paying jobs. And third, the importance of keeping communities strong and competitive through private-public partnerships that address the need for strong education and training programs.

He has spoken to participants at every event about their fears for their jobs and their pensions, and their concerns about trade agreements with other countries where workers earn less and don't have health care. Last month, he met with some executives from Caterpillar in Peoria and they reported that Caterpillar's exports to Mexico have tripled. But while that may be understood in Peoria, it hasn't caught on in the rest of America. We have a long way to go to convince people that globalization is good for the next century.

#### CONCLUSION—TRADE ESSENTIAL TO AMERICA'S FUTURE

Mr. Chairman, in closing, let me reiterate what the President has noted—globalization is not a policy choice, it is a fact. Trade—and the larger markets it brings—is essential to the future of our farmers, businesses and workers. But this Administration recognizes that in order to move forward in the world economy we must recognize that expanded trade and investment is not an end in itself; it is a means by which we seek to raise the living standards of our people. We must continue to work to assure that the trading system works to benefit all Americans—and that they have the tools to take advantage of the opportunities it presents.

Our ultimate goal must be to liberalize trade in a way which promotes the broadest possible progress in living standards as well as sustainable development and to craft a trading system that reflects and honors our values. Our negotiating tools and strategies for trade agreements should reflect these fundamental objectives. Mr. Chairman, we stand ready to work with you and the members of this committee to continue to find the consensus that points the way forward.

Thank you and I will be glad to respond to your questions.



## PREPARED STATEMENT OF AMBASSADOR RICHARD FISHER

Mr. Chairman, I welcome this opportunity to appear before the Subcommittee to discuss our trade agenda and the contribution a Congressional decision to grant negotiating authority might make to it.

## THE TRADE RECORD

Let me begin by offering my thanks to the Subcommittee for your consistent support of our mission to open markets, expand trade, and enforce trade laws and trade agreements. We appreciate our close working relationship, and hope to continue it into the future.

Since taking office in 1993, the Clinton Administration has worked with Congress to complete nearly 300 separate trade agreements, including five of historic importance: the Uruguay Round, the North American Free Trade Agreement, and the multilateral agreements of 1997 on Information Technology, Basic Telecommunications and Financial Services. We have begun market-opening initiatives in each part of the world, and fundamentally strengthened our enforcement of compliance.

Thus, American working people, businesses and farmers today operate in a world economy far more fair to Americans and open to our goods and services than ever before. Together with the Administration's commitment to fiscal discipline—which took a \$290 billion budget deficit and turned it into a surplus of \$63 billion in the past fiscal year, with larger surpluses ahead—and the President's commitment to improvement of education, job training and adjustment, this has helped us create the best economic environment our country has ever enjoyed. Since 1992:

- Our country has prospered. Our economy has expanded from \$7.1 trillion to \$8.5 trillion in real terms (1998 dollars), and we have the benefit of the longest peacetime expansion in America's history.
- Our businesses have created jobs. Employment in America has risen by well over 18 million jobs, and unemployment rates have fallen from 7.3% to 4.3%, the lowest rate in the past three decades.
- Our economy has become more competitive, with unprecedented technological development and rates of investment. The U.S. has been rated by impartial observers as the world's most competitive economy for the past five years.
- And our families have enjoyed higher living standards. Since 1992, average wages have reversed a twenty-year decline and have grown by 6.0% in real terms. This family prosperity is reflected, for example, in record rates of home ownership and unprecedented growth of family assets, investment in mutual funds, and other measures of financial well-being.

## GROWTH AND HIGHER LIVING STANDARDS

Let me now turn to our agenda for the future.

The trade policy agenda we have set seeks enduring goals—growth, higher living standards, the rule of law, a rising quality of life, better protection of health, safety and the environment, and the advance of basic values. As President Clinton said in the State of the Union address we need to find new methods of negotiating, and address a broader array of issues, to secure these goals in the next century.

*1. WTO Ministerial Conference and New Round*

This is the basis of the President's call for a new, accelerated negotiating Round for the 21st century. The Round, which will be at the center of the world's trade agenda in the next three years, would begin at the WTO's Third Ministerial Conference, which Ambassador Barshefsky will chair in Seattle from November 30th to December 3rd. This will be the largest trade event ever held in America, bringing government leaders, Trade Ministers, business leaders, non-governmental organizations and others interested in trade policy from around the world. It is an extraordinary opportunity for us to shape at least the next decade of multilateral trade negotiations and to highlight our economic dynamism to the world.

The Round itself would be somewhat different from previous Rounds, in that we should be able to pursue three dimensions simultaneously: first, a negotiating agenda to be completed on an accelerated timetable; second, institutional reforms and capacity-building at the WTO; and third, ongoing results in priority areas.

With respect to ongoing results, we have begun working toward consensus on several important initiatives in the months leading up to the Ministerial Conference and at the event itself. These include:

- ITA II—An "Information Technology Agreement II" adding new products to the sectors already covered by the first ITA;

- Electronic Commerce—Extension of last May's multilateral declaration not to assess customs duties on electronic transmissions, to make sure that the Internet remains an electronic duty-free zone;
- Transparency in Government Procurement—an agreement on transparency in procurement to create more predictable and competitive bidding, reducing the opportunity for bribery and corruption and helping ensure more effective allocation of resources; and
- Accelerated Tariff Liberalization—At the recent APEC Ministerial in Auckland, New Zealand, Asia-Pacific Trade Ministers reaffirmed commitment to moving this initiative forward in the WTO this year, seeking to eliminate (and in two cases harmonize) tariffs in chemicals; energy equipment; environmental goods; fish and fishery products; gems and jewelry; medical equipment and scientific instruments; toys; and forest products. In addition, APEC Trade Ministers agreed to take proposals to cut or eliminate tariffs in five different sectors (fertilizer, rubber, civil aircraft, oilseeds and food) to the WTO to be addressed as part of the coming WTO Round. They also endorsed a high-level APEC Automotive Dialogue, the first regional forum to involve governments and the private sector in this key industry, to map strategies for more open trade in the auto sector.

The second dimension of institutional reform would promote transparency, allow the WTO to facilitate trade and participation for less developed nations, help it coordinate more effectively with international bodies in other fields, and continue to strengthen public confidence in the WTO as an institution. Here we would hope to take up such issues as:

- Trade facilitation. Most of the world's regional trading arrangements—ASEAN, APEC, the European Union, Mercosur, NAFTA, the proposed FTAA—contain a critical element of trade facilitation, often beginning with customs reform to reduce transaction costs and make trade more efficient. The WTO can help accomplish this on a much broader scale.
- Capacity-building. Here, we hope to ensure that the WTO can work effectively with member economies and other international institutions, particularly with respect to the least developed nations, to ensure that they have access to markets and technical assistance to make the commitments that will help their economies grow, provide opportunities to their people, and develop trade with the U.S. and other countries.
- Addressing the intersection between trade and environmental policies. Trade and environmental policy need to be mutually supportive. As trade promotes growth domestically and overseas, we must at the same time ensure clean air, clean water and protection of our natural resources, as well as effective approaches to broader questions like conservation of biodiversity.
- Addressing the intersection between trade and labor. Again, as in our domestic economy, growth can and should be accompanied by safer workplaces and respect for core labor standards. There is room for the WTO to collaborate with the International Labor Organization on some of these issues. As the President has announced, the Administration is requesting \$35 million in FY 2000 for a new multilateral program in the ILO to provide technical assistance for international labor rights initiatives, such as eliminating exploitive child labor, and for our own Department of Labor to help our trading partners strengthen labor law enforcement. These and other such efforts should be a focus of renewed cooperation with the ILO.
- Coordination with the international financial institutions. The WTO must work more effectively with the IMF and World Bank to achieve their common goals of a more stable, predictable and prosperous world.
- Transparency. We will also seek reform, openness and accountability in the WTO itself. Dispute settlement must be transparent and open to the public. Citizens must have access to panel reports and documents. Civil society must be able to contribute to the work of the WTO, to ensure both that the WTO can hear from many points of view including business, labor, consumer, environmental and other groups, and that its work will rest on the broadest possible consensus.

With respect to the negotiating agenda, we are now consulting with Congress, industry, and other interested parties on a detailed negotiating agenda for talks which would begin after the Ministerial. While the final scope of the agenda is yet to be determined, we believe the agenda should address the top priorities of the United States, while remaining manageable enough to complete within three years. This would be centered on the following areas:

- Agriculture, where we envision broad reductions in tariffs, the elimination of export subsidies, and further reductions in trade-distorting domestic supports

linked to production. We must seek to make state trading enterprises operate at risk in the marketplace through greater transparency and new disciplines; seek reform of the EU's Common Agricultural Policy, and ensure that the world's agricultural producers can use safe, scientifically proven biotechnology techniques without fear of trade discrimination. We are now consulting with domestic producer, commodity and other interest groups on a detailed agenda, through public outreach programs including "listening sessions" across the country and other methods.

—Services, in which we hope to see specific commitments for broad liberalization and market access in a range of sectors, including but not limited to audiovisual services, construction, express delivery, financial services, professional services, telecommunications, travel and tourism, and others.

—Industrial tariff and non-tariff barriers, where we will seek to continue our progress in reducing bound and applied tariff levels, and continue to address non-tariff measures in industrials sectors.

We may also wish to pursue a forward work-program of an educative or exploratory nature on newer issues which are not yet ripe for negotiations.

## 2. Regional Trade Agenda

At the same time, we are pursuing an active agenda in each region of the world. A brief review is as follows:

—Canada—With Canada, our largest trade partner and the destination of nearly a fifth of our exports, we have serious concerns on a range of agriculture and other matters, but have reached a series of significant achievements in the past months. First, we concluded a market access package opening opportunities for American grain farmers, cattle ranchers and other agricultural producers. As a result, at least 303,000 tons of wheat and barley, and a substantial number of cattle, have moved north in the present marketing year. Both figures are very major increases over the past marketing year. We have also reached an agreement to ensure access for American magazines to the Canadian market, a significant accomplishment after decades of exclusion from this market. In the months ahead, we will continue to address our bilateral issues and enforce sectoral agreements, while working closely with Canada in the FTAA discussions and preparation for the WTO Round.

—Mexico—Trade with Mexico has expanded rapidly since passage of the North American Free Trade Agreement—Mexico is now our second largest goods export market after Canada. We continue to monitor implementation of Mexico's NAFTA commitments, scheduled to be completed by 2008, and are addressing still vexing bilateral issues including telecommunications barriers as well as piracy in intellectual property rights. We have also stepped up our efforts in the trilateral work program now underway in more than 25 Committees and Working Groups of the NAFTA signatories, with the intention of maximizing our gains under the NAFTA.

—Western Hemisphere—The Miami and Santiago Summits of the Americas have called on us to complete work on a Free Trade Area of the Americas no later than the year 2005. We are now approaching the midpoint of that timetable. This year, in accordance with Summit directions, we intend to achieve "concrete progress" toward the FTAA in our nine Negotiating Groups and through business facilitation and other measures. At the same time, we have submitted to Congress an expanded and improved Caribbean Basin Initiative, and hope to work with the Subcommittee on its passage.

—Europe—In Europe, we are both working to take advantage of common interests and address disputes with the European Union. As the Subcommittee is aware, we have taken retaliatory action to ensure that the European Union pays a price for its refusal thus far to implement WTO dispute settlement panel and Appellate Body findings that its banana and beef policies are inconsistent with WTO obligations. At the same time, however, we are working cooperatively to remove barriers and strengthen trade relations with the EU through the Transatlantic Economic Partnership begun last year. This includes negotiations on seven separate agenda items: technical trade barriers, agriculture (including biotechnology and food safety), intellectual property, government procurement, services, electronic commerce and advancing shared values such as transparency and participation for civil society. At the US-EU summit, this helped us complete a draft framework for MRA agreements on trade in services (now under consideration by EU member governments), and a pilot project to improve transparency and regulatory policies in biotechnology. We are also working closely with the EU and Central European governments to ensure that EU

expansion, which we support, does not raise new barriers to U.S. goods, services and investment.

—Asia—Under the Asia-Pacific Economic Cooperation (APEC) forum we are looking long-term toward free and open trade in the region. At the recent APEC Ministerial in New Zealand, as I noted earlier, we reaffirmed APEC's support for WTO consensus on the liberalization package begun in 1998. We will also address bilateral issues with Korea, the ASEAN nations and other Asian trade partners. This includes support for Normal Trade Relations with Kyrgyzstan and Laos, and significant progress toward a broad trade and commercial agreement with Vietnam, which would allow us to endorse Normal Trade Relations with Vietnam as well. We appreciate Congress' passage of permanent NTR for Mongolia earlier this spring.

—Japan—In trade relations with Japan, our largest overseas trade partner, we will continue our intense and sustained effort to open and deregulate the Japanese market. To begin with, we have concluded 38 market-opening trade agreements with Japan since 1993, and vigorously monitor their implementation and enforcement. These range from medical equipment to autos, fruit, and the most recent agreement on NTT procurement.

We are also addressing continuously sectoral issues in Japan including steel, insurance, glass, film and others. And as I noted earlier, we are pursuing an ambitious set of goals under the Enhanced Initiative on Deregulation and Competition Policy, both in individual sectors and in broader structural issues, and won a commitment on a significant set of measures during Prime Minister Obuchi's visit several months ago, in sectors including telecommunications, housing, medical devices, pharmaceuticals, energy and financial services, as well as measures to strengthen competition policy enforcement, transparency and distribution. We also work to eliminate specific market access barriers in Japan through WTO dispute settlement, as well as through APEC and WTO negotiations and other regional and multilateral fora.

All of these are important initiatives during this period of Japan's economic stasis: without an explicit commitment to structural reform, driven by Tokyo's commitment to move from a "command and control" approach to accepting competition as the driving force of the Japanese economy, no amount of fiscal and monetary stimulus will alone restore sustainable, long-term growth and prepare the Japanese economy for the future.

—China—In our bilateral relationship with China, we continue to monitor and strictly enforce our agreements on intellectual property and market access with China, and address bilateral trade problems in agriculture, direct marketing and other areas. Most recently, this has included an advance of fundamental importance to American farmers and ranchers: the Agreement on Agricultural Cooperation concluded during Premier Zhu Rongji's visit. This agreement lifted bans imposed due to unscientific sanitary and phytosanitary standards on Pacific Northwest wheat, American meats, and citrus. USDA specialists are now working with China to ensure that Chinese customs and agricultural officials develop the regulatory procedures and expertise necessary for us to ensure that the agreement yields its full benefits.

At the same time, we are seeking broad market-opening through our negotiations toward China's accession to the World Trade Organization. We have made significant progress on this, which I will address more fully below.

—Africa—USTR is implementing the President's Partnership for Economic Growth and Opportunity in Africa by supporting economic reform, promoting expanded trade and investment ties, and encouraging Africa's full integration into the world trading system by negotiating bilateral agreements, technical assistance and other measures. This will help African governments continue their reform efforts, building the sound policy framework which opens economies to private sector trade and investment and offers the greatest potential for growth and poverty alleviation as well as trade opportunities for the U.S..

A particular priority is Congressional approval of the African Growth and Opportunity Act, which is before the House of Representatives this week. We are also developing agreements with key African trade partners and leading reformers. In recent months, for example, we have signed a Bilateral Investment Treaty with Mozambique, and Trade and Investment Framework Agreements, or TIFAs, with South Africa and Ghana. We hope to complete a similar TIFA with the West African Economic and Monetary Union. Broader efforts to encourage full integration of developing countries into the trading system will also bolster our Africa policy; and in this regard, we will seek renewal of the Generalized System of Preferences.

- Middle East—Building upon our Free Trade Agreement with Israel, we have inaugurated a program that aims to bolster the peace process, while advancing American interests. Starting with a framework of bilateral trade and investment consultations in the region and a newly inaugurated industrial zones program, we will help the Middle Eastern countries work toward a shared goal of increased intra-regional trade. This has included creation and expansion of the first Jordan-Israel Qualifying Industrial Zone at Irbid, designation of a second, and completion of a Trade and Investment Framework Agreements with Jordan and Egypt.
- OECD—We strongly support passage of the OECD Convention on Shipbuilding Subsidies and will work with you to ensure its success.

#### MONITORING AND ENFORCEMENT

Second, US trade policy will support and advance the rule of law internationally by ensuring the enforcement of trade agreements and U.S. rights in the trading system.

Much of our enforcement work takes place at the World Trade Organization. We have filed more complaints in the WTO—49 cases to date—than any other WTO member, and our record of success is strong. We have prevailed on 22 of the 24 American complaints acted upon so far, either by successful settlement or panel victory. In almost all cases, the losing parties have acted rapidly to address the problems. We will insist that this remain the case in all our disputes, including those with the European Union on beef hormones and bananas. The WTO arbitration panel's recent decision in the bananas case, finding \$191.4 million worth of damage from EU policies, is an important indication that those who violate commitments will pay a price. On Monday, we received authorization to impose a \$116.8 million retaliatory action in the beef case, and will announce the list of products in the near future.

At the same time, the U.S. has complied fully with all panel rulings it has lost, although these are few in number. And we will, of course, use our rights under the NAFTA to ensure open markets to our goods and services in Canada and Mexico.

We continually monitor implementation of WTO commitments. Notably, by January 1st, 2001, all WTO developing country members are scheduled to fully implement their intellectual property commitments, and all members are required to implement customs valuation commitments. We will insist on strict compliance with these deadlines.

Likewise, we are vigilant to ensure enforcement of textile quotas and implementation of textile market access requirements overseas. A number of our trading partners clearly have further work to do in market access, including some of our largest and fastest growing textile suppliers. We have and will continue to aggressively pursue our rights, whether through the consultation process or ultimately through the WTO dispute settlement regime.

U.S. trade laws are also a vitally important means of ensuring respect for U.S. rights and interests in trade. We will continue to challenge aggressively market access barriers abroad using laws such as Section 301, "Special 301" and Section 1377, to open foreign markets and ensure fair treatment for our goods and services, ensure nondiscrimination in foreign government procurement and ensure compliance with telecommunications agreements. The Administration is also, of course, committed to full and vigorous enforcement of our laws addressing dumping and subsidies, and on injurious import surges. And to ensure that we have the maximum advantage of domestic trade laws, the Administration has extended by Executive Order the substance of two laws for which authority has lapsed: "Super 301" and Title VII.

#### WTO ACCESSIONS AND INTEGRATION OF TRANSITION ECONOMIES

Third, we are working with economies remaining outside the WTO on commercially meaningful accessions.

Specifically, since December we have concluded the accession of Kyrgyzstan, Estonia and Latvia; we are now pursuing other accessions including Albania, Algeria, Andorra, Armenia, Azerbaijan, Belarus, Cambodia, China, Croatia, Former Yugoslav Republic of Macedonia, Georgia, Jordan, Kazakstan, Laos, Lithuania, Moldova, Nepal, Oman, Russia, Samoa, Saudi Arabia, Seychelles, Sudan, Taiwan, Tonga, Ukraine, Uzbekistan, Vanuatu and Vietnam.

Two groups of economies make up the bulk of these accessions: a set of Middle Eastern nations, where Jordan and Oman have made significant progress; and China, Russia and sixteen other nations in transition from communist planning systems to the market. Their entry will make membership in the trading system nearly

universal; and the accession of the transition economies will be a fundamentally important step in their domestic reforms as well. This would remove large distortions in world markets, dramatically enhance market access for American producers, and bolster international stability by giving these nations a greater stake in world prosperity beyond their borders.

Let me, however, discuss the transition economies in some more detail. These are the largest nations and largest traders outside the system today. To support rather than undermine both domestic reform in these economies and the rules of the trading system, these countries must be brought into the WTO on commercially meaningful terms. The result must be enforceable commitments to open markets in goods, services and agricultural products; transparent, non-discriminatory regulatory systems; and effective national treatment at the border and in the domestic economy. The experience of Central European countries like Poland, Hungary and the Czech Republic, which are long-time WTO members, shows that WTO membership has assisted their domestic economic reform policies.

In the months to come, we will negotiate intensely with all acceding economies, including China—the largest prospective WTO member. We made significant progress with China in the months leading up to the visit of Premier Zhu Rongji in all our areas of concern. In the context of a commercially meaningful accession, the Administration is prepared to work closely with Congress to secure permanent NTR status for China. Several important issues remain unresolved, however, and we have held no formal negotiations since the mistaken bombing of the Chinese Embassy in Belgrade. Our hope is that the Chinese will be ready to re-engage relatively soon, since the time remaining to achieve accession in 1999 is limited.

In Europe, we have made equally significant progress with six transition economies: Albania, Armenia, Croatia, Georgia, Lithuania and Moldova. Some of these governments in the Balkans and the Caucasus are operating under very difficult circumstances, and deserve great credit for their progress so far. We are committed to commercially meaningful accessions in all cases, and will continue to work with each of these and with the others at the pace they set.

#### TRADE EFFECTS OF FINANCIAL CRISIS

Fourth, we continue to address the trade effects of the financial crisis affecting Asia, Russia and parts of Latin America. However, economies continue to suffer. Six major economies—Hong Kong, Indonesia, Malaysia, South Korea, Russia and Thailand—contracted by 6% or more last year. This crisis has now lasted a year and a half, and its effects on our trade interests have been severe. Countries which have implemented IMF reform programs have seen a number of good results, including currency stability, returning investor confidence and the beginnings of positive growth in the first quarter, but our focus on strengthening recovery and addressing the difficulties this crisis has caused remains intense.

As a result of this crisis, the American trade imbalance has widened. This reflects largely a sharp drop of about \$30 billion in American exports to the Pacific Rim, and a consequent break with the pattern of rapid U.S. export growth of the past few years. Our overall import growth last year (with the principal exception of the steel sector, in which imports rose very rapidly in the second half of 1998, affecting thousands of jobs) remained consistent with growth rates in previous years. Thus the larger deficit largely reflects predictable macroeconomic factors.

Our trade policy response begins by ensuring that our trading partners continue to live by commitments at the WTO and our regional and bilateral agreements. The strength of the trading system is an enormous advantage here—despite the worst financial crisis in fifty years, the world has resisted the temptation to relapse into protectionism. This has greatly reduced the potential damage to our economy, and particularly to American manufacturing exporters and agricultural producers. In addition, other markets—particularly our NAFTA partners Canada and Mexico, to whom U.S. goods exports grew by \$13 billion last year—have in part compensated, thanks to the more open North American market NAFTA creates, for some but not all of these lost exports.

We continue with a policy response covering several areas:

—**IMF Recovery Packages**—We support reform packages with the IMF at the center in several affected countries. A number of these contain trade conditionalities which we vigorously monitor. These packages are showing results: especially in Korea and Thailand, there are early signs of recovery, including a rebound in American exports to both countries and projections of positive GDP growth this year.

—**Restored Growth in Japan**—A return to growth in Japan, Asia's largest economy, is essential for the economic health of the region. The Administration's

view is that this requires fiscal stimulus continued until domestic demand-led growth is secure, financial reform, and significant structural reform led by deregulation and market-opening. USTR's responsibilities lie in this last area. As I noted above, we are pursuing a broad set of measures to deregulate the Japanese economy under the Enhanced Initiative on Deregulation and Competition Policy, and achieved significant results during Prime Minister Obuchi's visit.

—Steel—The President's January 7 Steel Report to the Congress laid out a comprehensive action plan on the 1998 steel import surge. The plan provided for a roll-back of imports from Japan—the key source of the import surge—to pre-crisis levels, by stating that the Administration is prepared, if necessary, to self-initiate trade cases to ensure that this roll-back takes place. The plan also outlines actions taken by the Commerce Department to expedite ongoing dumping investigations and apply dumping margins retroactively. In addition, the Administration expressed strong support for an effective safeguards mechanism, and affirmed our commitment to continue to assess the effectiveness of steps taken to date, and work closely with the industry, labor, and members of Congress, to assess additional steps. To assist in this ongoing review, the Commerce Department also began to release preliminary steel import data which are available about a month earlier than the normally released final import statistics, enabling the industry to react to imports more rapidly.

This program is being implemented fully. Since the release of the President's Steel Action Plan, the Commerce Department has announced preliminary dumping margins with respect to Japan, Russia and Brazil. Secretary Daley announced yesterday that we have finalized two agreements with Russia—a suspension agreement on the carbon flat rolled dumping case and a broader agreement under the market disruption article of the 1992 bilateral trade agreement. These agreements would roll back and cap steel imports from Russia, the second largest source of our 1998 steel import surge. In Korea, we have expanded discussions on steel with the objectives of real and substantive progress toward permanently getting the Korean government out of the steel business. Most recently, we announced a suspension agreement with Brazil. As a result, steel imports in the first five months of 1999 have returned to the 1997 pre-crisis levels. Implementation of the action plan and import monitoring continue.

This policy allows us to address the import surge and remain faithful to our international commitments. We thus help U.S. workers, and at the same time forestall a protectionist response to the global crisis by our trading partners and retaliation against U.S. exports which could endanger American agricultural and steel-intensive producers and their work force.

#### THE 21ST-CENTURY ECONOMY

Fifth, trade policy will help lay the foundation for the 21st-century economy by ensuring that the trading system is compatible with rapid advances in civilian science and technology.

In medicine, environmental protection, agriculture, entertainment, transportation, materials science, information and more, science is advancing at extraordinary speed. This offers the world tremendous potential to increase wealth, raise productivity, improve health care, reduce hunger, protect the environment and promote education. These are also areas in which the United States has a significant comparative advantage.

Under President Clinton, our trade policy has made high technology a strategic priority. Consistent with national security, we have aimed to ease the development and commercialization of new technologies, and ensure strong incentives for scientific and technological progress. We have negotiated far-reaching new agreements in sectors like computers, semiconductors, information technologies and many other areas. This work continues in multilateral, sectoral and regional negotiations.

In the multilateral system, the rapid advance of technology requires us to improve the trading system's institutions and negotiating methods. In a world where successive generations of new products arise in a matter of months, and both information and money move instantaneously, we can no longer take seven years to finish a negotiating Round, or let decades pass between identifying and acting on trade barriers. We will have to move faster and more efficiently, which is a significant reason for the President's call for an accelerated Round, and the recent APEC endorsement of a three-year time-frame for the work to be embraced at the WTO Ministerial.

We must also ensure that trade policy, both in the WTO and in our regional and bilateral negotiations, helps ensure that we can take advantage of our comparative advantage in knowledge industries and other new technologies. Three broad issues cut across many sectors:

—**Intellectual Property Rights**—Our success in this field over the past decade owes a great deal to the work of Congress, both in the Trade Act of 1988 with its creation of “Special 301,” and on the Uruguay Round. Today, the vast majority of our trading partners have passed modern intellectual property laws and are improving levels of enforcement. In this area, we will spend a great deal of time ensuring that all WTO members comply with their obligation to introduce full intellectual property protection by January 1, 2000. This was the focus of our 1999 Special 301 announcements, which noted special concern about Ukraine, Israel and Hong Kong over copyright, Uruguay and Egypt on patents, and the announcement of WTO cases against Argentina and Canada for failing to enforce patent rights in medicines. For countries, like China, which are not WTO members, we will vigorously monitor compliance with bilateral agreements.

We are also implementing campaigns against worldwide piracy of new optical media technologies, and against end-user piracy of software. These issues are integral parts of our regional negotiating agenda in Asia, Latin America, Europe, Africa and the Middle East. Looking ahead, we must extend protection of intellectual property rights beyond basic laws and enforcement to protect new technologies like genetically engineered plant varieties. Finally, we are working to secure broad ratification of recent World Intellectual Property Organization treaties addressing among other issues piracy of copyright works on the Internet.

—**Global Electronic Commerce**—In accordance with the President’s Global Electronic Commerce initiative, USTR seeks to preserve electronic trade over the Internet as duty-free. At the last WTO Ministerial Conference, in May of 1998, we won agreement to a “standstill” for tariffs on electronic transmissions. As I noted earlier, we are seeking consensus on extending that agreement this year as we approach the Seattle Ministerial. Likewise, in our negotiations toward the Free Trade Area of the Americas, at APEC and in the Transatlantic Economic Partnership, we have created special committees to advise us on ways to ensure all participants can take maximum advantage of electronic commerce.

—**Biotechnology**—A third top priority for us is biotechnology. Among the chief sources of innovation in this field are American agriculture and medicine. USTR will seek to ensure that pharmaceutical companies, farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination. This is a priority for us in the Transatlantic Economic Partnership negotiations and in developing our agenda for future WTO negotiations.

—**Sectoral**—We also have an active sectoral high-tech agenda. A notable recent accomplishment is the renewal of the International Semiconductor Agreement, bringing together major producers including the U.S., Japan, Korea, Europe and Taiwan. In the months ahead we will work toward consensus on the ITA II agreement I discussed earlier. We are also working closely with our civil aircraft industry to ensure its future and combat foreign, particularly European, subsidies and other unfair practices.

#### RISING QUALITY OF LIFE

Sixth, US trade policy seeks to ensure that worldwide as in the United States, trade and growth go together with a rising quality of life, including setting and achieving high standards of environmental protection, the observance of core labor standards, and high levels of consumer protection.

As in our domestic economy, we regard environmental quality and protections for workers as essential parts of economic policy. Trade policy has an important role to play, in coordination with our efforts in other fora, to ensure growing respect for internationally recognized core labor standards and sustainable development worldwide.

##### *1. Trade and the Environment*

Our Administration believes that prosperity through open trade and the protection of health, safety and the environment need not conflict, and should be mutually supportive. This is the case in our domestic economy, where in the past three decades our GDP has risen in real terms from \$3.7 to \$8.5 trillion—while our percentage of fishable and swimmable rivers and streams doubled, the number of citizens living in cities with unhealthy air fell by half, and many endangered or threatened species, including the bald eagle, the symbol of American pride, are recovering.

The Preamble of the WTO recognizes this in the international setting, stating that sustainable development is a central objective of its work. Where there are potential



conflicts, we should strengthen our ability to resolve them in a manner that protects the environment, health and safety and does not undermine the trading system. This includes working to ensure that the proper expertise is brought to bear on complex technical and scientific issues, particularly those with environmental, health and safety dimensions. The President has also stated that he will conduct an environmental review of the next Round.

In many cases elimination of trade barriers will also contribute to a cleaner environment and the conservation of natural resources. Thus, at the WTO, in the next Round we will seek measures including consensus on eliminating barriers to trade in environmental goods and services; ending tariffs on energy equipment; and eliminating fishery subsidies that contribute to overcapacity and result in too many boats chasing too few fish. These measures will help cut the cost of pollution cleanup and prevention, especially in developing countries; complement efforts to address climate change; and help us reduce pressure on marine resources.

At the same time, as the trading system ensures that members avoid using environmental standards as disguised trade barriers, in eliminating barriers to trade we must not compromise on the achievement and maintenance of high levels of environmental, health and safety protection. And the system must work together with multilateral environmental institutions.

We continue to support the effective implementation of the North American Agreement on Environmental Cooperation in conjunction with the NAFTA. Cooperative activities that have occurred as a result of this agreement have improved environmental protection in a number of different areas—for example, an agreement on the conservation of North American birds; the creation of a North American Pollutant Release Inventory; an agreement on regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury; and the creation of a trilateral working group that has improved the enforcement of environmental protection laws. Benefits have also resulted from the implementation of the Border Environment Cooperative Commission (BECC) which was also entered into in conjunction with the NAFTA. The BECC has fifteen environmental infrastructure projects under construction today, funded in part by the North American Development Bank, including the first wastewater treatment plants in Juarez.

## *2. Trade and Core Labor Standards*

Likewise, the trade system must help to assure the dignity and safety of workers. Here again, we can draw lessons from our experience at home, where since 1970, as manufacturing production doubled, the number of workplace deaths fell 60%. Our efforts here include seeking closer cooperation between the WTO and the International Labor Organization, bolstering ILO capabilities to address exploitative child labor and other violations of internationally recognized labor rights as well as ensuring safe and healthy workplaces, and working with individual trade partners to advance our goals.

Most recently, the U.S. led in conclusion of a landmark international Convention banning abusive child labor worldwide. President Clinton addressed the ILO Ministerial meeting which adopted this Convention, and committed to seek Senate ratification when he returned home.

We also seek closer coordination between the ILO and the World Trade Organization. At the Singapore WTO Ministerial Conference in 1996, the WTO for the first time recognized the importance of labor standards and cooperative work with the International Labor Organization, while clearly separating advocacy of labor rights from protectionist trade policies. We wish to build on this to ensure that the trading system works more effectively with the International Labor Organization, with businesses and with citizen activists to ensure observance of internationally agreed core labor standards—banning forced labor and exploitive child labor, guaranteeing the freedom to associate and bargain collectively and eliminating discrimination in the workplace.

We have thus proposed in Geneva that the WTO establish a forward work-program to address trade issues related to labor. We also have raised labor standards in country policy reviews under the Trade Policy Review Mechanism. In these reviews each WTO member's trade regime is examined, and other members are provided an opportunity to raise questions. We have used this opportunity, for example in the recent Swaziland review, to seek clarifications about labor practices that we believe are inadequate.

To bolster these efforts, the President is requesting \$25 million for a program to help the ILO work with developing countries to put in place basic labor protections, safe workplaces and guarantee worker rights, as well as Department of Labor bilateral assistance to help enforce their own laws and develop support systems, so that

workers everywhere can enjoy the benefits of a strong social safety net. These are fundamental human rights and common concerns, and trade policy has a place in addressing them.

We are also taking steps in a number of other areas directly related to trade policy. The Administration has directed the Customs Service to step up its efforts to ensure that items made by forced or indentured child labor are not imported into the United States. USTR is enforcing provisions of existing law that impose penalties for clear violations of worker rights. For example, we partially removed GSP trade preferences from Pakistan over child labor concerns. At the same time, however, the Administration has worked through the Labor Department to develop long-term solutions to the problem. As a result, 7,000 children have been removed from jobs stitching soccer balls and 30,000 children from jobs knotting carpets.

Likewise, we are finding ways to address core labor standards as we advance our trade policy goals. The North American Agreement on Labor Cooperation under NAFTA is one example. Another is our recent textile agreement with Cambodia, which includes provisions committing Cambodia to improve the enforcement of its labor laws in the garments sector.

#### ADVANCING AMERICAN VALUES

Finally, we will seek to advance basic American values and concepts of good governance, by making the institutions of trade more transparent, accessible and responsive to citizens.

The President has said that, as trade grows, the rules of trade must do more to ensure that the trading system coordinates more fully with environmental, labor and financial institutions, and the need for transparency, accessibility and responsiveness grow. This is natural and a development we both support and promote.

One principal forum here is the WTO, where we are seeking agreements on more rapid release of documents, ensuring that citizens and citizen organizations can file amicus briefs in dispute settlement proceedings, and that dispute settlement proceedings be open to public observers. In the interim, President Clinton has made a standing offer to open any dispute panel involving the United States to the public, if our dispute partner agrees.

A second forum is the FTAA negotiations, in which—for the first time in any trade negotiation—we have created a Civil Society Committee to give business associations, labor unions, environmental groups, student associations, consumer representatives and others a formal means of conveying concerns and ideas to all of the governments involved in the talks. This Committee has received 69 submissions from all over the hemisphere, including from labor organizations, environmental groups, Chambers of Commerce, professional associations, academics and individual citizens. We expect the 34 Trade Ministers to discuss the views submitted by the public at their Ministerial meeting in Toronto this November. In the meantime, all the countries participating have the benefit of these views as the work of the Negotiating Groups proceeds.

A third is our encouragement of new Transatlantic Dialogues with the European Union for consumers, labor and environment as part of the Transatlantic Economic Partnership. Through this effort we are promoting our shared values with Europe in the activities and negotiations we are undertaking as part of the TEP and multilaterally.

#### TRADE NEGOTIATING AUTHORITY

As we pursue this agenda, the Administration will consult with the Subcommittee and Congress on the renewal of trade negotiating authority. The President has affirmed repeatedly his call for a Congressional grant of negotiating authority, and we stand ready to work with you and other Members of Congress to move forward on that important goal. We have been consulting with Finance Committee staff on the timing and content of Congressional development of any legislative grant of negotiating authority, and will continue to do so.

We applaud the Committee's support for this, and will work closely with its Members and staff as they develop ideas. However, as no specific initiative has yet been drafted, I will confine my remarks today to general points on the utility and goals of negotiating authority.

The President, in his State of the Union address and just last month in Chicago, called for a new consensus on trade. He said trade should lift the lives of all people, and that we must find the common ground on which business, workers, farmers, environmentalists and government can stand together. This is the policy of our Administration.

That is why it is critical to provide broad authority to negotiate agreements that reflect our values. Consistent with that approach, we believe negotiating authority should bolster the traditional bipartisan support for trade policy and allow us to pursue an agenda that reflects consensus goals. It is a tool which can help us negotiate with greater credibility and effectiveness, strengthening our ability to pursue America's vital economic interests, open markets, increase growth and raise living standards.

Trade negotiating authority has, in the past, served as a convenient method for ensuring timely but full debate on trade agreements with the certainty of a positive or negative Congressional vote. With respect to our current agenda, it would likely be very helpful in several negotiations set to conclude early in the next decade.

Many major U.S. trade policy goals, of course, do not require such authority. These include monitoring and enforcement of trade agreements; completion of WTO accessions; market-opening and deregulation in Japan; and regional initiatives including Asia-Pacific Economic Cooperation (APEC), the Transatlantic Economic Partnership with Europe, regional integration in the Middle East, and the President's partnership with Africa.

The lack of legislative negotiating authority since 1995 has not fundamentally impeded our ability to achieve our major goals thus far. However, looking ahead, a Congressional decision to grant negotiating authority would be helpful and indeed essential if we are to create the type of world economy Americans expect in the next century. Our commitments to worker rights and environmental protection, for example, reflect long-standing, fundamental values of the United States. A negotiating authority proposal should appropriately balance the need to open markets with the attention these vital issues deserve.

We realize that some countries use the excuse of a lack of "fast track" negotiating authority in order to avoid engaging in further liberalization initiatives. For example, in the case of APEC or the WTO negotiations on agriculture, Japan might hide behind the absence of "fast track" independently or perhaps in cahoots with the European Union. These are purely diversionary tactics. In other cases, countries cite a lack of negotiating authority in expressing a genuine concern about the United States' willingness to press the envelope of trade liberalization. The Clinton Administration has made it clear that we desire this negotiating authority. To be sure, we have accomplished much without it, and will continue to labor mightily to do more. And as others before us, together with our trading partners, we will launch a broad range of initiatives, including agriculture, Mr. Chairman, in Seattle even without negotiating authority in hand.

Still, we know the U.S. will need to secure this authority in a timely way both for the purpose of closing multilateral initiatives launched, and motivating recalcitrant participants. Thus we look forward to working with you as you develop legislation for the Congress to provide this critical authority and reassure the world that we mean business.

#### CONCLUSION

In conclusion, Mr. Chairman, in the past six years the close and cooperative working relationship our Administration has enjoyed with the Subcommittee, and the bipartisan commitment to American leadership in trade, has allowed Americans to find new opportunities and raise their living standards. The agenda we are developing together will bring this progress and leadership into the next decade. We look forward to working with you to realize it in the years to come.

Thank you very much, Mr. Chairman and Members of the Subcommittee.

[SUBMITTED BY SENATOR GRASSLEY]

GEORGE BUSH

July 1, 1999

Dear Mr. Chairman,

I write to encourage and support your efforts, and the efforts of your colleagues, to renew the President's long-expired authority to negotiate trade agreements on behalf of the United States.

One of the most important challenges facing any President - as well as Congress - is the pursuit of a forward-looking trade agenda to promote America's continued economic prosperity.

That challenge is here now.

In just a few months, the United States and 133 other nations will launch the ninth series, or round, of multilateral trade negotiations at the WTO Ministerial Conference Meeting in Seattle. The new round will try to build upon the progress of the last round, the Uruguay Round. President Reagan began the Uruguay Round. It continued during my administration, and President Clinton concluded it during his.

We accomplished a great deal in these negotiations. Many high-profile non-tariff trade barriers were eliminated, creating thousands of American jobs, and boosting the world's economy. But because the world's economy is so complex and dynamic, much remains to be done.

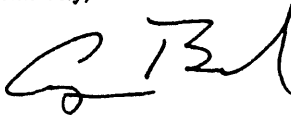
Agricultural tariffs are still much too high. Agricultural exports are critically important to the United States economy. With almost one-half of American wheat and more than one-third of American soybeans traded in global markets, high foreign tariffs drive down farm income and destroy farm jobs. Trade in services, which accounts for about twenty percent of global merchandise and services trade, is still hampered by unfair restrictions.

Today, two attempts to renew trade negotiating authority have already failed. A third unsuccessful attempt would be devastating, and call into question America's leadership in the world's trade community.

It is extremely important that we enter the new world trade negotiations from a position of strength, united in our purpose, and firm in our commitment to free trade. The best way we can do that is to renew the President's trade negotiating authority now, before the talks get underway.

I wish you and your colleagues well.

Sincerely,



The Honorable Charles E. Grassley  
United States Senate  
Washington, D.C. 20510

## PREPARED STATEMENT OF HON. ORRIN G. HATCH

Mr. Chairman, the major Fast Track agreements of the past few years, namely NAFTA and the Uruguay Round, had few deficiencies that were entirely attributable to Fast Track. These deficiencies have been and should be addressed.

But, we should not blame Fast Track, which is sorely misunderstood, for every problem we face in our foreign trade and commerce today. Fast Track will not cause, or cure, badly negotiated trade agreement in the past, nor will it in the future. However, the roll of those who oppose Fast Track is highly bipartisan, and this fact alone suggests that we will have lively debate on the issue regardless of who is in the White House.

Although I, like many of my colleagues, including more than a few on this committee, have some grievances with certain provisions of both NAFTA and the Uruguay Round, I also know that not having Fast Track is costing our exporters—including many in my home state—and many of our business sectors a competitive position in overseas markets. You will hear—or have already heard—testimonies to that effect from our witnesses. We need to be part of an agreement with Mercosur, and with Brazil. The prospect that the European Union and Mercosur could join over 550 million people into what would be the world's first merger of common markets, without a major US involvement, ought to be a red flag to every actual and prospective exporter to and importer from South American markets. And, we've too much to lose by denying the President the administrative authority he needs, in the form of the Fast Track mechanism, to complete negotiations in good faith.

When I said earlier that Fast Track is misunderstood, I was referring to the hundreds of calls and letters I have received over the past few years warning Congress that "we should not be giving away our constitutional authority so easily."

First of all, we're not giving away anything, certainly not our constitutional authority. Nor are we in any way lessening our moral authority, influence, or power to ultimately control whatever it is the President sends to us for ratification. I, for one, intend to maintain the strictest vigilance on the executive branch concerning the use of Fast Track authority and on the agreements they negotiate. I anticipate that all senators intend to do the same. The Fast Track procedure should not be without its own checks and balances.

Mr. Chairman, all I ask is that we approach this year's consideration of Fast Track with the same open mind that the Senate has repeatedly displayed. My real hope is that our House colleagues will revisit this issue and perhaps see things a little differently this year.

I thank the chair and ask that my remarks be included in the record.

## PREPARED STATEMENT OF HON. BOB GRAHAM

Let me first thank Senator Grassley for holding this hearing to discuss the status of "Fast Track" or Normal Trade Negotiating authority and its impact on our international trade agenda. In this era of economic globalization, our ability to compete in international markets is essential to sustaining a vibrant U.S. economy. To that end, our trade representatives must possess the necessary tools with which to negotiate effective and enforceable trade agreements.

As we prepare for the upcoming WTO ministerial in Seattle, the President's ability to negotiate binding trade agreements is once again at issue. While the Congress will ultimately decide this issue, it is critical that the Administration seize the opportunity and play an active role in the Fast Track debate.

This is a unique time in our nation's history. Over the past fifty years, the United States has led the world in liberalizing trade and opening international markets. Never before has our own economic well being been so closely linked to international trade. U.S. trade negotiations with China are nearing completion, all but assuring China's accession to the WTO and placing the world's largest market under a rules based trading system. In our own hemisphere, we are well on the way to establishing the Free Trade Area of the Americas, a regional trading alliance that will open markets and create jobs in the U.S. and Latin America. We must be prepared to take advantage of these and other opportunities as we work to expand trade.

In anticipation of a new round of trade negotiations, the Administration must clearly articulate its trade agenda and build public support for the renewal of Fast Track trade negotiating authority. Absent clearly defined negotiating objectives and benchmarks, as well as the necessary support from the business and trade communities, this Congress will hesitate to give the Administration the expanded authority it desires to negotiate trade agreements with our international trading partners.

I encourage the Administration to continue in its efforts to develop and articulate its trade agenda in order to build public support, as well as support in both Houses of Congress, for the renewal of Fast Track trade negotiating authority. I look forward to hearing the testimony of today's witnesses.

**TESTIMONY OF ROBERT D. HORMATS**

**COMMITTEE ON FINANCE**

**UNITED STATES SENATE**

July 14, 1999

**MANAGING GLOBAL AND REGIONAL TRADE POLICY WITHOUT FAST TRACK  
NEGOTIATING AUTHORITY**

Mr. Chairman and Members of the Senate Finance Committee,

I wish to thank the committee for your kind invitation to testify at today's hearing on trade. I have testified before this Committee on many occasions, and it is always a privilege. This Committee's leadership on trade, and many other subjects, is, and for decades has been, important to American prosperity and our country's dynamic role in the world economy.

Allow me to start with a brief overview. After a period of great progress in this decade in the Uruguay Round, NAFTA, the 1994 Miami Summit's agreement to negotiate a Free Trade Area of the Americas (FTAA), APEC and the Financial Service, Information Technology and Telecommunications negotiations, there has been a serious loss in momentum in the process of opening foreign markets to American goods and services. I attribute this loss to:

- Lack of fast track authority which: 1) limits US opportunities to negotiate expanded market access, 2) puts America on the sidelines as others negotiate free trade pacts that compromise US market access, and 3) impairs US leadership as other nations point to partisan and executive-legislative divisions and suggest that the US is an unpredictable or unreliable participant in trade negotiations —using that as a reason to refuse to negotiate seriously with us.
- Inadequate high level efforts to: 1) explain persuasively to the American people the enormous stakes this country has in a more open global trading system and the importance of that system to the growth of high-paying export-oriented jobs in manufacturing and service industries, 2) reestablish a strong national consensus that an open trading system is in the US national interest (which involves, inter alia, devoting more political attention to trade success stories and to jobs created by exports), and 3) create sufficiently robust domestic safety-net and training programs to help Americans who are displaced by new technologies and competitive changes, including from trade, to adjust and to enhance their reemployment prospects.

The US needs a revitalized, bipartisan national consensus on trade before this country can credibly and successfully engage in major new negotiations to expand American export opportunities. That consensus must be based on a clearer national understanding of the effects on our economy of the globalization of trade, finance and information and how to broaden the number of Americans who benefit from such globalization while improving support systems for those who are adversely affected. Growing globalization requires a strong social safety net if public support for open trade is to be sustained. A consensus on the important role of trade liberalization in growth and job creation in the American economy is also crucial as is bipartisan agreement between the Congress and the executive branch on.

how to pursue it pursue America's international environmental, human rights, and labor standards objectives.

Fast track authority needs to be an integral part of that consensus. Without it, American negotiators will be severely handicapped in regional trade talks and in coming global negotiations. In the absence of fast track authority Administration negotiators would have to repeatedly reassure their counterparts abroad that what they were negotiating had support in the Congress, while Congress would find it hard to give a unified reaction, especially as it would not be able to see a complete package. It would be unable to judge the overall pluses and minuses of the work of the negotiators to the extent necessary to commit to vote for the final package. Regionally, the US would continue to be on the sidelines as the EU pursued trade negotiations with Latin America the Latins themselves reduce barriers to one another.

I know that there are genuine disagreements, and strongly held views, on the Hill about issues relating to fast track. I do not have a proposal for how to resolve all of these issues. But I can say from years of experience, particularly as Deputy USTR, that as the Congress grapples with how to do so it will be important to focus on the big picture. American prosperity depends increasingly on an open global economy, where our companies can sell the more of the high value-added manufactured goods, farm products and services they produce; US exports have been an increasingly important factor in creating millions of new jobs that pay well above average wages. The US is the most important force in the world for driving the process of opening markets. Without our leadership, that process runs a high risk of faltering.

Passage of fast track, on the other hand, would demonstrate to the world that the US was ready, willing and able to continue to drive the world toward more open markets. That would reestablish American leadership of the process of global market liberalization. Such liberalization will lead to improved living standards for many Americans (and others around the world). It will contribute to the creation of new and high paying jobs in the US as well as to wider choices for America's consumers. As revealed by a groundbreaking report of the National Association of Manufacturers several years ago, exporting companies are more productive, more technologically advanced, live longer and provide substantially higher benefits and wages to their employees than those non-exporting companies.

It would be appropriate for the Congress to give the executive branch six-year fast track authority (with a three year review) to enable the US negotiating team to utilize the possibilities for ongoing (or rolling) negotiations in the WTO. Congress could exercise considerable authority over this process by requiring formal consultations with the executive branch before major new trade liberalizing initiatives and strengthening the monitoring and consultation processes on specific negotiations as it did during, and in the follow-up, to the Uruguay Round. And, of course, Congress would retain the ultimate power of approval under renewed fast track.

At the same time there are clearly strong American interests in labor standards, environmental issues and human rights. American leadership in those areas is important. Progress should be monitored and pursued in appropriate fora in parallel with negotiations on trade based on an integrated strategy — with the aim of achieving maximum progress on as many of these issues as possible. How these relate to one another and in what fora they are negotiated needs to be part of the consensus discussed above.

### **Lack Of Fast Track Authority Has Pushed American Trade Policy Off Track**

Lack of fast track legislation has placed the US on the sidelines as other countries, many in our own hemisphere, expand access to one another's markets and as plans are being made for additional global and inter-regional trade negotiations in the new millennium. Other countries have made over twenty regional trade liberalizing agreements since 1992 while the US has been hamstrung in attempting similar types of negotiations.

At the end of November of this year, the World Trade Organization will hold its third ministerial meeting in Seattle. That meeting is expected to lay the groundwork for and launch the next series of global trade negotiations — the so-called (by the EU) "Millennium Round." In every major trade negotiating round to date success has come largely because of American leadership; it is the sine qua non of successful trade negotiations in this half-century.

Today I am sad to say, that leadership is not as strong as it should be. Without fast-track authority, or a similar mandate from Congress, it is likely to remain so. That will make it very difficult to obtain America's goals in coming WTO negotiations on agriculture, services, government procurement and other areas as well.

The reason for this disturbing circumstance is that other nations understand the American system of government and the critical role Congress plays in American trade policy. Most nations are simply not willing to negotiate seriously with the US if they are faced with the prospect that a deal they reach with America's trade negotiators will be altered by amendments in the Congress. Why, you might ask yourselves, would any country want to reveal its best offer to a US negotiator in return for an American offer that is likely to be subject to congressional amendments that either ask more of that country or water down the US concessions? And after the messy way the China WTO talks worked out, they will be especially reluctant to make final offers without the US making a credible and sustainable final offer at the same time — fearing that again the US would pull the rug out from under them.

Chile has already demonstrated its reluctance to negotiate with the US without our having fast track. Recently it has negotiated associated membership in Mercosur and a free trade agreement with Canada.

Some will argue that successful negotiations on Financial Services, Telecommunications and Information Technology were conducted without formal fast track legislation. These were, indeed, important agreements and genuine successes for the US. But they were really part of the process of tidying up the Uruguay Round. In the last of the three, there was congressional authority to proclaim lower tariffs on products that were part of the zero for zero US request in the Round. With respect to Telecom and Financial Services negotiations, Congress authorized the administration is to continue to negotiate to reduce barriers through a statutory provision...

The stakes are particularly high as we enter the next century. The US, Canada, Japan and the EU, in their May Quad Meeting, agreed on a number of items for prospective WTO trade talks. These included: broad based liberalization of trade in services, further agricultural trade liberalization, improving WTO rules governing foreign investment, harmonizing competition (anti-trust) practices, examining the adequacy of trade remedies in the WTO to ensure that anti-dumping powers are not abused, and strengthening the protection of intellectual property rights under the 1994 TRIPS.



In addition, a number of important issues relating to electronic commerce will be addressed, such as whether to continue the moratorium on tariffs on digital commerce that was agreed at the last WTO ministerial. Electronic commerce over the Internet and Web is fast changing the nature of business and commerce in the US and around the world. So far it has thrived, largely in a legal and regulatory vacuum. But as it grows the temptation for governments to tax and regulate it, perhaps to excess, will grow. The US needs to be in a strong position to shape the new world of e-commerce in a market- and technology-friendly fashion, with minimal taxation, regulation and government interference. The US needs to be in a leadership position to do that.

Here I would also add a note about America's changed circumstances vis-a-vis Europe. The EU, notwithstanding the weak Euro and weak growth, is an increasingly robust participant in international trade negotiations. It is actively negotiating with many regions around the world and will want to show its muscle in global talks. Virtually no major trade deal can take place without the EU. So US-EU accommodation will be the central axis for most of what happens in global trade in the foreseeable future. The US must be in a strong position to pursue its interests. Without fast track, we are not.

It might be possible to begin WTO negotiations without fast track authority — and the US should by all means do so if, as appears likely, none is forthcoming soon. We should take such negotiations as far as we can. It may be that considerable progress can be made. But it would be a mistake to decide ourselves into thinking that we will not run into trouble as we get further down the negotiating road — when our credibility to deliver will be increasingly challenged. So even if passage of fast track cannot be accomplished soon, the case for it should be made repeatedly and efforts to achieve the kind of consensus I have mentioned should be actively pursued with the aim of securing fast track authority when the negotiating progress — and American influence therein — requires it.

#### **Ongoing Regional Negotiations As The US Sits On The Sidelines**

As the US has been pushed to the sidelines a great deal of activity has taken place regionally. The Andean Community and Mercosur have moved closer to a free trade agreement, which would create a South American Free Trade Zone comprising about 310 million people. Mercosur (Paraguay, Uruguay, Argentina, and Brazil) and the Andean Community (Peru, Venezuela, Columbia, Ecuador and Bolivia) total about \$128 billion in annual exports. Such a Free Trade Zone would not conflict with the US goal of a Free Trade Area of the Americas, targeted for completion by 2005. But it strengthens the hand of the Latins vis-à-vis the US. And if the US does not obtain fast track authority, and negotiations on FTAA falter, US exporters will be at a disadvantage in these Latin markets compared to exporters in countries that are part of such agreements. That also would have important investment implications, as American suppliers seeking to sell in these markets will find it harder to source certain kinds of goods from the US and will be drawn to investments in countries that do have freer access to Latin regional markets.

Leaders of Mercosur (plus Chile) and the European Union agreed on June 28 of this year to begin negotiations to liberalize trade between them. This is to be done within the context of WTO rules. Such a negotiation is not likely to move ahead rapidly. While the EU sees it as a way of broadening market access for its products in Latin America, the Latins see it as taking dead aim at selling a lot more agricultural products to Europe — which Europe will resist. Any concessions on that front will be very difficult for Europe and, should they be made at all, are

likely to be done in the "Millennium Round," where they can get global concessions on a broader scale, including from the US. Moreover, the EU is preoccupied now with other things, such as restoring growth at home and working out trade issues with pre-accession countries in Eastern Europe. But the very prospect of such a negotiation with Latin America taking place without the US would have been hard to imagine a few years ago — had the momentum on FTAA not been lost.

The EU's negotiations with its six prospective new members (Poland, Hungary, the Czech Republic, Estonia, Cyprus and Slovenia) represent a major task. They occur at the same time the EU is negotiating its Agenda 2000, a complicated package designed to reform the EU's financial system to prepare for the entry of these new members. The Common Agricultural Policy is a big issue here, because it takes 50% of the EU budget. While there is general agreement that it needs to be reformed before the admission of the new members, the extent of such reforms is hotly debated. France and others do not want the issue complicated by negotiations to further liberalize agricultural imports. This threatens to complicate accession negotiations and any negotiations with Latin America or the US.

With this backdrop, the opportunity to forge ahead with FTAA negotiations while the EU addresses its regional negotiations in its own backyard should be appealing for the US. First, it expands US markets in this region, just as the EU is doing in its. Second, it will give Mercosur a stronger bargaining hand with Europe in future negotiations, which is good for this hemisphere and for American investment in this region. Third, it will avoid US exports to Latin America being displaced by those of the EU in the future. And fourth, it can increase the impetus for the EU to open up more rapidly to its neighbors, which will help Eastern Europeans to complete their transition to market economies and to sustain higher rates of growth. Fast track is important to restoring momentum in the flagging FTAA process.

With respect to Asia, the US has agreed in APEC to work toward "free and open trade and investment" by 2010 for the region's industrial economies (that account for 90 percent of its trade) and 2020 for the developing economies. APEC can play an important role both in expanding trade in the region and pressing forward on a more ambitious global agenda. Its initiative and leadership in negotiating the Information Technology Agreement has emboldened it to attempt to reach agreements in 15 other sectors. At their latest ministerial meeting in Auckland, APEC trade ministers agreed to try to negotiate tariff cuts in many of these sectors in the WTO rather than in APEC, but indicated that they also will continue to pursue early, voluntary sector liberalization in the APEC framework. Without fast track it will be difficult for the US to credibly participate in this process.

While APEC has been dealt a setback by the recent financial crisis, it is important that the momentum toward liberalization there continue. The region's markets are likely again to be among the fastest growing in the world, and sustained liberalization there will boost American and other intra-regional trade, helping the region to grow and recover from the recent financial crisis.

## Conclusion

In the last two years much of the world's international focus has been on the rolling series of financial crises that began in Asia and spread to Russia and Latin America. These crises were highly disruptive to many economies and markets. But, remarkably, the trading system did not turn inward. Virtually no country seized on the crisis and high domestic unemployment to

introduce new protectionist measures. That was no accident. It was the result of years of painstaking efforts to build a trading system of rules, institutions, and reciprocal obligations. The cost of violating the rules of the system were seen to be so high that no one wanted to take such a risk. Compare that to the period between the two world wars, when the trading system collapsed. This resilience of the GATT-WTO centered trading system has been important to the US. It enabled US exporters to continue to have access to important emerging markets during the crisis. While their sales fell off in some countries because those countries were in recession, American exporters were not faced with major new trade barriers and now are seeing a pick up in sales as crisis economies revive.

If, however, the trading system fails to maintain its momentum towards liberalization, or the US takes a more restrictive attitude and fails to exercise leadership, there is a risk that other countries could see it as in their interest to slow the process of global liberalization. Regions or countries could turn inward and away from globalization, especially if they suffer from high unemployment. If the world's most powerful economy, with low unemployment, is seen to have so little confidence that it refuses to engage in further trade liberalization, some foreign leaders might well argue, "Why should we, with high rates of unemployment and weak economies stick our necks out and liberalize further?" And, some might go further, arguing, "Why should we not protect ourselves against the stronger American economy?" All of these risks need to be taken account in the period ahead. If the world economy were to experience a prolonged period of slow growth or recession, these risks would become even more pronounced.

A deterioration of the trading system would also have severe financial consequences. Although confidence is returning to financial markets in most emerging economies, it could suffer a severe blow if their exports were to be jeopardized. A significant portion of the direct investment in many of these economies is aimed at building export-oriented production. And portfolio investors want to be sure that these countries have positive export prospects and a sound balance of payments outlook. So any threat to their exports would be harmful to capital inflows and could trigger renewed financial instability. A robust financial system and a robust trading system go hand in hand; endanger the stability of one and you endanger the stability of the other.

Again, let me thank the committee for its invitation to testify. American trade leadership has been greatly in America's interest for fifty years. It remains so. Fast track is an integral part of that. I urge the Congress to move on this as expeditiously as possible.

## PREPARED STATEMENT OF AMBASSADOR WILLIAM T. PRYCE

Good afternoon, Mr. Chairman, Senator Moynihan, and Members of the Subcommittee. I am Bill Pryce, Vice President of the Council of the Americas in charge of our Washington operations. The Council of the Americas appreciates the opportunity to testify before you today.

The Council of the Americas is the leading business organization dedicated to promoting regional economic integration, free trade and investment, open markets, and the rule of law throughout the Western Hemisphere. The Council's membership represents the majority of U.S. private investment in Latin America. Members include manufacturing, natural resources, technology, communications, banking, and financial services firms.

The Council was founded on the belief that the future prosperity of the hemisphere depends on the triumph of liberal economic principles and on the central role of private enterprise. This afternoon I would like to discuss the opportunities that exist in Latin America for U.S. business and describe some of our experiences and concerns about the current status of our negotiating position. My abbreviated testimony would be to state simply that we need fast track fast. Without such authority, we are standing still and slipping backward in the management of our global and regional trade policy.

Mr. Chairman, as you know, the 1994 Summit of the Americas in Miami began the process of hemispheric integration. In April 1998, the Presidents of the hemisphere's 34 democracies met in Santiago, Chile and signed a document to open negotiations to create a Free Trade Area of the Americas. The FTAA represents a potential market of 800 million people to whom we can sell our goods and services. It is a huge market for everything from cellular telephones to industrial machinery.

The Council believes that expanding our hemispheric commercial ties is critical to U.S. corporate growth and the overall economic health of the United States as well as to the development of Latin America. In Santiago, the Hemisphere's presidents also agreed to launch new initiatives to promote education, reduce poverty, and strengthen democratic institutions throughout the Americas. It is an ambitious agenda that will help reduce the risks and barriers to investment in the hemisphere as well as create a more politically stable environment. The Council believes that the FTAA represents a great opportunity for growth and development in the region. Trade leads to prosperity and provides market-liberalizing countries an enhanced ability to address the summit's broader social and political agenda.

The FTAA presents great potential for the Hemisphere and U.S. corporations and we should be doing everything we can to advance the process. But the reality is that the lack of trade negotiating authority is a serious impediment to progress. The Council was in Miami earlier this year during the FTAA negotiations and I can tell you that we heard directly from the negotiators there that without fast track there can be no real progress on the major issues. Lack of progress, as we all know, will impact the United States most of all, because our trade barriers are, on average, much, much lower than those of our neighbors and because our continued leadership on trade liberalization, and our continued economic growth, depends greatly on our ability to bargain to lower higher trade barriers protecting other markets.

At the 1994 Summit of the Americas, the Western Hemisphere leaders called on negotiators to make concrete progress by the end of 1999 on business facilitation measures. Tomorrow and Friday the Council, with like-minded organizations, is co-sponsoring a program here in Washington on the FTAA that will gather business representatives from throughout the hemisphere to promote the benefits of these measures and raise awareness and support. Hopefully, the government negotiators will follow through on their mandate. However, although securing these business facilitation measures would be a positive step, it cannot be seen as a substitute for fast track. The Administration and the negotiators in Miami still need this authority in order to advance the negotiations.

We have heard privately from negotiators in clear and blunt terms that the lack of fast track is hindering progress but there have also been public statements on the subject. Brazil announced earlier this year that it is putting the FTAA on the back burner in part because there is no fast track. Brazilian Foreign Minister Luiz Felipe Lampreia charged earlier this year that the U.S. is slowing its commitment to the FTAA and Brazil's former Ambassador to the U.S. Paulo Tarso Flecha de Lima has stated that he would not "buy stock in" the prospect that the FTAA will finish on time. They are not alone in their sentiments. Canadian Trade Minister Sergio Marchi has also singled out our lack of fast track as an impediment to progress.

While the United States continues to debate the benefits of free trade, other countries are gaining an edge as they negotiate preferential trade agreements with coun-

tries in the region. Two years ago, Canada and Chile implemented a free trade agreement that eliminates Chile's 11 percent across-the-board tariff on imports from Canada. This has hurt U.S. companies as they are put at a competitive disadvantage to Canadian firms. Last month at a summit in Rio, the heads of state of the European Union and the Mercosur countries signed a commitment to initiate formal talks toward a free trade agreement that would take effect in 2005. Talks are scheduled to begin in November, when the countries will establish negotiating groups so that negotiations can begin early next year.

In short, while the United States is asleep on trade expansion, others are marching along without us. They are shaping the trade agenda without our input. It is folly to think that we can stay inactive, and still stay a leader. There is only one country that will look out for American trade interests and that is the U.S. itself.

The countries of Central and South America have made considerable progress in recent years. The FTAA would reinforce many positive trends in the hemisphere, such as privatization and democratization, and it is imperative that we not let this opportunity slip away. However, the U.S. government can only lead successfully in this process if it is given the tools necessary to bargain with strength. We need fast track.

Mr. Chairman, as we discuss trade agreements I want to briefly mention the North American Free Trade Agreement. Last October, with great interest I watched the fast track debate in the House turn into a discussion on NAFTA, as I imagine many of you did. Unfortunately, the reality that NAFTA has been a great success was lost in the hyperbole of that discussion. The Agreement reduced Mexican and Canadian trade barriers and has made our neighbors our top two trading partners. NAFTA has helped to strengthen the U.S. economy. During NAFTA's first five years, U.S. goods exports to our NAFTA partners combined increased by about \$93 billion, or 66 percent, to about \$235 billion.

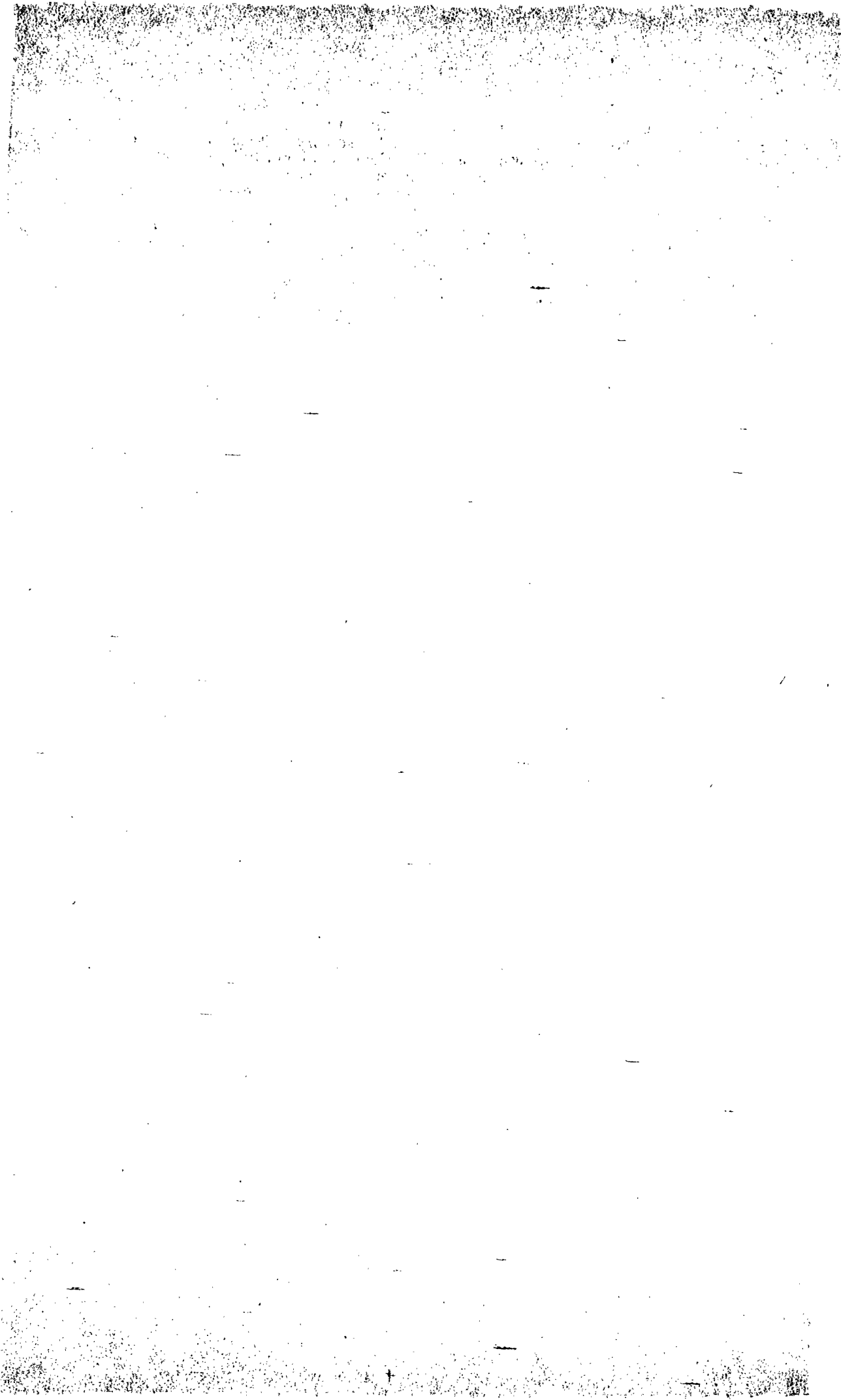
We all know the concern about our own economy that our government and private sector leaders expressed last year as the successive "Asian flu" and "Russian flu" rocked world markets. We suffered a bit. Yet, there can be no dispute that, were it not for NAFTA and the strength NAFTA trade gave to the U.S., Canadian, and Mexican economies, we would have seen a much greater negative impact on the U.S. economy. In fact, half of the manufactured goods export loss to Asia was made up by increased U.S. exports to Mexico and Canada, which grew by \$10.3 billion in the first eight months of 1998. Similarly, U.S. agricultural exports to Mexico and Canada grew by just under \$1 billion during the period, making up one-third of the agricultural loss to Asia. Were the FTAA in place last year, not only would the impact have been even less, but there likely would not have been a Brazil crisis. Brazil could have escaped the case of the "flu" that it suffered as an outgrowth of the Asian and Russian difficulties. This bit of recent history is a powerful incentive for all of us to get moving on the FTAA. The nation can only benefit from a hemispheric free trade agreement.

The Council believes that there are ways to improve NAFTA. We have made recommendations such as fully funding NAFTA's institutions and further implementing the agreement. But we also believe that NAFTA is unfairly blamed for some of the trends inherent in a changing world economy. Furthermore, NAFTA cannot be expected to carry all facets of a trilateral relationship on its back.

Later this month, the Council will be releasing updates of our NAFTA state studies that detail the important positive impact of NAFTA in 21 different states in all regions of the country, thus demonstrating that NAFTA has had widespread, major, and enduring benefits over the past five years. Once again, these studies will show that exports have climbed dramatically under NAFTA. Mr. Chairman, our report on Iowa shows that your state has done well under NAFTA, increasing its exports to NAFTA partners 98.8 percent since the agreement was implemented. Senator Moynihan, you will see very positive numbers in the New York report. New York exports to Canada and Mexico are up 46.4 percent since 1994.

There can be no doubt that NAFTA has been successful. Under NAFTA, U.S. business has benefited from greater efficiency, U.S. workers have benefited from the creation of high-wage, high-skill, export-related jobs, and U.S. consumers have benefited from lower prices and greater choice. The Council thinks these are trends we should be proud of and NAFTA is an agreement our government should not run away from. These are trends we should continue to advance and extend throughout the hemisphere.

Mr. Chairman, the FTAA presents an opportunity to link the 34 democracies of the Western Hemisphere by broadening and deepening relations in ways that benefit the U.S. economy and its citizens. Either we take the lead now (which most of the hemisphere, including some in MERCOSUR, wish we would), or the agenda will be set without us and we will not be able to shape that agenda in ways that will benefit the United States. Let's not cede this opportunity to other countries. Thank you very much.



## COMMUNICATIONS

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### STATEMENT OF THE U.S. INTEGRATED CARBON STEEL PRODUCERS

This statement sets out the views of the five major integrated U.S. producers of carbon steel products—Bethlehem Steel Corp., U.S. Steel Group, a unit of USX Corp., LTV Steel Co., Ispat Inland Inc., and National Steel Corp.—on the importance of not allowing bilateral or multilateral negotiations to be used as a forum for attacking U.S. trade laws, primarily antidumping and countervailing duty laws. Maintaining strong trade laws are essential to facilitating an open market policy both in the U.S. and abroad. Internationally agreed upon antidumping rules must not be open for renegotiation in any forum. This must be a primary negotiating objective for the Administration with or without fast track negotiating authority. In fact, antidumping and countervailing duty laws should be strengthened by, for example, passing H.R. 1505.

During the debate of whether to extend fast-track authority in the 105th Congress, both the Senate Finance Committee and the House Ways and Means Committee sent clear messages that U.S. antidumping and countervailing duty laws must not be compromised as a result of trade agreements entered into by the United States. The most recent, and continuing, steel import crisis has demonstrated that without strong and effective enforcement of our trade remedy laws, U.S. manufacturers and workers would be left fully defenseless against sudden massive surges of unfairly traded imports. This import crisis has been devastating, forcing several vibrant American steel companies into bankruptcy and resulting in the loss of thousands of good American jobs. As families and entire communities have struggled to survive the crushing effects of unfairly traded imports, their belief in U.S. open market policies has been tested. As such, the United States must have strong trade laws able to respond vigorously and effectively against unfair trade if open market policies are to succeed. The integrity of these laws must be maintained in our international trade negotiations.

#### TRADE REMEDY LAWS MOST EFFECTIVE METHOD FOR COMBATING CAUSES OF IMPORT CRISIS

Unfairly traded imports, and the trade distortions which enable foreign producers to engage in such practices, can best be stopped by eliminating the benefits of dumping into the U.S. market. U.S. antidumping and countervailing duty laws are the most effective tools available to achieve this end.

The roots of the steel import crisis are in by the global overcapacity of steel. This overcapacity was created, and is maintained, by misguided economic policies of foreign governments and unfair trade practices by foreign steel producers. As demand for steel dropped due to the economic crises in Asia, Eastern Europe, and Latin America, the pressure on foreign producers to export their excess steel production into the U.S. market was exacerbated by the rapid decline in demand in these other world markets.

There are three basic causes of global steel production overcapacity. First, there is massive foreign government subsidization of foreign steel (over \$100 billion in such subsidies during the past 20 years). Second, many foreign steel companies enjoy protected home markets through government intervention (e.g. quotas, import licensing). Third, anticompetitive business practices, including domestic and international cartel arrangements involving foreign steel companies, effectively create protected markets. As a result, foreign steel manufacturers can produce at levels not supported by the economic realities of the market place. In many countries, it also has enabled manufacturers to set artificially high home-market steel prices to support dumped low-priced steel in the U.S. market.



Not surprisingly, countries which have engaged in unfair trade practices have been the most vocal opponents of the antidumping and countervailing duty laws. They have been well organized in seeking renegotiation of these rules during the upcoming WTO and FTAA talks. The Senate Committee on Finance, as it has done before, and Congress, must demand that U.S. negotiators block any attempts at renegotiating these rules.

#### AMERICAN STEEL COMPANIES AND WORKERS ARE PAYING THE PRICE OF UNFAIR TRADE

American steel companies and workers have paid a heavy price over the last decade to reorganize their businesses into a world class, globally competitive, and environmentally sound industry. American steel companies invested over \$50 billion dollars to modernize their plants and equipment, and have reduced their labor force by over 60 percent during that same period. Foreign producers, who have dumped their excess products into the U.S. market, and who have enjoyed the benefits of subsidies and protected home markets, have not made such sacrifices. Instead, as confirmed by the International Trade Commission's affirmative findings of injury in the recently filed hot-rolled, cold-rolled, and cut-to-length plate cases, and the high dumping margins and countervailing duty rates found by the Commerce Department, those producers have sold dumped and subsidized steel into the U.S. market.

After having made the necessary investments to modernize the industry, American steel companies and workers are now paying again—this time for the refusal by foreign manufacturers to restructure their industry. Since the beginning of the current import crisis, over 10,000 good U.S. steel jobs have been lost. Several American steel companies were forced into bankruptcy during a period of high demand. This crisis is far from over. Steel imports remain high compared to historical norms; steel prices remain severely depressed (see attachment); and the fundamental causes of this crisis remain in place. Even if trade imports and prices return to normal levels, a crisis of greater proportions could restart at any moment since the United States remains the most open and available market for the world's excess steel capacity.

#### ANTIDUMPING AND COUNTERVAILING DUTY LAWS MUST BE PRESERVED TO ACHIEVE AN OPEN MARKET TRADE POLICY OBJECTIVE

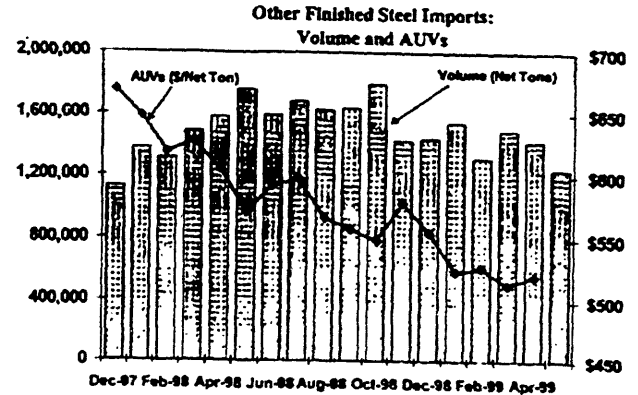
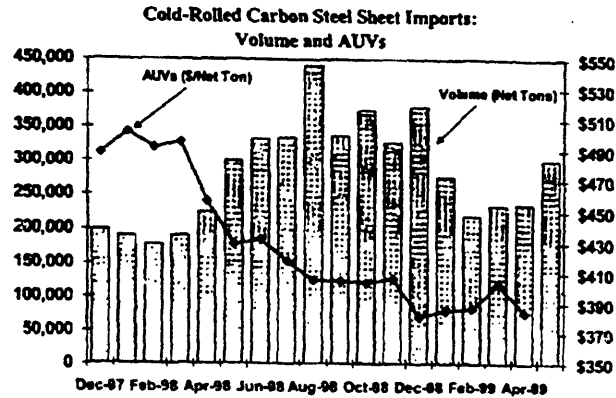
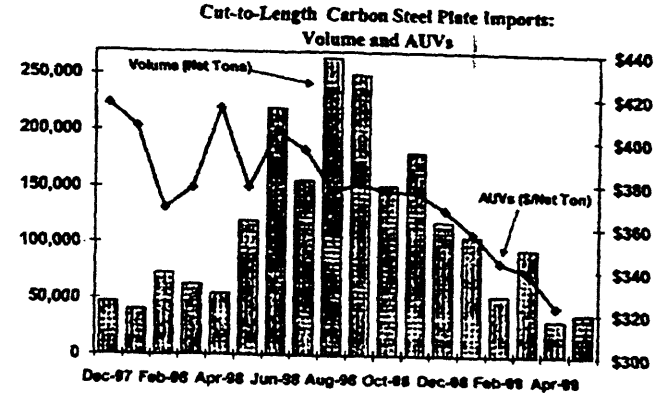
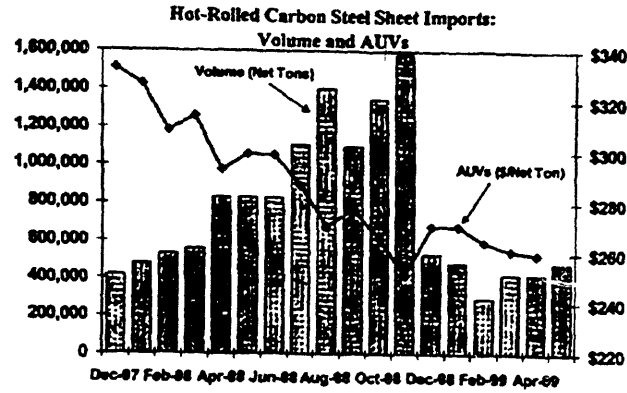
Strong antidumping and countervailing duty laws are essential if global and regional market opening policy objectives are to be achieved. Maintaining free trade depends on maintaining fair trade. Antidumping rules are designed to ensure that exporters based in countries with closed markets do not abuse other countries' open market policies. Weakening these rules would inevitably lead to abuse of the world's open markets—including that of the United States, the world's most open market—and would ultimately undermine confidence in the WTO itself.

Although international rules in this area were recently and comprehensively renegotiated in the Uruguay Round, our trading partners have already launched a multi-front attack on the U.S. trade laws and the WTO agreements which these laws implement. In the WTO, as well as in FTAA and APEC discussions, foreign countries continue to seek further erosion of our trade remedies. It is neither necessary nor appropriate to revisit at this time the antidumping and countervailing duty laws in international negotiations.

Statutory trade policy negotiating goals provide broad instructions to executive branch negotiators—identifying priorities and implicitly suggesting where there may be latitude to accommodate other countries' interests. The intent of the provisions in earlier versions of fast track legislation has been to direct U.S. negotiators to pursue stronger trade remedies as a priority objective and to alert foreign governments that agreements weakening U.S. trade laws would not be approved at the implementing stage by Congress. These provisions were adopted in recognition of the critical role these trade laws play in opening world markets and in providing for a more fair market structure in the United States. A shift to ambiguous negotiating goals in this area would seriously undermine the ability of U.S. negotiators to preserve these trade remedies. Accordingly, at a minimum, should a fast track bill be considered, language prohibiting U.S. negotiators from renegotiating antidumping rules should be included at the earliest possible stage in the legislative process.

Even without fast track negotiating authority, this Committee should, in no uncertain terms, reaffirm its commitment to the trade remedy laws and demand that this Administration resist any attempts by foreign Governments to re-open negotiations on the antidumping rules.

# Prices Have Not Recovered Since Peak of Import Crisis



Note: May 1999 data represent preliminary estimates by the Census Bureau