

**FAST TRACK LEGISLATION AND OTHER
ADMINISTRATION TRADE PROPOSALS**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED FIFTH CONGRESS
FIRST SESSION

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SEPTEMBER 17, 1997
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FAST TRACK LEGISLATION AND OTHER ADMINISTRATION TRADE PROPOSALS

WEDNESDAY, SEPTEMBER 17, 1997

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to recess, at 1:06 p.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Grassley, D'Amato, Gramm, Lott, Mack, Moynihan, Rockefeller, and Kerrey.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will please be in order.

Senator Baucus is attending another hearing. The Environmental and Energy Committee is holding a very important markup this morning, which will make it very difficult for him, and I gather you, as well as John Chafee, and maybe a number of others because there will be the two meetings going on at the same time.

Senator MOYNIHAN. May I say, Mr. Chairman, that our distinguished witnesses will finally understand that what really matters in the U.S. Congress is highways. [Laughter.]

The CHAIRMAN. And more highways.

It is a pleasure to welcome our two distinguished witnesses today, Secretary Rubin, and of course our USTR Ambassador Barshefsky.

Before I call upon them for their statement I would like to make a brief statement, then call upon you, Pat, and anyone else that may care to make any remarks.

Our hearing today focuses on one of the most important topics we will face during this Congress. Today more than ever our economic future is linked to trade.

A growing percentage of our gross domestic product depends on international trade and access to overseas markets. We will, foremost, hear of the President's proposal for renewal of his trade negotiation authority and the related congressional implementing procedures.

We will also hear from the administration on two other proposals, one to create parity between the treatment of imports from the Caribbean Basin and other NAFTA trading partners, and another on the administration's initiative for sub-Saharan Africa.

Now, before we turn to the President's representatives I would like to offer a few comments on the so-called fast track. Since Cordell Hall, Secretary of State under Franklin Roosevelt and a former member of this committee, first outlined his vision of a trade agreement program in the early 1930's, cooperation between the Congress and the executive on trade has been the foundation for our economic progress.

The constitution lodges the power to regulate foreign commerce with the Congress. At the same time, it is the President who the constitution empowers to be our representative in foreign affairs.

As a consequence, we need to work together to make progress on trade. In Hall's time, tariffs represented the principal barrier our exports faced abroad and the principal barrier to trade in the United States.

As tariff levels decline following each round of negotiations in GATT, however, we found our exports facing a more complex set of non-tariff measures that dictated a new approach to trade negotiations and the U.S. trade policy.

The creation of what has become known as the fast track process for implementing trade agreements was our means of addressing that problem. The fast track rules allowed Congress, and this committee in particular, to exercise their constitutional responsibility by setting the objectives designed to guide our negotiators, playing an active oversight role throughout the negotiations, and considering legislation needed to implement any resulting accord.

At the same time, the fast track process allowed Congress to offer the assurance that any agreement that met the negotiating objective set at the outset would receive an up or down vote as negotiated.

What I want to underscore is that the grant of fast track authority was intended to address trade barriers. The process was never intended as a vehicle for implementing fundamental change in domestic policy without the thought and deliberation that the normal Senate rules ensure.

I recognize that the world is a more complex place and that domestic regulation can be used as a trade barrier, and that trade negotiations will inevitably have to address those issues. But we should be clear that the core function of the fast track authority is to reinforce the trade negotiating process and the core function of those negotiations is to reduce trade barriers abroad.

Seen in that light, I welcome the President's initiative. As we have made clear in past discussions with the administration, the committee has been waiting for the President's proposal for some time and is interested in hearing about the approach that the administration intends to take.

It is, however, late in the year and the Senate calendar is quite full with work we need to complete by the end of this session. I believe the committee can complete its work on a fast track bill, giving it the thought and consideration it deserves.

The only way we will complete that task and ensure that the full Senate is in a position to act on the measure in this session is if the President is willing to invest considerable time, attention, and energy to promote that initiative.

We will need to see his visible efforts to meet the concerns of the committee and the Senate as our deliberations proceed, and we will need to see his direct personal involvement in building the broad bipartisan support needed to move any proposal on trade before the year's end.

With that, it is again my pleasure to welcome our two representatives. But before we call upon them, I do want to call on Senator Moynihan.

**OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN,
A U.S. SENATOR FROM NEW YORK**

Senator MOYNIHAN. Well, Mr. Chairman, I want to join you in your comments, and to welcome our witnesses and to welcome the President's message which was received yesterday. We have heard a very great deal about the issues of environment and labor provisions as part of trade agreements, in some way thought to be associated with them.

Could I note that the President took a wholly different initiative yesterday. He did not exclude the others, but he added something to this which is very much in the tradition of American foreign policy, although it is somewhat recessive in recent years. That is the International Labor Organization.

We joined the ILO in 1934. It was part of the provision of the Treaty of Versailles. An American, Samuel Gompers, was chairman of the commission in Paris that drafted the charter. The first meeting took place at the Pan American Union on Constitution Avenue, a block from the White House, in 1919. We joined in 1934. It was a matter of great concern that the UN system continue the ILO, and it has done it. It has been a tripartied organization of business and labor with American government.

In the 1980's, without a great deal of attention, we adopted five ILO conventions. I was the manager of three, effectively of four. They were adopted with great support. The first, 144, was adopted 81 to 2, and every other was adopted unanimously, 94 to 4, 97 to 4. Most importantly, Convention Number 105 on the abolition of forced labor was adopted by our Senate 97 to 0.

The idea here, sir, as I gather, is that over the last 80 years the ILO has developed a series of conventions—core conventions—on the right of association, the abolition of forced labor, child labor, labor standards. Most nations have ratified these. But there is no inspection system, no way to see that there is a public accounting for what you have committed to do.

That is one of the great inventions of the second half of the 20th century, to have people out watching from other countries, inspectors starting with the International Atomic Energy Agency.

This kind of initiative at Geneva could have large consequences for what we know about labor standards and other countries, and in no way commits us to do anything more in the way of adopting conventions that we do not wish to do.

But it is, in my view, an important activity which will be supported, I think, by American business as much as by American labor. It may be a way to open up a little room here in what has been a rather unrewarding debate until now.

So I look forward to the testimony and to moving this matter through our committee, sir.

The CHAIRMAN. Thank you, Senator Moynihan.
Senator Grassley.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Mr. Chairman, you are to be complimented for moving with the hearing so quickly after the President's proposal, because we do not have a lot of time and we need to move very quickly on this.

Of course, it is a pleasure to have an opportunity to discuss the administration's fast track proposal with this very distinguished panel of witnesses.

I recall that Ambassador Barshefsky was before our committee in June. At that time she had the very difficult task of arguing how important it is for the President to have the authority to negotiate trade agreements, and of course at the same time explaining why he was not prepared at that time to ask Congress for this authority. But that was then, and this is now. I am glad that the debate is finally about to begin, and I hope it is just not too late.

I have three specific areas of concern with legislation in general, and I will carefully study how this proposal addresses these.

First, how do we handle non-trade issues? Labor and environment are the most often mentioned. Trade agreements are really very difficult enough to negotiate without added weight of non-related, often controversial issues.

I would remind the opponents of fast track that increased trade, which obviously and indisputably leads to increased standard of living, is often the best way to raise labor and environmental standards in other countries where we perceive problems to be, and there are problems there.

Second, what role does Congress play in negotiating trade agreements? If Congress is to delegate its very important constitutional authority to regulate foreign commerce, we must have assurances that we are intimately involved in this process. I am also confident that the American people expect Congress to be so involved and to represent their viewpoint on these trade agreements.

Finally, I am interested in the priority of agriculture in the future trade agreements. Agriculture remains one of the most protected industries in many countries and it is a sector that the United States enjoys a substantial comparative advantage over our trading partners. So we need to continue the progress made in the Uruguay Round and opening new markets for agricultural products.

So I commend the President for listing agriculture as a priority negotiating objective. The proposal specifically addresses trade problems associated with State trading enterprises, biotechnology, and unjustified sanitary and phytosanitary issues. These issues are all very important to the continued prosperity of American agriculture. I will also have some questions for witnesses on more specific things.

There has been a large vacuum of leadership on trade in the past 4 years and we need to reassert the moral authority of the United

States to lead the rest of the world in trade liberalization, as we have done since World War II. The largest, most powerful economy in the world should not remain on the sidelines any longer.

I have a question, probably for members of the Congress, who are opposing fast track. Most of those happen to be in the other political party. If this is a partisan comment, it is the only partisan comment I will make during this debate. It is to ask a question. As I said, probably more members of the other body than this body, because I have seen this committee very inclined towards this.

But how can Democratic members of Congress rationalize a vote against giving President Clinton the same exact authority to negotiate that they were willing to give to President Bush? Fast track authority is about the best interests of the United States, it shouldn't be about special interest politics.

We are on the brink of the 21st century. America cannot afford to isolate itself from the rest of the world. The United States must lead. Economic ties that are established through free and fair trade enable us to export democratic ideals, they enable us to promote peace, and they enable us to guarantee prosperity throughout the world.

Thank you.

The CHAIRMAN. Thank you, Senator Grassley.
Senator Gramm?

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

Senator GRAMM. Mr. Chairman, normally in these hearings I think it is important to get on and hear our witnesses. But quite frankly, today on this subject I think it is more important that they hear us than that we hear them.

I would like to begin by noting that fast track is an extraordinary power that we have decided to give Presidents, but we have given it for one specific purpose, and that is to promote trade and open markets.

Under fast track we give up our right to amend, our right to unlimited debate, our right to do deliberative consideration. We do it for a logical reason, and that is, you cannot negotiate a trade agreement on tariffs and quotas where there is give and take, and ultimately there is a deal cut, and then have Congress come back in and undo that agreement by making changes. I understand that, and I support it.

Let me also say that I do not believe there is a member of Congress that has a stronger record on trade than I do. I have always supported free trade. I opposed an import fee on oil in the middle of the oil collapse in my State, which was very unpopular and which got me labeled as the third Senator from Massachusetts, of all places—[Laughter.]

Senator GRAMM [continuing]. Because I am in favor of free trade. Now, having said that, let me make it clear that I will never vote to limit my ability, or any other Senator's ability, to amend an agreement that has to do with international labor standards.

I will never grant fast track to this President, or any other President, that would allow him to negotiate, in essence, international

treaties on environmental matters and limit our ability to amend or to fully debate those issues.

As I read your proposal, it is totally and absolutely unacceptable. It will never be approved by the United States Senate as it is written. Now, I do not know who wrote it and for what purpose they wrote it, but it looks like a political document and not an economic document.

Provision 5 on page 2 is absolutely and totally unacceptable. It would give the President license to negotiate agreements that would impose labor standards in the United States, not just around the world. He could bring such an agreement to the floor of the Senate and the House without our having any ability to amend it whatsoever.

We, under the language of this bill, give the President the ability under code name words like "sustainable growth" to set limits that would have the effect of domestic law in imposing constraint on American industry and agriculture where we would have no ability to amend such a provision.

I do not know what you mean by trade-related, and it is obvious you do not either. If by trade-related you mean it expands trade, then that is a totally different argument. But obviously something that reduces trade is trade-related.

Now, I think it is an outrage that the whole world is expanding trade, negotiating trade agreements, and we are sitting on the sidelines because 3 years ago the President decided that, rather than to address these issues, he would let fast track die.

But I would rather the United States sit on the sidelines than to see us destroy the world trading process by injecting into it labor and environmental conditions that will disrupt trade and will reduce the volume of trade in the world.

I simply want to say this. I think that we are off on a very bad start here. The way your bill is written, there is no possibility that I could support it, and I intend to vigorously oppose it in its current form. I think what we need to do is go back to the 1988 agreement.

I think what we need from the 1988 agreement are basically two things. Number one, the technical changes that you need because of the change in circumstances and law since 1988. Second, we do have a problem here that we have never had before. No President has ever suggested that they would include labor and environmental issues in a trade agreement.

That is totally new. So we are going to have to have some assurances as to what the parameters are of those inclusions if we are going to be able to pass the trade agreement.

Now, I am for fast track. I want to be for it. But in the current form that you have submitted this proposal, I am adamantly opposed to it. I would rather have world trade go on without us than to have us, in essence, corrode the whole process.

This bill could clearly lead to a disruption of trade, a reduction in the volume of trade, and clearly could allow the President unilaterally to bypass the whole constitutional process of amendment and debate and change domestic law as part of an international trade agreement. We are going to have to be protected from these things.

A final point, and I am sorry to run over, but this is something I feel strongly about, Mr. Chairman. If the President wants to negotiate international labor agreements, great.

But let him negotiate them and bring them to Congress and give us the opportunity to have due deliberation and to amend them. If the President wants to negotiate international environmental treaties, great. But they ought to be dealt with as treaties. They ought to require super-majority vote.

I do not believe we can, in fulfilling our constitutional responsibilities, give the President the ability to do all these things in the name of trade when the plain truth is, they are trade disrupting not trade creating, though they have great merit and though I might support them.

Thank you.

The CHAIRMAN. Thank you, Senator Gramm. Senator Mack?

Senator MACK. I yield to the Majority Leader.

The CHAIRMAN. Mr. Leader.

OPENING STATEMENT OF HON. TRENT LOTT, A U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. Thank you, Mr. Chairman. I will be brief because I do want to hear the witnesses' testimony here today. I think it is important; that is why I came over.

I have had the opportunity to be briefed by administration officials to some degree yesterday, but I am looking forward to the complete testimony.

Now, as the unexcitable Senator from Texas just said, I also support free trade. I voted for GATT, I voted for NAFTA. And I want the President to have the means to achieve more free trade around the world. But fast track is an extraordinary and exceptional procedure that suspends the normal rules in the name of a higher purpose, the elimination of barriers and global markets to American goods and services and agricultural products.

Because it is extraordinary and exceptional, it must not be granted lightly. And it will not. The administration would not expect it to be, and the Congress will deliberate over this very carefully, although we have it listed for the balance of this year as one of our three must-do items.

Now, that does not mean we must pass, but we must do. Hopefully we will do it in the right way. The transportation bill, fast track, and of course appropriations bills are the ones we will act on before we leave for the year.

I would also say that this extraordinary and exceptional authority, once it is granted, has major consequences. We must make sure that we have looked at possible unintended purposes. We must make sure that the administration will not be tempted to succumb to using it in ways that we certainly had not considered and did not agree to.

Fast track is most emphatically not a vehicle for special interest agendas, no matter how passionate their proponents may be. But that is not the purpose of fast track, and it will never be.

I am examining the administration's proposal carefully. I have already received one briefing paper, then I've got the entire docu-

ment. We will be going over it very carefully. It clearly introduces brand-new environment and labor elements into the fast track process. This is highly disturbing.

As President Clinton's press secretary is quoted as saying just yesterday, the administration's proposal also contains "other ideas that allow us to pursue aggressively our labor and environmental interests." I look forward to hearing from the witnesses the details of those other ideas as well.

The administration's proposal also seems to lack insufficient regard, in my opinion, for existing trade laws. These laws are there to assure that American workers are not the victims of unscrupulous and unfair trade practices. These laws need to be strengthened, utilized, and not ignored.

But this is only the kick-off. This is not the end of the game. We think the game plan is going to have to be changed some, and that is what the Senate excels at doing.

Thank you, Mr. Chairman, for having this hearing.

The CHAIRMAN. Senator Mack.

**OPENING STATEMENT OF HON. CONNIE MACK, A U.S.
SENATOR FROM FLORIDA**

Senator MACK. It is difficult, frankly, to improve the statements of Senator Gramm and Senator Lott, from my perspective. I think that it is in this country's vital interests to continue to work to open markets. I mean, I think that one of the factors that has added so much to our economic activity is because of our willingness to open markets, to work for opening markets.

It has allowed us to move investments out of the old technologies into the new technologies, which frankly are creating the jobs and providing opportunity for this generation and future generations. So I think this is a vital and extremely important issue, but I think you have heard the concerns that have been raised here this morning.

Again, both Senator Gramm and Senator Lott pointed out, under fast track we give up our right to be engaged in many aspects of the legislative process, and we are only willing to do that if it is narrowly defined to trade issues.

For example, and I am sure we will get into discussions about this, but the administration's proposal includes a provision that includes language that says, "any other changes in U.S. law required to carry out a trade agreement may be included in fast track and limitation legislation," and then you put some limitations to that, "only if the changes are both necessary to implement the agreement and related to trade."

Again, in looking at that language I don't know what that really means. I am not prepared to support fast track if this is going to become a vehicle that allows the administration to move off into a whole series of other issues that is going to limit our ability to affect what the administration is attempting to do.

So again, I have concerns. Frankly, when I heard yesterday of how it was being spun, what we were going to be seeing, I thought to myself, this sounds like a fast track proposal that I can support and agree to. But then as I started to review the legislation and the language specifically, I became very concerned.

I think Senator Gramm's idea of going back to the language of 1988 is probably a pretty good point. So again, like the other two, I think my record speaks pretty loudly for support of free trade, but I am very concerned about how this legislation is going to be written. I want it more narrowly defined as opposed to an expansive legislative proposal.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you for your comments, Connie.

I think at this stage we ought to proceed with the testimony of our two witnesses. But I do want to underscore, I think, a point that a number have made, because they are of critical importance. That is the fact that the purpose of fast track is to reduce and eliminate trade barriers, it is not to determine domestic policy.

So I would urge both of you to make any comment you can on this matter, because I think it goes to the crux of the discussion on this most important legislation. We must find a satisfactory answer that will assure that the purpose of this is to remove barriers and not become intertwined with domestic policy.

With that, it is always a pleasure to have you here, Senator Rubin. I'm sorry, Secretary Rubin.

**STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY OF THE
TREASURY, WASHINGTON, DC**

Secretary RUBIN. Thank you very much, Mr. Chairman.

I do not know if Senator D'Amato would appreciate you calling me Senator Rubin, but there is a thought in that, maybe. [Laughter.]

Probably not a very good thought actually, from my point of view. I do not think I would be very good at seeking it, so I think we are in agreement.

In any event, thank you very much, Mr. Chairman. I will have very brief comments. Ambassador Barshefsky, as you know, is the lead official of the United States Government on these issues and she will be discussing the provisions of the President's proposal and response to the comments that have been made.

Let me also join Senator Grassley in expressing appreciation for the speed with which you have scheduled this hearing after the President's announcement, because we have very limited time left, as you have correctly said. Senator Lott said we would like to move on this, if we can.

The President, as you know, has been enormously focused on economic strategy since he took office, and trade liberalization has been an essential piece of that focus, and I think has contributed very substantially to the economic conditions that we have enjoyed over the last 5 years.

Having fast track negotiating authority, in his view, in our view, is essential to our economy. There are millions of Americans whose jobs are directly or indirectly dependent on trade, and all American consumers benefit from trade through lower prices and greater choice.

Also, there is no question, Mr. Chairman, that promoting open markets and trade increases prosperity around the world, and that, again, is to our benefit and it creates new and better markets for our products.

As I think Senator Gramm said, with fast track we can negotiate to open trade around the world and continue in the process that we have been involved in. Without it, no nation will enter into serious negotiation with us, because once they reach an agreement they then are subject to the problem, as Senator Gramm said, of having the agreement redone in our internal domestic political processes.

Clearly, consultations with Congress both before and during trade negotiations are absolutely vital, and they are a key provision of our proposed legislation. The intent certainly was to ensure that the Congress views are fully integrated into the formulation of negotiating goals and strategies with respect to each particular treaty.

Let me also add a comment that I know Senator Gramm made, and others may have made as well. That is, trade liberalization is going on around the world. The question is not whether trade liberalization continue, the only question is, will we be on the inside of it, in which case there are enormous benefits for us, or will we be on the outside of it.

One good example. The Mercosur nations right now have created a preferential trade arrangement amongst themselves. The consequence can be seen very readily. United States exports in four of our most competitive products—road vehicles, metal goods, cosmetics, and electrical equipment—have fallen by about 10 percent in 1966, while our exports of these four goods to the rest of the world have gone up about 6 percent.

I spoke with the CEOs of some of the companies involved with these products, and they tell a very simple story. They now are at a 10 or 11 percent tariff disadvantage with respect to some of these countries and they say it is basically making them non-competitive or far less competitive. It is a very serious problem.

Our objective is to make sure that U.S. companies have a level playing field around the world. I think there is no question that American companies today can compete. They can compete anywhere as long as we provide a level playing field for them, and that is the purpose of fast track authority.

The next steps for our trade agenda are to move forward on agreements in some of our most competitive sectors to reduce barriers to trade, services, and agriculture, as Senator Grassley mentioned, which are key U.S. exports, as well as to complete a free trade agreement with Chile, which is really the beginning of a process of getting free trade agreements in the Americas and Latin America, which is a tremendous potential market for us.

In addition, we are very much focused on Asia. Between Asia and Latin America you have the two most rapidly growing areas of the world, and we want to move ahead with trade liberalization in both areas.

In order to do so we absolutely must have fast track authority. Fast track authority is also, as one of you gentlemen said, not just about trade, but it is really about global leadership and leadership in the global economy.

As a number of you pointed out, I know the Chairman did, particularly, and Senator Moynihan, trade policy has been a bipartisan

effort for 50 years, and it has got to continue on that basis if it is going to be successful.

Senator Lott has pointed out that there are problems in this bill from the perspective of certainly a goodly number of members of the Senate Finance Committee, as you have made reasonably clear in your opening presentations, and what we need to do is all work together to devise an acceptable negotiating authority so we can continue, and the President can continue, to open markets and to work together in a bipartisan spirit that Senator Lott and others so well manifested during the recent budget negotiations. We look forward to doing that, Mr. Chairman.

With that, let me, if I may, turn the microphone over to Ambassador Barshefsky.

Let me also say, if I may, Mr. Chairman, I am going to have to leave a little bit early. As you know, I mentioned to you before, I am going to Hong Kong today. I will stay as long as I can.

The CHAIRMAN. All right.

[The prepared statement of Secretary Rubin appears in the appendix.]

The CHAIRMAN. Please proceed, Madam Ambassador.

**STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY, U.S.
TRADE REPRESENTATIVE, WASHINGTON, DC**

Ambassador BARSHEFSKY. Thank you very much, Mr. Chairman. Of course, I would ask that my full comments be accepted for the record.

The CHAIRMAN. Without objection.

[The prepared statement of Ambassador Barshefsky appears in the appendix.]

Ambassador BARSHEFSKY. Thank you.

And Mr. Lott, it is very nice to see you as well.

The Export Expansion and Reciprocal Trade Agreements Act of 1997 which we presented yesterday would renew the traditional relationship between the Congress and the President in defining trade policy and approving trade agreements.

The administration's fast track proposal would provide a critical tool to lower foreign barriers, to open markets, and to rebalance trade relationships on more reciprocal terms.

This legislation is vital to American business, farmers, and workers because fast track is fundamentally about U.S. exports, which are more important to our economic vitality than ever.

Since 1993, more than one-third of our economy growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. Twelve million U.S. jobs depend on exports, and these jobs pay on average 15 percent more than non-trade-related jobs.

Since 1985, our exports have roughly tripled, from about \$300 billion to an expected \$900 billion this year. With only 4 percent of the world's population, we must have access to the 96 percent of consumers beyond our borders if we are to sustain growth in our economy and living standards.

Fast track sends a strong signal to our trading partners that the United States will continue to lead. It indicates that we are also determined to set the rules for fair trade.

We must also recognize that in the post-Cold War era, economic relationships are increasingly important in defining our strategic alliances. Our trade relationships and economic leadership will help shape the longer term economic security of this Nation.

There are serious and immediate consequences if we do not renew this authority. In every region of the world, as Secretary Rubin has noted, but particularly Latin America and Asia, the two fastest growing regions, our competitors are pursuing strategic and aggressive trade policies, and in many cases creating new exclusive trade alliances, to our detriment. Since 1992, over 20 such agreements have been negotiated without us.

The absence of negotiating authority is also causing us to lose ground to our industrial competitors, as the Canadian-Chile example that Secretary Rubin mentioned so aptly demonstrates.

In fact, in this week since the President kicked off this initiative, both Canada and the European Union have stated their intentions to seek free trade agreements with Mercosur, which is dominated by Brazil and Argentina.

Our competitors are clearly on a fast track to seize growing markets. The question for us is, do we move ahead and fight for new markets or let others define the rules and reap the rewards without us.

Mr. Chairman, Mr. Leader, we intend to use fast track in three ways. First, to complete the built-in agenda of the World Trade Organization. This year we resumed negotiations on reform of government procurement. Next year, we restart negotiations on intellectual property, followed by agriculture in 1999, and then services.

We will seek, and must seek, enhanced access in all of these areas. The stakes are very high. Government procurement in Asia alone is a trillion dollar market in the next decade; agriculture, a \$600 billion global market; services, a \$1.2 trillion market. We must—must—pursue our fair share of that global trade.

The second purpose for which we would use fast track is to pursue market access initiatives in the fast-growing sectors where the United States is a powerful competitor.

The recent Information Technology Agreement, for example, cuts tariffs in 42 countries on a wide array of products. It amounts to a \$5 billion tax cut for the United States in its sales of telecommunications equipment, semiconductors, computers, and other items abroad.

The ITA has led the consensus among our trading partners to pursue an ITA-2 this fall which would further expand product coverage.

Other potential sectors we have identified for ITA type treatment are chemicals, energy equipment and services, environmental technology and services, medical equipment, and several others.

Third, new authority is essential if we are to negotiate more comprehensive market access agreements or free trade agreements with individual countries. This administration, consistent with its predecessors, has identified Chile as a promising candidate for that type of agreement.

Chile is in all respects prepared to enter into agreements with us that achieve our economic objectives, as well as agreements with

respect to labor and environmental issues, as they have done with Canada.

Prior to identifying any other specific countries, the administration, of course, would have to come back to Congress for substantial consultations.

Mr. Chairman, the administration's proposal ensures that Congress will be a full partner—may I continue for just one minute more?

The CHAIRMAN. Please proceed.

Ambassador BARSHEFSKY. Thank you. Will be a full partner in setting negotiating objectives and establishing trade priorities. Fast track does not itself approve any particular agreement.

It is a procedural device under which agreements may be brought back to the Congress, but it is Congress that has the final say on whether any agreement we bring back is acceptable or not. Of course, Congress will vote accordingly.

May I just note a few of the elements of our proposal. The legislation would reactive a 60-year partnership between the President and the Congress by reinstating fast track and tariff proclamation authority through October 2001, with the prospect of renewal through 2005. The extension to 2005 would be subject to disapproval by either House of Congress.

Our proposal outlines clear trade negotiating objectives designed to sustain U.S. economic competitiveness. It also contemplates the negotiation of additional agreements with respect to issues such as labor and environment, as well as advancing fundamental values in multilateral institutions.

Notification requirements and public participation have been expanded relative to prior law, and the proposal gives Congress an expedited way to revoke fast track authority if it so chooses.

The proposal broadens substantially Congressional involvement in trade policy at every phase. The President is required to confer with Congress before, during, and after any trade negotiation. Congress will have the ability to set priorities, provide advice, and exercise meaningful oversight.

The proposal also ensures that we can and will maintain our high health and safety standards, and vigorously enforce our trade laws.

In the Congress and among the American people there are strongly held views on the issue of trade. There can be no disagreement, however, that increasing our exports, tearing down barriers, and opening new markets under tough agreements is good for America.

We can accomplish none of these goals without the ability to bring our trading partners to the table and negotiate with them effectively, and that is what fast track is all about.

In conclusion, we are committed to working with the Congress to make sure that this legislation receives the full bipartisan support it deserves and the American people expect.

As the President said last week, walking away from this opportunity will not create a single job. Turning away will not expand our economy, enhance our competitiveness, make the environment better, or empower our workers. The world economy is on a fast track, and we must lead in shaping our future.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ambassador Barshefsky. Let me start out by saying I think there is broad consensus as to the need for this country to provide leadership and that leadership has suffered because of the lack of fast track authority.

I would again like to emphasize the importance that many of us attach, that fast track is to remove trade barriers and not to determine domestic policy. I would like to ask both of you, Secretary Rubin, Madam Ambassador, would you agree with that basic concept?

Ambassador BARSHEFSKY. Mr. Chairman, if I might take your question and take some of the comments that the Leader made, Mr. Gramm, Mr. Mack, you and Mr. Grassley have made, and talk a little bit about the bill and the concept behind it.

The CHAIRMAN. In the process I would ask that you answer my specific question. [Laughter.]

Ambassador BARSHEFSKY. Yes, I certainly will. I certainly will.

We agree that fast track is a special grant of authority to be used in special ways. Certainly the proposal that we have put forward is designed, first off, to ensure that this President, President Clinton, has the ability to negotiate trade agreements and bring them back under fast track as his predecessors have done. That is to say, that he can use fast track as fast track has traditionally been used by both Democratic and Republican President.

Second, the proposal recognizes that, as trade negotiators, we also need flexibility to ensure that we can come back with the best deal for America and to ensure that we can address those issues that arise in the course of any particular negotiation, which oftentimes cannot be determined with precision in advance.

Last, the bill recognizes that this is, after all, a trade agreements process and that ultimately the context for considering this legislation is a trade agreements context.

With respect to the question of specific barriers to trade, certainly fast track should be able to be utilized in order to remove foreign trade barriers and better rebalance our economic relationships with those trading partners that do not provide reciprocal treatment.

But if we look at the trade agreements that have been negotiated, including, for example, by President Bush, we see that there are limits to the notion that the only thing a trade agreement can do is reduce trade barriers.

So, for example, if we look at the agreement Mr. Bush negotiated in the NAFTA, we see the very important principal that foreign countries should not lower their existing health and safety standards, should not lower their existing environmental standards to attract investment.

It is a very important principal. It goes to the rule of law. It goes to the ability of foreign countries and willingness to enforce their own laws, which has obvious implications as to whether they will enforce the trade agreement they have just entered into with us.

Well, not lowering one's standards to attract investment is not a trade barrier, but it bears heavily on the viability, potentially, of a trade agreement and on U.S. competitiveness.

So we believe that we have to reach some consensus on the proper scope of trade agreements. Then, of course, pursuant to Mr. Gramm's point, we must ensure that the President retains authority to negotiate, in addition, agreements that he deems to be necessary and in America's interests with particular countries.

They may be labor agreements, environment, or bribery and corruption agreements, or agreements on competition policy. There may be an array of agreements that we feel that we need to negotiate, or should negotiate. But here again, the proposal contemplates that we would have to come back to Congress to specify all of those issues in detail, to specify what would be subject to fast track and what would not be subject to fast track.

In that regard, may I conclude by making one point. This administration does not intend to use fast track to amend U.S. labor and environmental laws. We do not intend to use fast track to circumvent the normal legislative process with respect to domestic policy making.

The CHAIRMAN. In other words, you basically agree with the division I made that these negotiations, fast track, applies to the removal of trade barriers and not domestic policy.

Ambassador BARSHEFSKY. If we take two extremes, removal of trade barriers and the creation in whole of domestic policy, fast track does not pertain to the creation in whole of domestic policy.

But the issue is how we handle issues that are plainly directly related to trade, as the example I gave with respect to a country lowering its standards to attract investment and how that type of issue is handled.

The CHAIRMAN. Let me just ask you this follow-up question. As your proposed legislation requires that U.S. negotiators take into account our domestic objectives regarding health and safety, national security, the environment, consumer or employment opportunities in using their negotiating authority, now does that not appear to give some license to negotiate matters that would promote what this administration or any future administration might envision to be in the domestic interests?

Ambassador BARSHEFSKY. Mr. Chairman, that provision actually if from the 1984 Trade Act and is a provision that had been inserted in the 1988 fast track bill, though in slightly more limited context, on the Senate side.

We think that these issues are very important. The intent behind the provision is simply that, in negotiating trade agreements, we must be mindful of our need, number one, always to protect our National security.

Number two, we must be mindful of the fact that we preserve the right to set our own health and safety standards, however high we wish those standards to be. This is also a principal enshrined in the WTO.

Third, that we ensure that we are always able vigorously to enforce our trade laws and that the trade agreements we negotiate do not impede that strict enforcement. That is the intent behind the provision. Perhaps it could be more artfully worded, but that is the intent.

Secretary RUBIN. Could I add one comment, Mr. Chairman?

The CHAIRMAN. Yes, Mr. Secretary.

Secretary RUBIN. I absolutely agree with the Ambassador, there is a distinction between domestic and trade, so I identify with those things you said. Conceptually, at least, the thought is that as productivity increases, particularly in developing countries, then wages should go up and environmental standards should increase so that we are not at a competitive disadvantage.

Now, leaving aside whatever one's interests may be or may not be, environmental standards and labor standards in other countries, I think we have an enormous economic self-interest in trying to work with the WTO to see that, as these countries benefit through trade, through workers' rights and collective bargaining and whatever other mechanisms may be, and also through appropriate focus on the environment, that the labor and environmental standards increase as well as their productivity. Otherwise, we will find that we are at an increasing competitive disadvantage because of suppression, if you will, of wages and environmental standards in these developing countries.

So I think, leaving aside anything else, I just think we have an enormous economic interest to try to do this through the WTO, which is one of the reasons why this was included as a principal negotiating objective in the WTO context.

The CHAIRMAN. I just want to make the point that no one is objecting to negotiations, whether it is labor, environmental, or other matters. The question is, what does fast track apply to? We do feel very strongly, as you have heard a number testify today, that if it involves domestic policy, then it should be guided by our normal process, normal rules.

But I would say to you, Ambassador Barshefsky, the mere fact that it was in earlier legislation, I think we have to take a new look at some of these provisions because we are trying to build a broad consensus of support. These are not intended to be negative. What I am trying to determine, is how can we develop a piece of legislation that has the White House support, but also has broad bipartisan support here as well.

Some of the language in this present draft does concern me when you talk about sustainable development. That seems to open the door very widely, or at least it can be so construed. I mean, for example, under that term, I have been a supporter of Clean Air, Clean Water. But why could those kind of agreements not be negotiated under this language? It seems to me it raises that possibility. What would you say, Madam Ambassador?

Ambassador BARSHEFSKY. I think that this is one reason why it was very important that the Leader indicates this kicks off the process. We certainly do not contemplate utilizing fast track to change U.S. labor laws, U.S. environmental laws, or in any way circumvent the constitutional process by which issues are ventilated in the United States, and legislation is enacted. That is certainly not the intent.

The reference to sustainable development in the negotiating objective with respect to the WTO really comes from the WTO. You know that at the end of the Uruguay Round the United States and other countries were successful in establishing a committee in the WTO on trade and the environment.

This objective, as it is, reflecting the WTO jurisdiction, attempts simply to indicate that we intend to pursue vigorously in the WTO issues that pertain to the environment, issues that pertain to worker rights, including child labor, but we are not here talking about some new mechanism by which fundamental domestic laws in the United States are in any way altered through the use of fast track.

The CHAIRMAN. Well, I do think we have to take a careful look at the language to make certain that it does not permit other kinds of interpretation that either you or I might intend. You often to refer to this administration, but this particular grant of power would provide the possibility of fast track for, what, I think, for seven and a half years, so it would go beyond this administration. We do not know what the intent of the next administration would be.

So I think it is very important that we look at this language from the standpoint, if we are going to get the legislation enacted in this very, very tight time frame, it is absolutely essential that the language be such that there can be no misinterpretation about domestic policy, whether it is environmental, labor, or something else. Again, not that we are necessarily opposed to international agreements in those areas, but there is another process that they should follow.

Well, my time is up and I will now call on Senator Grassley.

Senator GRASSLEY. Let us start with the part about Congress' ability to deny authority in a particular agreement. It is my recollection that the 1988 Trade Act did this two ways. Number one, by allowing the Committee on Finance or the Committee on Ways and Means to disapprove of bilateral negotiation even taking place, or both Houses of Congress could vote to withhold fast track authority for a particular agreement.

In fact, I remember in this very committee on a 10:10 vote in 1984 or 1985 we just about denied the President the authority of doing an agreement with Canada. So this is one way of protecting the Congressional constitutional power of the Congress over trade.

It is my understanding that your proposal does not include the procedure for committee disapproval, so would you please explain the provision in your proposal relating to Congress' ability to withhold fast track authority, and what is the reason for change in policy from the 1988 Act?

Ambassador BARSHEFSKY. We tried to approach this, first off, by broadening out very substantially the consultation provisions that would apply to the full range of trade agreements, including matters with respect to tariff proclamation authority, so that Congress was a much more active participant from the beginning.

In that connection, we inserted for the first time a provision that says, if we want to negotiate with a particular country or on a particular matter, we need to come to you and we need to list specifically what we intend to negotiate, not just the subject matter headings like Customs, standards, or intellectual property rights, but what is it that we intend to negotiate in the context of each of those. We felt that this was a productive way in which to proceed, and for that reason went in that direction rather than in the direction that was contained in the 1988 Act.

May I also say that we retain the provision—

Senator GRASSLEY. I am sorry. We have a vote. He is going to go vote. But we will continue.

Ambassador BARSHEFSKY. All right. May I also say that we have retained the provision for disapproval of fast track procedures by Congress in the event the consultations have not been held.

So the combination of very rigorous consultations, which are spelled out with great particularity, coupled with the ability of Congress to decide that the consultations were not held in the appropriate manner, should provide Congress with more than ample oversight.

Senator GRASSLEY. I think you have given a very good reason why you think it is not necessary, I guess. And maybe I would have to agree that there are other ways of accomplishing the same goal. But we do run into at the grass roots that Congress should not give up this power.

Well, the other side of it is, it is impractical for Congress to never be able to negotiate these things, and only the President can speak for us in international affairs. But it does help us then to show the people that we are a little more protective of our constitutional power.

I would like to move on, if I could, to asking you to clarify exactly what types of changes in law will qualify for the fast track process. Page 16 of the bill, paragraph 3(c)(i). I have seen press accounts, and maybe press accounts are not a very good basis for analyzing a bill, but they say "a provision must be necessary or appropriate to implement the agreement and must be directly related to trade."

Then in other parts of the bill the term "directly related to trade" is used. But this paragraph of your bill drops the term "directly" and just says it must be related to trade.

I want you to clarify the standard for me. Are the three words "related to trade" defined? If not defined, should they not be defined? I suppose, what does it mean to you? I presume we are going to have to have either from you or in the legislation, we have to know what related to trade is and why it is used some places and not otherwise.

Ambassador BARSHEFSKY. With respect to the specific negotiating objectives we have used the phrase "directly related to trade" for the reasons I have noted before. First off, a recognition that we are negotiating trade agreements, but the issues are many and complex; second, the fact that we want to ensure authority can be utilized in a manner consistent with past Presidents; and third, that we retain flexibility to be able to address new issues as they arise in an effective and appropriate manner.

With respect to the section to which you are pointing at page 16—

Secretary RUBIN. Senator Grassley, you seem to be functioning as acting Chairman. Could I ask to excuse myself? I have got to go to Hong Kong.

Senator GRASSLEY. Of course. I understand.

Ambassador BARSHEFSKY. I was hoping you would say no. [Laughter.]

Senator GRASSLEY. I was of the assumption that, when you had to leave, you would just leave. We are glad to have you here; you could come every day.

Secretary RUBIN. I appreciate that opportunity. Thank you very much.

Senator GRASSLEY. Please go ahead.

Madam Ambassador, proceed.

Ambassador BARSHEFSKY. Yes. Thank you so much.

With respect to the language that you point to at page 16, you may recall from previous fast track bills that there was always the question, what could be appended to fast track implementing legislation?

Traditionally, bills for the last 20 years have said that which is necessary or appropriate may be appended to fast track legislation. Most recently, this has led a number of members on both sides of the aisle to question whether some of the items that had been appended to fast track implementing legislation were properly so appended or whether they ran so counter to the subject matter at hand that perhaps the fast track implementing bill should not have been the vehicle.

So the idea here was to utilize the language "necessary or appropriate" which was the 20-year language, but then add also the requirement that what can be appended to the fast track implementing bill must also be related to trade so that legislative matters completely extraneous to the trade sphere, the example used in 1993 was pension reform, would not be appropriate add-ons to a fast track bill.

Senator GRASSLEY. All right. If you just made this point, I am sorry. But what happens then from the perspective of your bill that you have introduced, what damage does it do to that bill, if the word "directly" is placed in this part of the bill that deals with environment and labor?

Ambassador BARSHEFSKY. Let me not answer you directly, but to say that I will certainly look at that. I will certainly look at that, absolutely.

Senator GRASSLEY. Senator Kerrey, have you voted?

Senator KERREY. I have not voted. I intend to.

Senator GRASSLEY. Why do you not proceed, and I will go. Then what we are going to have to do, if other people do not come back when he is done, we are going to have to have a short break here. So, it will just automatically happen.

Ambassador BARSHEFSKY. I was hoping I could go to Hong Kong with Bob Rubin. [Laughter.]

Senator KERREY. Well, I have a number of questions that I will not have time to ask, Ambassador Barshefsky. But there was a provision in the 1993 NAFTA that required a report that the President produce, this thing called the Study on the Operation and Effects of the North American Free Trade Agreement.

To me, this is an unsatisfactory report because it attempts, I think, to make too strong a case that trade is an enormous benefit and too little of a case to talk about the negative impacts of imports and the dislocation that occurs. I am not satisfied that the Trade Adjustment Assistance Program has worked very well at all.

But I think if we are going to sustain support for either fast track or for trade as a way to list standards of living, and I very much appreciate your putting that in the objectives that you outlined in the bill as one of the purposes of trade, if we are going to

sustain that support, and I find it strikingly weak, even in a State like Nebraska that benefits substantially from trade, I think we are going to have to be much more objective. And I do not know how to do it. I am not blaming the President. I am just saying I do not know quite how to do it. But I do not think this report is nearly as objective as it needs to be. In other words, juts let the chips fall where they may. Just give us the facts.

Tell us what the imports have done, what the exports have done, where are the problems, where are the difficulties, what is good, what is bad, so that we can adjust, so that we are not out there all the time trying to sell a bill of goods to the American people about something without acknowledging that with trade there are significant problems. It is not all good. There are negatives that come with it.

That is especially true if there are currency fluctuations or changes in foreign governments or mistakes that we make; where we acknowledge we have made a mistake, how do we make a correction to something that did not work out quite like we thought it should.

We are giving you authority, but we are negotiating with people's lives here and their livelihoods. They are very uneasy anyway about whether or not the next downsizing is going to whack them, whether this international competition can meet it over the course of a 45-year working life.

I mean, all this high language that we typically use when we relate to trade infuriates people out there who are paying the price. I think it is just very important for us to be as objective as possible.

I do not know how to do it, but I would like to work with you, with the Secretary, and the administration on producing language in this bill that generates an objective report, not a political document. Again, I am not saying it is a political document, but it does tend to put, I think, a bit more positive gloss on this issue of trade. Not until page 19 does the word "import" even surface.

So I would like to work with you and try to see if we could come up with the language that would produce, at least in my mind, something that the average citizen out there could look at and say, here's the plus, here's the minus of trade.

I am going to go vote. I appreciate your coming. I will see you in a minute.

[Whereupon, at 11:15 a.m., the hearing was recessed to reconvene at 11:20.]

Senator GRAMM. I see Senator Roth is here. We will begin in just a moment.

Madam Ambassador, let me try, rather than trying to go through all of this language, much of which is not defined, what we mean by trade-related, what we mean by sustainable growth.

Let me try to give you a couple of concrete examples to give you an idea of the concerns that I have. Now, there are two concerns. One, is that this language could be used to impose sanctions against our trading partners that would in turn disrupt and reduce trade in the name of many of the other objectives listed in the bill.

But a second concern is that fast track, with its limits on amendments, could be used to change domestic law and thereby could

dramatically change our economy and its laws. Let me just try to give you two examples, then I would like to ask you to respond.

The first example has to do with the provisions of the bill that relate to the principles of, we set out for the first time ever in this bill in an extraordinary provision that it is one of our principles of economic trade that we want to enforce core labor standards.

Then we have a series of provisions related to the International Labor Organization gathering, and then we have a statement of the policy of our government related to the ILO and core standards. So we have got both ILO referenced in the bill, we have got specific statement of a trade objective that we want to promote core labor standards.

So let us say that under this provision the President enters into a trade agreement, and part of that trade agreement is to promote labor rights and core labor standards, including the right to organize collectively. The trade agreement commits all of its signatories to implement provisions in their country to enforce ILO objectives and to enforce core labor standards, including organizing and collective bargaining.

Let us say to comply with the treaty that the President submits provisions that override State right-to-work laws. After all, union membership is declining. If it were not for unionization of State, local, county employees, union membership would be falling through the floor, prima fascia evidence that worker's rights are being challenged. So to conform with the trade agreement that commits us to core labor standards, including collective bargaining, the President includes in the trade agreement the enforcement of "our end of the bargain," which is to override right-to-work laws in 21 States.

The President clearly can refer in specific language in the bill that he has this power. We have no right to amend the provision. The only right we have is to vote it down. We can raise a point of order against it. If the Parliamentarian rules in our favor it can be overridden with a majority vote. It cannot be filibustered, cannot be amended. That is the first example.

The second example, is that you have introduced here a new concept in trade law. That concept is sustainable growth, and you know it is a code word. It is an old economic term. Economists have been writing about sustainable growth for 75 years.

Let us say under the sustainable growth provisions and the trade objectives, which for the first time the environment is a trade objective in this bill, and let us say that the President negotiates an agreement that would open trade, but in the process would guarantee that trade will be based on sustainable growth and on environmental provisions related to sustainable growth, specifically in the objective clauses of this trade agreement.

So let us say as an enforcement mechanism that the President includes in the fast track bill sent to Congress a tax on industries that are emitting pollutants to be used for domestic clean-up and a cause of action for those industries against their competitors that do not impose a similar tax or institute a similar clean-up.

The President can specifically refer to sustainable growth, and if you are polluting you are growing at a rate that is not sustainable

over the long term, one could argue. We specifically set the environment out as an objective of this bill.

It seems to me, therefore, that the President could easily justify that under this bill he could enter into a trade agreement that would involve labor rights, that would allow him to override State law in 21 States on right-to-work, and it would be subject only to an up or down vote in the Congress. It could not be amended, could not be filibustered.

He could also impose a domestic tax as part of a trade agreement. He could even impose a domestic tax as part of a trade agreement, say an expansion of GATT, where western democracies agree to tax to deal with pollution problems in the Third World.

Such an agreement would not be amendable and would be subject to a majority vote. I do not see anything in this bill that would in any way give us any protection against these things. In fact, we clearly, in paragraph 5 in the fifth section on page 2, give the President the license to do those things.

Now, it may not be your intention, but first of all I do not know what the President's intentions are. I do not know what some future President's intentions are. I just wanted to give you these two examples to show to you how totally and absolutely unacceptable these provisions are.

I would like to get your response to that.

Ambassador BARSHEFSKY. Certainly.

I will give you specific responses, but let me, first, tell you how we look at the President's goals in relation to this bill. The President has articulated, since 1991, actually, three broad goals in this economic sphere.

One, of course, is continued economic growth, market access, breaking down the barriers. Number two, the President wants to also ensure that global working standards, working conditions are lifted up as much as possible. We would love to see other countries come up to our standards over time.

Third, he wants to ensure that the environment is protected, that countries again lift their environmental standards, promote sustainable development, and responsible environmental management practices. Those are his goals.

The question is, what are the mechanisms by which those goals might be achieved as we look at individual countries with whom we may wish to negotiate? There are a variety of mechanisms. One, of course, in the bill the notion that if a matter is directly related to trade it can be in a trade agreement.

The example I used which I drew from actually the NAFTA was a country lowering its labor or environmental standards as a means to attract investment. Here we are not dictating the standard, but if they have a legal standard we do not, as a general matter, wish to see them not enforce their own laws.

Second, we have additional agreements the President can negotiate pursuant to his executive authority. These can be cooperative agreements, they can be agreements related to helping countries lift their standards, so on, and so forth.

Third, we have the multilateral institutions. Here we referenced in the bill the WTO and the ILO. Of course there is UNCTAD, the OECD. Many of these institutions are now looking at the relation-

ship between trade and environment, between trade and working standards, and are trying to determine an intersection point and how to deal with those issues.

Of course, then we have our own domestic initiatives. We have the sweat shop initiative which was labor, business, and government working together to hopefully eradicate sweat shop labor, and so on, and so forth.

There are a variety of different means. The President would intend to utilize all of those different means in order to accomplish the three goals he has set out, the economic growth, and then lifting global conditions, lifting global environmental standards.

However, the administration does not intend that fast track would be used to amend U.S. labor and environmental laws.

Senator GRAMM. But you do see that my examples clearly fit within the language of your bill.

Ambassador BARSHEFSKY. I see what you are saying. Certainly we need to look at this. On the ILO side, of course, the ILO conventions are treaties. The Senate has a treaty process. We would not intend that we interfere in any respect—in any respect—with that process.

But with respect to both ILO and environmental agreements, our view on the trade side is, we have high standards, as Secretary Rubin said, put aside even the fact that we would like to do good as a competitive matter.

It is important in the longer term that global standards rise. We do not want to lower our standards. As a result, we would not utilize fast track procedures to amend our laws because we are not changing our labor and environmental laws.

Senator GRAMM. Well, Madam Ambassador, I want to come back for another round. There are other people here who want to ask questions. But let me just say this. Clearly, my examples fall within the language of this bill. Whether it is the intent or not, they clearly do. Second, I am for trade because I think it is the only legitimate worker movement and consumer movement in history. Third, rich countries improve their environments.

So I am for trade to do the things you are talking about. I am willing to give the President fast track authority to do trade, but I am not willing to give the President fast track authority to negotiate international labor standards.

I know relatively little about the ILO. Nobody has ever paid any attention to them. Nobody has ever taken these things very seriously, because they had no enforcement mechanism. Now we are writing their standards into our trade agreements.

Before I jump in bed with these people I would like to know what they are doing, what their standards are. Are we going to let them set our labor standards? I think these are very legitimate questions that are going to have to be dealt with, and these questions are coming from somebody who is very much for fast track.

Imagine how hard it is going to be to sell people who really are not for fast track and certainly are not for giving the President the power with fast track to repeal right-to-work laws.

The CHAIRMAN. Just as a follow-through, you are talking about elevating the labor or environmental standards of our trading partners, not ourselves, is that not correct?

Ambassador BARSHEFSKY. Yes. We are talking about encouraging countries, working with countries to improve their standards. One, because we believe it is the right thing to do, and second, as Secretary Rubin pointed out, because in terms of U.S. long-term competitiveness it is an important thing to do.

The CHAIRMAN. But the point I wanted to make, in trying to raise the environmental or labor standards of another country you are not affecting domestic law or domestic problems.

Ambassador BARSHEFSKY. Correct.

The CHAIRMAN. So you really do not need fast track for that purpose; is that not correct? Why do you need more than a narrow grant of fast track? If what you are trying to do is raise the standards abroad, why is it necessary to mention labor or environmental objectives at all?

Ambassador BARSHEFSKY. Well, we mention them because, for example, on the worker rights side, they have been mentioned in previous fast track bills. The 1988 bill had very substantial provisions with respect to worker rights. At that point it was in the context of the GATT, and of course now the GATT has been subsumed by the WTO, so we have referred to the WTO.

On the environmental side we have inserted the provision, because you now have in the WTO itself a consensus that there is an intersection between environmental issues and trade issues dealt with, indeed, by a GATT working group on that very subject.

So we have tried here to parallel, in large part, authority that was contained in the 1988 act, but updated given the WTO movement on the environmental issues. The fact that we would like to see the WTO continue to move in a positive direction on those issues in order to better achieve the initial goals we have set out.

The CHAIRMAN. My objectives is to get a bill that we can enact into law. I recognize there may be things in other entire legislation that is open to different interpretations of problems today than it was in the past, so I do not think the mere fact that something has been contained before helps our problem of today.

We have got to develop the kind of coalition that will enable this legislation to be enacted. I mean, I am strongly for fast track. I want the Clinton Administration to have it. But I think it has to be very clear that the present legislation is in deep trouble because people see it opening doors to fast track that is not intended, even by your own statements.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Madam Ambassador, you are really caught between a rock and a hard place because, on the one hand, you go to the Democratic Caucus and you are besieged by people who want to see stronger and stronger environmental and labor standards words put into fast track, then you come to a Republican-controlled Congress, so to speak, and they do not want those things in there and it puts you in a very, very difficult position.

I think there are some on my side who think they can use an enabling piece of legislation called fast track which does not negotiate anything to solve all the problems of the world, not recognizing that you can perfectly, as I do, favor fast track and then go ahead and vote against NAFTA, which I did because of West Vir-

ginia, for GATT, which I did because I thought it was good for West Virginia and America.

But it is almost like it is a race to strip things out or pile things in. Mr. Chairman, what I fear is that there is going to be a rather scary, large number of Democrats who are going to be against this based upon this single issue if the language is not tough enough, or whatever, and that there will be Republicans who are going to be against it because of that, and that is not even the main part of the real purpose of what we are doing, we are just trying to renew something which has been there since 1974 for every single President to do.

Then beyond that you have done 270 trade treaties that did not require us, fast track, or anything else in the last four and a half years, have you not?

Ambassador BARSHEFSKY. 220.

Senator ROCKEFELLER. 220. So you are in a difficult dilemma. I just hope, Mr. Chairman, that we can find a way to work it out between these two areas of thinking, a way in which we can give the President fast track, which I support and I support very strongly.

But there do not seem to be a whole lot of Democrats who do at this point, and that is scary for all of us. If we each go too far in one direction, then we are not going to get fast track and we are not going to get Chile and the rest of it.

When Senator Grassley was here before he asked you, I think, about this, and that is the so-called necessary and/or appropriate.

Ambassador BARSHEFSKY. Or, yes.

Senator ROCKEFELLER. Or appropriate. That is something which I really care about, simply because I think—I am not sure, but I think—for example, you cannot get into whole areas of trade law unless you have the “or appropriate” or the “necessary.”

That would clearly dictate severe things which simply cannot be avoided, but the “or necessary” or “appropriate” brings in a whole range of things, intellectual property. I do not know, could you do 337 without “or appropriate?”

Ambassador BARSHEFSKY. It would probably be difficult.

Senator ROCKEFELLER. It would be a stretch.

Ambassador BARSHEFSKY. Yes.

Senator ROCKEFELLER. So we have to have “or appropriate.” I would like to get you just for the record once again, if you have not, to say why you think that is important, “necessary or appropriate.”

Ambassador BARSHEFSKY. We think it is important for the reason—

Senator ROCKEFELLER. And important for Congress, I might say, too.

Ambassador BARSHEFSKY. Yes. We think it is important for the same reason that 20 years of fast track authority thought it was important, which is to say that we want to ensure that provisions not only necessary to enforce the trade agreement, but also appropriate to its enforcement—that is, it may go beyond the strict bounds of the trade agreement, but nonetheless is appropriate to consider with the trade agreement—would be able to come back under fast track.

We have added a limitation on that, that whatever else was appended to the fast track legislation would also have to be trade-re-

lated because of concerns 2 years ago that pension reform had been on a fast track bill and that seemed not germane.

But we think that this kind of flexibility is very, very important. Very important, as a practical matter, to ensuring the broadest possible support for trade agreements.

Senator ROCKEFELLER. Let me sneak in one more quick question. On the question of enforcement of trade law, some on my side have raised questions about the language in that. Enforce rigorously strikes me as exactly what it says. But, on the other hand, I just wanted to put you on notice, so to speak, I am very much for fast track, but I am very much for enforcement of what it is that we agree to.

Ambassador BARSHEFSKY. Yes.

Senator ROCKEFELLER. Although we did not go through the fast track method on the memorandum of understanding with Korea on automobiles in 1995, Senator Brownback, Senator Levin, Senator Ashcroft, myself, hopefully others are going to be sending to the President—we have already done this in the Senate—a letter requesting Section 301 priority practices because they agreed to do a lot.

I think there is 0.6 percent American cars, 4,000 American cars went into Korea last year, 200,000 plus the other way. That is not fair. We have to be able to have the authority, and you have got to be able to have the authority, to crack down on the Koreans so they will live up to what they signed in 1995.

Ambassador BARSHEFSKY. I agree with that, and I will look forward to receiving the letter.

Senator ROCKEFELLER. Good.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator D'Amato.

Senator D'AMATO. Well, Mr. Chairman, I am in a bit of a quandary here. I support free trade, and yet I am concerned that in terms of the issue of getting fairness, that somehow administration after administration has just simply not done the job. If anything, I want to say that I believe that this administration has done a better job in getting compliance with free and fair trade than others, but even that is not enough.

So what I am concerned about is the situation that we face with a number of countries, without picking any one in particular, where huge trade imbalances exist and little is being done even behind the scenes to bring about a change of attitude. You just simply cannot permit this.

Maybe it is with a feeling of frustration that I say, why should we continue doing business as usual? Every President has had this power. My concern is not directed to this President or to this administration, but to the manner and the methodologies. We can point to the robust, fantastic economy.

If you want to say it is because of free trade, that is an oversimplification. It is because we have produced the best and we have stability. Notwithstanding many of the barriers that still exist, our products and our productivity, et cetera, is able to overcome it.

But I am concerned. How do we make that concern evident and how do we get a change of attitude? Now, take any country, for example. It does not want to be brow-beaten publicly. I understand

that. Some countries in particular, it has become almost hackneyed and well-known that some countries do not want to lose face by way of public admonishment.

So without mentioning any by name, you can use your imagination, where there are these huge trade imbalances, where there are practices repeatedly whereby their products are given total and free access and ours are denied and pirated and many other things, why is it that we are not sitting down with them behind the scenes and insisting?

I am not suggesting it has to be a public whipping, and then we hear, oh, you cannot do this to a Nation because you are embarrassing them, et cetera, and they want to save face. I have to tell you that I have seen this take place over the years with a number of different countries.

It persists only because I think of the great political and financial stability, the fact that we do attract the best and the brightest and eventually our system of capital formation overcomes.

But I am not sanguine with the methodologies by which we negotiate and have been negotiating our trading agreements with our partners throughout the world. I cannot believe that we should not be doing much better, much better.

We cannot be giving a country a situation where they have balances that go into the tens of billions of dollars and tell me that we cannot sit down and get corrected major unequal treatment and say, here is a menu.

We are not telling you which to take, but these are things and these are situations where we are being denied access repeatedly. There are a number of countries in which that takes place, and we are just not doing it.

So I think it is a sense of that frustration. When that takes place that we see that, notwithstanding the great economic activities that we have made, the unemployment figures being lower than they have been in a long time. That is fine.

But there are industries that are being savaged and where we can be competitive, and where our products are better, cheaper, and we are being denied the access and the opportunity to compete. Doing business as usual, as far as I am concerned, is not good enough. That is one of the reasons I may not be able to be supportive. I am not convinced.

There have been no examples, or few examples, where this administration and previous ones have been able to say, this is what we have been able to do. Now, maybe some of the jawboning—and there should be more than jawboning—that takes with some of our allies and some of our trading partners. You cannot make it public.

But I have to tell you, Madam Ambassador, and you know I have got the greatest respect for you personally, I think you have done a great job, but no one has come to us privately—maybe they have—and said to a Senator, well, here is where we have made some terrific progress. We cannot say it publicly, but we have made some great progress, and these are the facts. We have increased access by such a such a percentage and so many dollars. That has not taken place.

Consequently, I am very reluctant to say, let us continue this process, which is not satisfactory. So I thank the Chairman and I

share that with you, if you want to respond in any way. Again, it is not meant personally, it is just something I have observed since I have been here.

Ambassador BARSHEFSKY. I appreciate that. I would like to respond. I think you point to a frustration that many of us feel. Obviously, you know from your background that trade balances are the product of many factors. They tend to be macroeconomic in nature. But to the extent we know trade barriers exist, we have an obligation to try and get those down. I think that there are a couple of things in particular we have done, and have done with some degree of success.

One, is that we have undertaken more enforcement actions in the last 4 years to enforce our rights than most previous administrations combined. We now are plaintiff in almost 35 WTO cases. This is a dispute settlement system that was not up and running until about 24 months ago. We are plaintiff in almost 35 cases.

We are third-party plaintiff in another 11 cases, because we have systematically said to foreign countries, you agreed to do X, you are not doing it, we are going to take you to dispute settlement and we are going to enforce our rights. Then if you do not do X, we will retaliate with WTO blessing.

So we have undertaken a very aggressive enforcement campaign here. This has led to important gains most recently with respect to the European Union ban on our beef exports because of growth stimulants.

In addition, of course, we have used our trade laws very rigorously as well in our telecommunications trade law, government procurement, Section 301, Special 301, and intellectual property, and the like, and we have moved, I think, a number of countries in a much more positive and corrective nature.

Second, with respect to trade agreements themselves, the plan that we have laid out with respect to fast track really goes to your concern, because if we look at the three areas for which we want fast track, you can see that what underlies the areas and the approaches is exactly what you are pointing to, and that is that we need to achieve greater balance, we need to achieve greater benefits in our fair share, so that with respect to the WTO we knew at the end of the Uruguay Round we did not do well enough in agriculture, we did not do well enough in services, we did not do well enough in government procurement, and we did not do well enough in intellectual property rights. All of those areas will be open for negotiation in the next two and a half or three years. We want fast track to try and do better.

With respect to the second purpose of fast track, sectoral trade initiatives, it goes exactly to your point, Senator. That is, we want to look at sectors where we are very competitive and our barriers are low, but world barriers tend to be very high. This was the construct on which we did the Information Technology Agreement.

Our tariff barriers on semiconductors were already at zero, but in Europe they were 14 percent. So we are looking at sectors and trying on that basis to bring greater balance to trade sector by sector as much as possible. We have a number of proposals on that in the works now.

Last, of course, with respect to regional free trade agreements or individual free trade agreements, here again, these are agreements that tend to be much more reciprocal in nature, quite a bit more tit-for-tat. That is definitely the approach that we want to follow and pursue to achieve exactly the goal that you are pointing to.

Senator D'AMATO. Mr. Chairman, I want to thank you. I want to thank, again, the Ambassador. I am wondering, though, if you would indulge me with just one question. I know our time is over.

The CHAIRMAN. Go ahead.

Senator D'AMATO. The question of the 35 cases before the WTO, how many to date have been resolved and what has been the outcome of any of those?

Ambassador BARSHEFSKY. We have done very, very well. We have settled roughly six on very favorable terms because countries did not want to be put through the process and lose. We have litigated two very large cases against Japan, and won, on sound recordings and distilled spirits; against Europe on bananas and growth hormones and we won; India on patent protection, we won. There are a range of cases.

We have lost a couple, but by and large we have done very, very well in the process, and the process has worked well. We do not expect to win every case we bring any more than you would expect in a court to always win, but we think thus far the system has decidedly worked to our advantage.

Senator D'AMATO. All right. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. The hour is growing late and we do have two further matters, but I will give you a brief period of time, Senator Gramm.

Senator GRAMM. Mr. Chairman, I appreciate it.

First of all, I would like to ask you, Madam Ambassador, if you and your staff would go back and take the 1988 bill and simply give us the language changes that would be required to update that authority in light of the changes that have occurred in law and changes that have occurred in the world market since 1988, so that if we decided that there was no way we could ever get home starting down this road we are on and we wanted to go back to something we all say that we want, which is to give the President negotiating authority similar to that authority that other Presidents have had, then we could take the technical updates that you have and see if we could work out an agreement on what is and what is not trade-related, and perhaps we could find a road home in that way.

As the Chairman has emphasized, my frustration is that I want to pass fast track. We have a very short period of time, and the vehicle that we have today is a long way from anything that we could possibly carry over the goal line, is my first point.

Let me ask if you would do that for us.

Ambassador BARSHEFSKY. Yes.

Senator GRAMM. Second, one of the concerns I have about environmental and labor matters, beside the fact that while you have every right to negotiate international agreements on both subject to our ability to amend it and to consider it and accept it and reject it through the normal legislative process, one of the problems I

have is that I know my experience, and my guess is that it is not different than the Chairman's or any other members of the Senate, out of 1,000 people who might come to see me in a year about trade matters, 999 want us to stop importation of a good that competes with them. Their excuse is always that these foreigners are cheating. They are working for less, they are working harder. They have got all these reasons they are cheating. But basically what they want to do is to put up trade barriers.

One of my concerns, quite aside from the right of Congress to legislate, is the more we build things into trade agreements other than trade the more vehicles they are for special interests to overturn our objectives by getting favorable political response by saying that there is a problem.

Let me give you an example. I had breakfast this morning with the man who was labor minister in Chile when they privatized Social Security, one of the great enlightened acts of the 20th century.

Now, do you know the ILO filed a complaint against them, saying that privatizing Social Security, which has already doubled the retirement income of the average Chilean worker, was a violation of labor rights?

What if we had a trade agreement, even taking your simple, unsalable position that you want lower labor standards to attract competition, if the ILO says privatizing Social Security where it is backed up by investment rather than government debt, if they say that is lowering labor standards, is it? Does that represent a violation? Is that actionable? I think these are all things that we do not know.

Again, if our objective is to promote trade, all of these other concerns, important though they be, they can end up being impediments. Let me say with regard to what Jay said, I want to enforce the trade agreements. There will be no difference in our opinions. If somebody agrees to do something, I want them to do it.

But I would have to say in 999 out of 1,000 complaints I get from my constituents, people who elect me, and therefore obviously I love them and hope they love me, do not care about labor conditions in China, they do not care about environmental conditions in China, they want us to exploit some poor worker by making him pay more for a shirt than a shirt we could buy from China.

If you give them the ability to come in and say on labor or environmental reasons that they are violating the deal, you are going to have no end of these kinds of problems, and in the end you get less trade and not more trade. In the end the environment is worse in China, wages are lower in China. In the end, the American consumer gets cheated.

Those are my concerns in those areas, even under the best of circumstances in what you are trying to do. Under the worst of circumstances, you heard my two, to me, horror examples. They might be good news to somebody who is on the other side of the issue. Those are the things we have got to work out and we have got to do it quickly, and I hope we can.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. I will be brief, Mr. Chairman, and I thank you.

First of all, Ambassador Barshefsky, I think sometimes we who are in politics forget how recently it is that we have come, those of us who are elected, to the whole issue of trade. I can absolutely promise you that in the 1984 President election that the subject of trade was never even raised. I think that in 1988 the subject of trade was never brought up in the Presidential election.

We have had a trade deficit with Japan since, what, 1962? I have not heard anybody mention it and I have not heard anybody say that publicly until I did just now. So it is not like we have been sitting back here in all of our wisdom waiting to figure out how to handle this problem. It is a recent development, just as the global economy has recently entered our consciousness and we are reacting to that. So I wanted to say that.

Then I wanted to also ask you if you could say as forcefully as you can, because I think, as I have told you publicly and privately, you are one heck of a tough trade negotiator, and I would vote for almost anything in the world if you were going to implement it. I mean that. The Japanese and the Chinese would heartily agree with me, except that they wish that you would resign and go do something else.

But what are the consequences of the Congress' failing to pass fast track?

Ambassador BARSHEFSKY. I think the consequences would be very serious on a number of fronts. First off, it means we cede our leadership role with respect to the global economy. I have never met a foreign country that ever was going to write a trade rule that favored us. If we are not in there writing the rules, they are not going to be written in a way that favors America.

We need to be in the mix, we need to be guiding the process, we need to ensure that as we enter the 21st century we have a global economy in which we can continue to lead, while at the same time help other countries raise their people, raise their living and working standards in a manner compatible with their own growth. So we have the leadership quotient, which is a very, very serious issue.

Second, closer to home, we have—and I think the Chairman may have said this—a leadership vacuum to some extent even in our own hemisphere, which I tend to think of as our neighborhood. We have a hemisphere that has stopped waiting for the United States to pass a bill and simply started integrating around us rather than with us. That is certainly not to our long-term advantage, not with respect to leadership, not with respect to the writing of the rules, and certainly not commercially.

Last, the United States, by its own actions, tends to act as a spur to other countries. Other countries often wait to see what it is we do, then often we resist when we do what we do, but over time other countries—some other countries, certainly—tend to go along. We lose that ability to affect the policies most important to us in the longer term if we are not out there in the role which is so important, which is economic leadership.

The CHAIRMAN. Madam Ambassador, we all are great admirers of yours and think you do an outstanding job. We are particularly pleased that we have a person of your competence in the position of USTR at this very critical time.

I think the one thing that has become very clear today is that there is an awful lot of work to be done if legislation is going to be enacted on fast track in the very, very narrow window that we enjoy.

I have to say, as you I am sure would agree, that the present proposal does not seem to have very widespread support on either side of the aisle. I think it is critically important that you go back to the administration and take a hard look.

I think one possibility, as has already been mentioned, is to go back to the last grant of fast track and see whether we should not work from that. But, in any event, what you have here before us is not going to develop the kind of coalition we need if we are going to be successful in enacting legislation.

So I cannot stress too much the importance of your reviewing what has been proposed and come up with some new suggestions, because we have to move very quickly if we are going to get the job done.

Thank you very much for being here today. We will be able to submit questions until 7:00 tonight. I would appreciate your prompt answer.

Ambassador BARSHEFSKY. Certainly. We look forward to working with you. Thank you.

The CHAIRMAN. Thank you, Charlene.

At this time I want to call forward Ambassador Jeffrey Lang, Deputy USTR. Ambassador Lang, it is always a pleasure to welcome a one-time member of the Finance Committee staff. You are here, of course, to discuss the administration's proposal on CBI parity and sub-Saharan Africa. Your full statement will be included as if read.

STATEMENT OF AMBASSADOR JEFFREY M. LANG, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador LANG. Thank you, Mr. Chairman. I will try to be brief.

I think it is appropriate that you set my comments to follow those of Ambassador Barshefsky and Secretary Rubin because they set out the basic objectives of the administration on trade. What I think my assignment is now is to apply those objectives to two areas you have assigned to me, the Caribbean and Africa.

Let me deal with them in the order you raised them, the Caribbean, first. The Caribbean Basin Enhancement bill seeks to ensure that we intensify the increasing trade and growth in that region so as to build a bridge to the Free Trade Agreement of the Americas in 2005.

The Africa initiative seeks to support the economic and political reforms going on in Africa in a way that improves standards of living in this country.

First, with respect to CBI. The administration transmitted the Caribbean Basin Trade Enhancement Act, the CBTEA, on June 17 to the Congress and it was introduced in the Senate by Senators Gramm, Moseley-Braun, Mack, DeWine and McKain. As I said, the purpose is to serve as a step toward the free trade area of the Americas through conditionality.

The bill would cover all the products that are not currently eligible for CBI preferences, including textiles and apparel. The bill would extend to these products, tariff treatment essentially equivalent to the treatment such products receive under the North American Free Trade Agreement, that is, NAFTA, when they originate in Mexico.

The increased openness of most Caribbean economies and the growth of foreign investment has set CBI countries on a path toward considerable economic growth. Indicative of the changes under way in the region is the fact that all but one of the CBI beneficiaries now belongs to the World Trade Organization, and that as members they have undertaken commitments to adhere to the rules of that organization.

We want to reinforce that increasing openness and commitment, because success in an FTAA will require an even deeper commitment from these countries. Moreover, we need to address the perception among CBI countries that the implementation of the NAFTA is reducing their relative opportunities for expanding trade with the United States.

As I said, our proposal would cover all of the products not included in CBI. That is textiles, apparel, petroleum, footwear, certain categories of flat goods and gloves, leather apparel, canned tuna, and a narrow category of watches.

The new preferences would be phased in with 50 percent of the benefits essentially available immediately upon implementation of the legislation.

Now, let me speak specifically with respect to textiles and apparel, because I know it is a controversial area. The bill would, if fully implemented over a phase-in period, provide beneficiary nations the same duty treatment and quota-free treatment as Mexico received for products meeting the NAFTA rules of origin. It is essentially a yarn forward requirement.

The bill also contains specific provisions for apparel products made in the Caribbean from non-U.S., non-CBI fabric, and it would contain safeguard provisions on both originating and, as it is called, non-originating textile products.

The key to success of the existing CBI program and of this program is and would be that the trade provides benefits to both the United States and the Caribbean countries.

The International Trade Commission estimates that if over 80 percent of our apparel imports from the Caribbean are under what have become product production sharing arrangements, that means that these imports contain substantial U.S. content and that our producers and our workers make the fabric and the other inputs, the linings, the notions, the sewing thread, that go into the CBI's apparel that is then exported back to us.

A couple of additional words about CBI before I turn to Africa. First, with respect to initial designation, we would require under this bill that a beneficiary, to receive the enhanced benefit, would have to demonstrate, first, a commitment to undertake its WTO obligations on or ahead of schedule, and second, to actively participate in the FTAA negotiations, the Free Trade Agreement of the Americas.

We would expect all countries in the region to be able to meet these initial criteria and, therefore, to be eligible for the initial 50-percent reduction of the difference between the MFN tariff that now applies to those products and Mexico's prevailing rate under the NAFTA, which is staging down gradually to zero over 10 or 15 years, depending on the product.

Then, second, following a 3-year review, countries could receive up to 100 percent of the tariff reduction that Mexico is getting, assuming they comply with certain eligibility criteria. There are a number of criteria. I do not have time to go through all of them, but let me just mention a few that I think have been important to the committee in the past.

One, is following the accepted rules of international trade, particularly with respect to the WTO; complying with the WTO agreement on trade-related aspects of intellectual property rights, as well as the intellectual property provision of NAFTA, which is Chapter 17; complying with the WTO agreement on Customs valuation; according non-discriminatory treatment to U.S. investments and international standards of treatment such as those things involved in the WTO's Trade-Related Investment Measures Agreement; becoming a party to and implementing the InterAmerican Convention Against Corruption. That is probably the single most common complaint we get in trade, is the issue of corruption. And providing equitable and reasonable market access in product areas for which CBI countries are receiving new benefits.

Other criteria would address such subjects as government procurement, counter narcotics cooperation, environmental protection, exchange of tax information, access comparable to that provided by CBI countries to other non-CBI partners, and internationally recognized worker rights, all things that are drawn from the GSP program, as implemented in the CBI program.

The program would not, I would add, be open-ended. The current CBI program is a permanent program. This program would end by operation of law in the year 2005, which is when the FTAA is supposed to enter into force.

I might say that earlier this year the administration worked with a number of interested Senators and members of the House on compromise language that would have enabled this piece of legislation to become part of the Budget Reconciliation package. Unfortunately, a compromise could not be worked out, but we stand ready to continue to work with the committee on this matter.

On Africa, here the initiative is entitled "Partnership for Promoting Economic Growth and Opportunity in Africa." This partnership begins with a simple but increasingly powerful idea that American interests are best served if we view African countries as partners in trade and investment, I might say, rather than as AID beneficiaries.

This has been a learning experience for all of us who have been working on this for the last year, year and a half. The 48 countries in sub-Saharan Africa are remarkably diverse. Some countries in the region are already showing that the continent can be a region of dynamic economic growth, and that there is no region why they cannot achieve the kind of growth rates we have seen in Latin America and Asia if they make the right policy choices.

From our perspective, we cannot afford to ignore a region, largely untapped, with a population of about 600 million people. I do not think the trading system can afford to see such a vast region marginalized in trade. Yet that has happened. Over the last 40 years, Africa's share of global trade has fallen from just over 3 percent to just over 1 percent.

The most significant part of Africa's marginalization in world trade is probably attributable to African trade barriers which are far more restrictive than those in the high-growth countries in Asia and Latin America.

Import tariffs in sub-Saharan Africa today average 26.8 percent. In those fast-growing exporters, the average is 8.7 percent.

Trade protectionism costs the region an average of \$11 billion a year, according to the World Bank, in annual trade losses, which is about the same amount as total aid to Africa from all sources in 1991.

So the core premise of our plan is that those nations that are willing and able to pursue the most aggressive growth-oriented economic policies, principally by opening their economies to the world marketplace for goods, services and investment, are the ones that are most likely to be the engines of growth in the continent.

So, we would provide a stepped series of incentives. At Step 1, all countries would be eligible for the expanded GSP program that the Congress authorized in 1993. That is to say, we are adding about 50 percent more line items to those that are now eligible for the zero tariff benefit under the Generalized System of Preferences.

That benefit is available to least developed countries. Most of the least developed countries in the world—not all—are located in sub-Saharan Africa. Those benefits, and a number of other benefits under finance programs such as OPIC, would be available to all the countries in the region, except the few that do not qualify for those benefits under the existing law.

At Stage 2, for those countries who are prepared to open their markets to investment and trade, for example, to bind a substantial portion of their tariff schedule at reasonable rates of duty, which we would think would be less than 20 percent, we would increase the benefit by providing a range of duty-free access to the United States greater than is currently available under GSP.

In some cases, it would not be quite as great as available under CBI, but those details remain to be worked out as the legislation works through the Congress.

Finally, at some point in the future, assuming the administration has fast track, for those countries that are ready to undertake the intense kinds of obligations that a free trade agreement with the largest exporting and importing country in the world, the United States, the program would foresee at some point in the future that we would consider entering into free trade area agreements with these countries.

So those are the three stages. That is the basic outline of the program. I apologize for taking so long, Mr. Chairman, but it is a lot to cover. I would be happy to take your questions.

[The prepared statement of Ambassador Lang appears in the appendix.]

The CHAIRMAN. We appreciate your being here today to discuss the two matters.

On the question of CBI, there are some who question the need for any extensions on the grounds that we are giving up all leverage needed to open their markets to U.S. products, whether on a multilateral basis within the WTO or bilaterally.

How do you propose to encourage further trade liberalization on their part when we have already significantly expanded the preferences already available to them?

Ambassador LANG. I think, in short, with respect to CBI countries, almost all of which are very small economies, we are going to have some difficulty getting them ramped up enough to be able to undertake full FTAA obligations in only 7 or 7½ years if we do not begin now to teach them now to implement these kinds of agreements.

So our proposal is to give them this short-term benefit, approximately a 7-year benefit, in return for moving rapidly to open their markets, not in a free trade sense, but just in the sense of implementing the WTO rules, implementing the TRIPS agreement and the TRIMS agreement, and all of the rest of them so that they are ready to negotiate with us and ready to meet the standards of the FTAA when we get there.

There is some risk, but we think that our influence in the region is such, and their readiness is such, that in return for this relatively small benefit of increased access to our market they will undertake the steps that will be necessary to make them full participants in the FTAA.

As I said in my prepared testimony, we would not begin the program with a country that was not prepared to undertake that at the beginning of the process, that they are going to implement their WTO obligations on time or ahead of time, and that they will fully participate in the FTAA.

So, it is a balance, but because of the size of the economies and the close relationship to us and the need to ramp them up in terms of their preparedness for this process, we think it is a good trade-off.

The CHAIRMAN. Let me ask you a question with respect to NAFTA parity. Have you incorporated or will you apply NAFTA guidelines, such as NAFTA rules of origin in the textile area and NAFTA Customs procedures?

Ambassador LANG. Yes, on the Customs procedures. On the rule of origin, the only basic adjustment we would make is that, instead of having a good that originates in Mexico or Canada qualify, originating would be defined for these purposes as being in the CBI or the United States, because we want them to get the NAFTA benefit, but only if they undertake the kind of obligation Mexico did, which is to produce the value that they add to the product in those countries that are benefitting. But other than that, it is essentially the same system.

The CHAIRMAN. Let me turn to African proposal. As you know, Senator Lugar has introduced a bill identical to the House bill—

Ambassador LANG. Yes, sir.

The CHAIRMAN [continuing]. That would provide enhanced trade benefits in the countries of sub-Saharan Africa.

What is the administration's position on these bills, and what is the administration's view specifically on the proposal that would allow the President to designate textile and apparel products from these countries that are eligible under the GSP program, as long as those products are not found to be import sensitive?

Ambassador LANG. Well, in general we support the bills. Textiles in this area is also difficult, and we continue to have some reservations about the provisions of the bill on textiles, primarily because of our international obligations in this regard.

We have to be able to work out a way to extend the benefit in the textile and apparel area, we think that is true, to the African countries, at least at that second level, but we have to do so in a way that is in compliance with our global obligations on trade, textiles, and apparel.

As you know, Mr. Chairman, our existing quotas on textiles and apparel will all expire by operation of both domestic law and the international agreements in something like five, six, 7 years. I forget exactly what it is. At that point, those quotas, of course, would be gone for African exporters, as well as others.

But we do have to be careful that in that interim period we do not take steps with respect to Africa that make it impossible for us to enforce domestic law with respect to all the other textile and apparel exporters, who of course are much more aggressive exporters and would probably take advantage of any opportunity we gave them to act inconsistent with the existing agreement. So that is the only difference between us.

We think we can work this out through some kind of yarn forward requirement, that is, production sharing requirement, and still be consistent with our obligations and still give the benefit of both inward investment incentives and trade incentives to the economies in Africa that are making the necessary domestic changes to qualify for the program.

The CHAIRMAN. Senator Gramm.

Senator GRAMM. Mr. Chairman, I will be very brief. Let me say, I strongly support both these initiatives. I think there is a stronger argument for the Caribbean Basin nations to be made. That argument is, when we instituted the Caribbean Basin initiative we did it in light of the poverty, the economic instability, and the threat that at that time existed for the spread of Communism in the area.

While that threat—at least from some funded source in the Soviet Union—is gone, we committed to these countries and to our business community that if they were willing to go in and make investments, that they were going to have special access to the American market through these tiny countries that could not possibly have any aggregate macro effect on the overall condition of our economy. Many American companies responding to this plea went out and made investments.

Now, with the Free Trade Agreement in Mexico, what is happening is that many of these companies are finding them at a big competitive disadvantage as compared to similar investments in Mexico because of the Free Trade Agreement.

Basically, what I see this as doing is being an interim agreement to hold us over until we get NAFTA and all the Americas, which

I am very much in favor of. So I think there is a good faith argument here to be made.

The final thing I would say to the Chairman, is the African economy is a very small economy. They have followed, in general, terrible trade policies. I think it is imperative that we show our good faith in really reaching out to the countries that are trying to do it right. I think the demonstration effect to all of Africa would be very, very positive. I think our willingness to do it would encourage the Europeans and the big Asian economies to do it as well. I think there is real potential that, with an economic and political revolution going on all over the world in sort of a freedom tidal wave, that Africa could end up being largely left out of this unless we provide the leadership to try to cut them into it, so to speak. Again, doing it only for people who are trying to help themselves, but again, I think that the argument here is, these are tiny economies.

We are really talking about a demonstration effect, a statement of principle, and I think that that initiative and the Caribbean Basin initiative is very, very important. I just want to reiterate, I am strongly for this initiative.

Ambassador LANG. I appreciate that very much, Senator.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman. I welcome the Ambassador.

I just want to make a point for those who on this Hill might be watching this hearing or those elsewhere in the country that might be watching this hearing, or listening to it, that quite apart from CBI and Africa, it needs to be made very, very clear, I think, that what we are fundamentally discussing here is the passing or the not passing of fast track, which will then, if it is passed, lead to Chile. This is not a discussion.

There is not a relationship between the passage of fast track and the administration purpose of doing something with CBI or Africa. That needs to be said very, very clearly because otherwise people are just going to come to the conclusion that we are talking about two enormous or big areas.

Ambassador LANG. I see.

Senator ROCKEFELLER. So I would just make that statement.

Ambassador LANG. Thank you.

The CHAIRMAN. Thank you very much for being here today. As you know, the proposal has a lot of support and we appreciate your being here today.

Ambassador LANG. Thank you very much, Mr. Chairman.

The CHAIRMAN. The committee is in recess.

[Whereupon, at 12:31 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF U.S. TRADE REPRESENTATIVE CHARLENE BARSHEFSKY

Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to appear before you today to address an issue that is vital to the future of American farmers, businesses, and workers, as well as our position as a leader in the global economy: that is, approval of the Administration's proposal to renew fast track and the President's tariff proclamation authority under the "Export Expansion and Reciprocal Trade Agreements Act of 1997." Mr. Chairman, if enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American workers and companies.

What is at stake in your consideration of this proposal is nothing less than whether the United States will continue to be at the forefront of nations seeking the reduction of trade barriers and the expansion of more open, equitable and reciprocal trading practices throughout the world. As the President said last week, the question before you is whether we are going to lead the way or follow. This is not the time to shrink from the future, but to seize the opportunities it holds.

The President is right. Today, this country is at the pinnacle of its influence. Our economy is the strongest in the world. In the last four and one half years, the United States has once again become the world's number one exporter, the world's largest manufacturer of automobiles, the world's premier agricultural exporter, and the world's leading producer of semiconductors. From the farms of the Midwest to the high-tech firms of California and Massachusetts, businesses are growing, unemployment is declining and inflation is under control. America leads the world in a very competitive global marketplace. Our economy is the envy of our trading partners.

Today, international trade is an increasingly vital component of our economic strength at home and leadership abroad. Exports are more important in our economy than ever. Since 1993, more than a third of our economic growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. A total of some 11.5 million U.S. jobs depend on exports, and these jobs pay an average of 15% more than non-trade-related jobs. Since 1985, U.S. exports have roughly tripled from about \$300 billion to an expected \$900 billion this year.

But, we cannot rest on our past accomplishments. We must find new markets for our goods and services in order to help our economy to maintain strong growth. To frame our economic challenge clearly: the United States represents four percent of the world's population, yet our share of global income is 20%. How are we going to maintain our enviable position? We must sell to the more than 96% of the consumers that live outside our borders, which requires that we further open foreign markets to our goods and services. We need fast track if our economy is to stay on the fast track.

The Importance of Fast Track

Fast track is critical to increase access to foreign markets and shift trade conditions in our favor. Fast track sends a strong signal to our trading partners. It tells them that when the President negotiates a trade agreement, he has the confidence of the Congress behind him. It also indicates that the United States is serious about reaching agreements that will reduce market barriers and trade distortions.

This proposal reactivates a partnership between the President and the Congress that dates back over six decades. Recognizing that the high protective U.S. tariff walls it established in 1930 had only served to deepen the Depression, Congress four years later enacted the first reciprocal trade agreements act. In that act, Congress gave the President authority to negotiate mutual tariff reductions with our trading partners. Congress renewed that authority repeatedly over the years, and successive Presidents used the authority to dramatically reduce tariff barriers around the world.

"Fast track" was first put in place under the Ford Administration in 1974. Under fast track the Congress and the President work together, ensuring that the United States can effectively negotiate away foreign tariff barriers as well as non-tariff barriers -- such as quotas, protectionist product standards, and subsidies -- which foreign governments have increasingly substituted for tariffs to exclude U.S. products. It worked well for 20 years, a period over which every President had fast track authority with bipartisan support. Fast track lapsed along with most of the President's tariff reduction authority three years ago.

With this legislation, we are seeking to reactivate the process by which certain trade agreements can come back to the Congress for an up or down vote without amendment. We are not seeking Congress' approval of a particular trade agreement. Congress retains the last word.

Dangers of Inaction

There are serious and immediate consequences if we do not renew fast track. Increasingly over the past few years, major trade agreements have been negotiated without our participation. Our competitors are determined, sophisticated, strategic and focused. In every region of the world, but particularly Latin America and Asia, the two fastest growing regions of the world, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements. They are forming relationships around us, rather than with us, and they are creating new exclusive trade alliances to the detriment of U.S. interests. I can assure you that our trading partners are not waiting for us to pass a bill.

A significant number of bilateral and regional trade agreements are already operating here in the Western Hemisphere. The United States is party to only one. In fact, most U.S. trading partners in the hemisphere have been actively forging closer ties with neighboring countries. In Latin America and Asia alone, over 20 such agreements have been negotiated since 1992 -- all without us.

Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, which has a GDP of approximately \$1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela), as well as countries within the Caribbean Basin. There are recent reports that Canada is also in discussions with MERCOSUR. And, the EU and MERCOSUR already have plans to conclude a reciprocal trade agreement by 1999.

Furthermore, the nations of the Andean Community have started meeting with member nations of CARICOM and the Central American Common Market to discuss negotiation of free trade agreements.

And, Chile, with one of South America's leading economies, has signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and the MERCOSUR states. Indeed, Chile has preferential trading relationships with every major trading country in our hemisphere but one -- the United States.

In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- have set 2001 as the target for the creation of a free trade area. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. This will increasingly be an important market for U.S. goods and services.

Access to markets in such developing nations is especially important to America's economic future, particularly those in Asia and Latin America which are projected to grow at rates as much as three times the U.S. growth rate. As noted, more than 96 percent of the world's consumers reside outside the United States. Of the more than 30 million people who join the world's middle class annually, an estimated three quarters are found in emerging markets and other low and middle-income countries. Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariff barriers within the region average three to four times the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but its market access barriers are also generally higher than U.S. barriers. The elimination of these inequities is in America's fundamental interest, as we have the most competitive economy in the world.

Our lack of fast track procedures also disadvantages us in comparison with our industrialized competitors. As mentioned, Canada recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages over their U.S. counterparts. Perhaps even more disturbing, the EU, already the world's largest trading bloc, is poised for major expansion in the next few years. The EU has secured for its exporters significant advantages in the transition economies of Central and Eastern Europe. As noted, the EU also has begun a process aimed at reaching a free trade agreement with MERCOSUR and one with Mexico. It has also concluded a framework

agreement with Chile which is expected to lead to a free trade agreement by 1999 based on recent reports.

China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities" in Latin America. China wants to enhance commercial ties and ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora. The Chinese leadership has undertaken an unprecedented number of trips to Latin America in the last two years, and Latin America is China's second fastest growing export market.

Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. The Prime Minister of Japan recently visited Latin America seeking closer commercial ties and a greater Japanese commercial presence in all respects.

The consequences of agreements being reached without us are not just theoretical; they are quite real. Many U.S. firms are suffering from the competitive disadvantage caused by preferential agreements that do not include us. Our companies are losing export opportunities. Our past efforts to level the playing field will prove futile over the long-term if we begin to cede this ground to our competitors. Examples abound:

- U.S. fabric producer, Quaker Fabric, recently lost a \$1.8 million a year sale in Chile to a Mexican competitor because of an 11% tariff preference favoring Mexican producers.
- U.S. apple producers are at risk in their Latin American markets due to Chile's preferential tariff free, or near tariff-free, access to MERCOSUR, Venezuela, Colombia, and other South American markets as a result of the FTAs it has been negotiated (six since 1991). U.S. producers have to absorb the non-preferential tariff cost to enter these growing markets.
- U.S. corn producers are facing competition in Chile from Argentinean producers who enjoy a 3.3% tariff preference, which will grow to 11% over time.
- Chilean fresh fruit pays a 2 percent duty when entering Venezuela (due to the Chile-Venezuela FTA), whereas U.S. producers pay a 15 percent tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39 percent to 67 percent if U.S. producers had equivalent access to the Venezuelan market.

MERCOSUR comprises the largest market in Latin America (200 million people and a GDP of approximately \$1 trillion). In the context of negotiating this customs union, Argentina, Paraguay and Uruguay raised their tariff on imported computer products to accommodate Brazil's interests. The net result was that the common external tariff is significantly higher (from zero to 14 percent *ad valorem* in the case of Argentina, the second largest economy in South America) than the original tariff on these items in Argentina and others.

The United States can only redress these growing trade setbacks by concluding similar bilateral and

regional agreements, as well as negotiating new multilateral agreements that level the trade playing field. But no such agreements are likely as long as our trading partners believe that any agreement the President negotiates will also have to be separately negotiated with the Congress.

Fast track, however, is about more than economics. It is about American leadership. As the President said last week, fast track "is about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity; about whether the world will be growing together instead of coming apart; about whether our economic ties will lead to cultural ties and ties of partnership, or whether we will be viewed as somehow withdrawn from the world, not interested in leading it, and therefore, not nearly as influential as we might otherwise be for the causes in which we so deeply believe."

Sidelineing ourselves at this critical juncture will have repercussions that will be far more than economic. Economic prosperity contributes to economic security, which in turn supports democracy and stability. We are at the pinnacle of our influence and we should use that influence to shape international economic rules and transmit our fundamental values.

The Uses of Fast Track

The absence of fast track does not only mean that we cannot match our competitors when they enter into preferential trade arrangements. It also prevents us from achieving our own goals. There are three major areas of pressing concern which require fast track now.

First, fast track would allow us to complete the built-in agenda of the World Trade Organization: that is, conclusion of the major trade negotiations that were deferred at the end of the Uruguay Round and participation in negotiations mandated by the Uruguay Round agreements in areas ranging from rules of origin to services. This year, we resume negotiations to expand and improve the government procurement agreement. Next year, we begin again the negotiations on intellectual property rights, followed by agriculture negotiations in 1999, and then services negotiations. We seek enhanced access to global markets in these areas, and the stakes are very high. The world's government procurement market will be a trillion-dollar market over the next decade and bringing more countries into the agreement will be critical. Agriculture and services represent another almost \$2 trillion market, with agriculture representing \$600 billion globally; and services \$1.2 trillion. We must have fast track authority to enter these various talks or countries will not put meaningful offers on the table.

Second, fast track would enable us to pursue market-opening initiatives in sectors where the United States either leads the world or is a powerful competitor, and where there is extraordinary potential for growth. A good example of what can be achieved in this area is the recently concluded Information Technology Agreement (ITA), the United States and 43 other nations agreed to the reduction and eventual elimination of tariffs on information technology and electronic products, including semiconductors, computers, telecommunications equipment, faxes, phones, and integrated circuits. This is an extraordinarily favorable agreement for the United

States, since we are a major exporter of these products and our applicable tariffs were already quite low. Because other countries generally maintained substantially higher duties, this agreement provides what amounts to a \$5 billion tax cut for the U.S., money that can be used for research and market development, creating new business opportunities and jobs for Americans.

In fact, the agreement has proven so successful that we already have a consensus among our trading partners to pursue an "ITA-II" -- in which we are seeking to expand the scope of products covered by the agreement, address non-tariff barriers in addition to tariff barriers, and increase access to the Information Superhighway.

We also are considering other sectors in which the United States is very competitive, but in which global barriers tend to be high. In particular, we are focusing on trade in chemicals, energy equipment and services, environmental technology and services, medical equipment and services, and wood and paper products. Within APEC, the United States and its Pacific Rim trading partners are working together to identify a number of areas that may be the subject of accelerated market opening discussions. Renewal of fast track would show APEC that the United States intends to fully take part in the negotiations and conclude key agreements.

Third, fast track is essential if we are to negotiate more comprehensive market access agreements with individual countries, as well as on a regional basis. This Administration, consistent with its predecessors, has identified Chile as a promising candidate for a comprehensive trade agreement. Chile appears in all respects to be prepared to enter into agreements with us that achieve our economic objectives, as well as our goals with respect to labor and the environment. Chile also symbolizes our commitment to proceed towards the conclusion of the Free Trade Agreement of the Americas (FTAA) by 2005.

Prior to the pursuit of other specific free-trade arrangements, the Administration would clearly define our negotiating objectives and consult closely with Congress.

The Fast Track Legislation

Fast Track is about forging an American consensus on trade and negotiating with our trading partners from a position of strength and unity. As many members of this Committee know, the Administration spent significant time consulting with members in both Houses and of both parties to try to develop a proposal that would reflect the views of the American people. The consultations were invaluable in shaping this proposal, and I thank the members of this Committee and their staffs for their significant contribution.

Let me now turn to the specifics of the President's proposal.

The proposal first sets out "overall" and "principal" trade negotiating objectives for the President. The "overall" objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting

policies and practices that are directly related to trade and reduce market opportunities for U.S. exports or distort U.S. trade; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

The "principal" objectives specify that U.S. negotiators should seek (1) to reduce or eliminate trade barriers, and foreign government policies and practices directly related to trade that decrease market access for U.S. exports or that distort U.S. trade; (2) to reduce foreign government barriers that discriminate against or impose unreasonable regulatory barriers on U.S. service providers; (3) to reduce unreasonable barriers to U.S. foreign investment; (4) to obtain adequate and effective protection for U.S. intellectual property rights and increased access to foreign markets for U.S. businesses that rely on intellectual property; (5) to make the proceedings of international trade bodies more open to public view; (6) to secure fairer and more open conditions of trade for U.S. agricultural products; and (7) to promote through multilateral institutions worker rights and sustainable development.

These objectives and guidance reflect the President's three primary concerns underlying the proposal. The President has made clear that his first consideration in proposing this legislation is the expansion of American trade opportunities abroad and the tearing down of barriers impeding U.S. access to foreign markets. However, the President also has made clear that we have an obligation to promote the rights of workers and the environment. Our commitment to worker rights and the environment reflects long-standing, fundamental values of the United States. The proposal's objectives properly balance the need to open markets with the attention these vital issues deserve.

The proposal next provides that the President may enter into certain agreements regarding tariffs and implement them by proclamation. For example, the proposal would re-establish the President's traditional proclamation authority, under which he can reduce U.S. duties up to 50 percent and eliminate duties of 5 percent *ad valorem* or less. This authority dates back to 1934. The proposal adds a new provision that would allow the President to harmonize or eliminate tariffs in connection with reciprocal tariff agreements in particular sectors, as we did in the ITA, as well as to carry out reciprocal tariff elimination agreements consistent with WTO rules.

In order for an agreement to qualify for fast-track treatment under the bill, the President must comply with extensive notice and consultation requirements. These provisions enable the Congress to set priorities, provide advice, and exercise oversight at all stages of the negotiations. They ensure that Congressional views will be reflected both in any final agreement and in the manner in which an agreement is carried out.

The bill expands upon the notice and consultation requirements included in earlier trade acts. For example, the President must provide notice to Congress before initiating negotiations, and he must consult with Congress prior to concluding an agreement. Members of Congress and their staff are to be named as cleared advisers with respect to on-going negotiations. These Congressional advisers will be apprised of all critical phases of the negotiations, and they will have direct input into our strategy and offers. When negotiations near completion, the President must notify Congress of his intention to enter into an agreement and, once the agreement is signed, the President must describe to Congress how he intends to implement the agreement. Finally, the President and the Congress are to receive advice on any proposed agreement from the International Trade Commission.

To strengthen these provisions, we have added further consultation requirements. The bill mandates that, prior to entering into negotiations, the President must describe his specific negotiating objectives. The President is required to consult with Congress both before and after negotiations begin. In addition, the President is required to inform Congress of any other agreements he intends to conclude with the country or countries in question in addition to the trade agreement itself. The President must also state whether the fast track agreement will require additional implementing legislation that can be enacted only outside the fast track process.

Moreover, Congress must be satisfied that the President has met his consultation obligations. Under the proposal, if Congress finds that the President has not done so, an expedited procedure is available for Congress to withdraw fast track procedures.

The proposal also builds on existing provisions to ensure that the public is informed of trade negotiations and that a mechanism is available for ensuring that the public can make its views known to U.S. negotiators. In addition, the proposal calls for the President and Congress to receive advice from officially-designated advisory committees covering the full range of sectors and policy matters, including manufactured goods, agricultural products, services, intergovernmental matters, investment, intellectual property, labor, and environmental matters. These provisions demonstrate the Administration's hope that Americans will not only understand our trade agenda, but take an active part in formulating it.

Under well-established practice, the President collaborates with the Congress in drafting fast track implementing legislation. Such legislation is subject to informal public hearings and "mark-ups" by all Congressional committees of jurisdiction before its introduction. Under the President's proposal, provisions may be included in such legislation only if they are necessary or appropriate to implement an agreement and are related to trade. This language was designed to provide the President and Congress with sufficient flexibility to modify domestic law to achieve our trade objectives while ensuring that implementing bills will retain their focus on trade issues.

The President's proposal seeks this authority until his term is completed, with the possibility for an extension until 2005, subject to disapproval by Congress. This provides Congress and the next President the opportunity to ensure that the consensus that we hope can be achieved with this fast track proposal endures during the first term of the next President.

Conclusion

Mr. Chairman, if enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American workers and companies. We have had a bipartisan consensus on the importance of expanding trade for the American economy and creating a trading system as a part of America's leadership for peace and freedom. It is now clearly more important than ever that we build a new consensus on the framework for the global economy of the 21st century. I am committed to working with the Congress to make sure that this legislation receives the full, bipartisan support it deserves and the American people expect.

As the President Clinton said last week: "Walking away from this opportunity will not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers." The world is on a very fast track to the 21st century. America must lead in shaping our future.

PREPARED STATEMENT OF HON. MAX BAUCUS

Good morning. Thank you, Mr. Chairman, for calling this hearing, and thanks to all our witnesses today.

We are enjoying what will soon be the longest period of economic growth in our history. Since 1992, our economy has grown from \$6.5 to \$8 trillion dollars. Inflation has fallen to 2%. We have added a net gain of more than 12 million jobs. And while from 1986 to 1993 real wages fell every year, since 1994 real wages have risen every year.

So somebody is doing something right. And part of it has been trade policy. The Administration has worked very hard to open foreign markets, reduce subsidies and fight unfair trade practices. And we have had some remarkable successes. Exports of goods and services are up from just over \$600 billion in 1992 to near \$900 billion this year.

But the work is not finished.

Foreign countries routinely discriminate against our farm products. We can do more in high technology. We need to work on trade-related labor and environmental issues. And our trade deficit remains unacceptably high.

The Administration needs trade negotiating authority to fix some of these things. So I believe the Senate should approve a trade negotiating authority bill, and we have a good start before us. I am particularly pleased by its attention to agriculture, and the inclusion of a specific negotiating objective of opening foreign markets to American farm products. The bill devotes appropriate attention to the problems we have with state trading enterprises like the Boards which control grain trade in many of our trade competitors.

There is an area, however, which I think should get more attention than it has so far.

Ambassador Barshefsky recently scored a major success by opening Canada's market to our barley. That is a very good thing; but it also shows that NAFTA and the US-Canada Free Trade Agreement are not perfect. They can be improved, and they should be. Likewise, the Uruguay Round should have eliminated Japan's tariffs on wood products, but did not.

So while it is important to negotiate new agreements, we must also look at our existing agreements and make sure they work as well as they should. Thus I think we should also include language that reflects the importance of enforcing existing agreements and improving the ones we already have.

And I hope to work with the Committee to include such language.

Finally, we should not confuse negotiating authority with actual agreements. By passing trade negotiating authority, we do not sign blank checks. I expect that the Congress and the public will be fully consulted as we decide which agreements to make and as we negotiate them. And we have the right to disapprove trade agreements that do not meet the standards they should.

To sum up, the country needs a tough and active trade policy in the years to come. And the President needs negotiating authority for that policy. So I support the effort and look forward to the hearing.

BOB GRAHAM
FLORIDA

United States Senate

WASHINGTON, DC 20510-0903

Prepared Statement of

Senator Bob Graham

Senate Finance Committee Hearing
September 17, 1997

Mr. Chairman:

Thank you for holding this hearing today, and particularly for including CBI Parity on the Committee's agenda. I am very pleased that we have finally received the Administration's Fast Track proposal and I look forward to hearing from our distinguished panelists.

The issue we are debating today goes well beyond whether or not to give the President trade negotiating authority. It is about how the American people view our country's role in the world. Are we to continue in our position of leadership, or will we retreat and take a new role as a bystander? The world is moving ahead quickly, with or without us. It is for us to decide if we will take our rightful position of leadership, or if we will stand aside while others rush in and take our place.

Mr. Chairman, I believe that the world will be a better place if traditional U.S. values of freedom, fairness, and openness are in the lead as we move into the next century. This can only happen if we are an active participant in making the rules and setting the agenda. If we choose to stand on the sidelines, we will leave it to others to make rules that reflect their values and their interests, not ours.

But this is not just a theoretical debate. Enforcement of trade agreements has been a contentious issue. If we are to move forward, the enforcement issue must be addressed. Failure to enforce trade agreements converts international trade from the rule of law to a dominance of suspicion and a lack of respect between trading partners. Agreements that are not enforced, or cannot be enforced, are not worthy of the participation of the United States.

A second issue that we must address is that of unintended consequences. That is what the Caribbean Basin Trade Enhancement Act is intended to address. Previous trade agreements, namely NAFTA, seriously hurt the economies of our Caribbean neighbors. These are countries with which we have uniquely close and harmonious relations. Many of these countries are being devastated by businesses and jobs moving to Mexico. Passing CBI legislation will remedy this unintended consequence of the NAFTA, and help U.S. companies to expand into the Caribbean markets at the same time. It is in our economic and our national security interests.

Thank you Mr. Chairman.

**STATEMENT OF SENATOR ORRIN G. HATCH
BEFORE THE
COMMITTEE ON FINANCE
SEPTEMBER 17, 1997**

**HEARING ON
FAST TRACK AUTHORITY**

Mr. Chairman, I join in the welcome of our very distinguished witnesses.

Mr. Chairman, the purpose of fast track needs to be revisited. I don't disagree with the President's definitional statement: Fast track fosters the appearance of a united U.S. government at the negotiation table and the agreement negotiated is the agreement passed. This remains the undisputed objective of fast track. What troubles me is that the President's plan may not get us there.

I don't question the list of noble negotiation objectives, especially those that pertain to the elimination of trade obstacles and other unfair barriers, improving intellectual property protection and IP access to foreign markets, more transparency of trade negotiations, and better trading conditions for agriculture.

Nor do I dispute the adoption of the extract on workers' rights from the Omnibus Trade and Competitiveness Act of 1988, of which I was a proponent.

I do, however, invite some elaboration as to specific administration intent with regard to the section two provision of its bill, which reads:

"To seek to ensure that trade and environmental protection are mutually supportive, including the further clarification of the relationship between them."

I would ask for your response in writing on this particular provision.

My second request for a written response relates to subsection (c) of section 2, which provides the following guidance to negotiators:

"In pursuing the negotiating objectives described in subsection (b), United States negotiators shall take into account United States domestic objectives including, but not limited to, the protection of health or safety, essential security, environmental, consumer or employment opportunity interests and the law and regulations related thereto."

I note that this language was lifted from the 1988 Omnibus Trade Act, but it pertained *only* to trade in services. Yet, the administration bill applies it to all seven negotiation objective areas. Let me take the example of the application of the environmental considerations to foreign investment.

Does this provision mean that U.S. companies seeking foreign investment opportunities in, say, overseas textile mills, would have to include in their business development plans U.S. environmental standards? More specifically, would the U.S. investor have to ensure, and pay for, U.S. environmental standards as a condition for making a foreign investment? If so, is that not a barrier to foreign investment created by the administration's fast track proposal?

I would ask for a detailed response on this particular provision, as well.

Mr. Chairman, I am further troubled by what has been omitted. Allow me to elaborate.

Despite the use of fast track in past agreements such as NAFTA and the GATT Uruguay Round, I would say unequivocally that we have lost ground in three express areas: anti-dumping, countervailing duties, and Section 301 protections. The Administration's work on steel plate cases is one such example. I am concerned that the Administration has attempted to nullify preliminary determinations made by the Commerce Department and the International Trade Commission by seeking suspension agreements with the offending nations.

Accordingly, I would like the witnesses' written response as to the Administration's intentions regarding the value of U.S. anti-dumping, countervailing duties, and Section 301 rules to our national trade policy. Further, I would like to see these three sets of priorities embraced in the listed negotiation objectives.

Mr. Chairman, why am I being picky? My answer is simple: we must agree on the important objectives and principles of fast track *before* we give the President the extraordinary negotiation authority that he seeks, and I would add needs. A more controversial fast track bill will only invite later legislative deadlocks. We must clarify such impasses before they become an embarrassment to us as a nation and a potential economic calamity for the growing U.S. export community.

But in making that statement, I have to alert our friends in the administration to some of the pitfalls I personally see in fast track legislation.

Fast track gives the President unique authority to include, in an all up-or-down agreement, controversial changes in our laws. These provisions could be so broad that their mere inclusion in a fast track negotiated agreement may be viewed as an attempt to circumvent Congress' constitutional legislative authority.

This is why I continue to oppose the inclusion of labor and environmental initiatives in such agreements. These two policy areas are simply too controversial to escape the closest possible scrutiny and extensive debate by Congress. Fast track authority should be limited to trade issues, leaving other policy arguments to normal legislative processes and procedures.

I hope that the Administration will consider these concerns as we move toward a final draft of a fast track bill.

Thank you Mr. Chairman.

Testimony of
the Deputy United States Trade Representative
Ambassador Jeffrey Lang
on
Enhanced Trade with the Caribbean Basin and Sub-Saharan Africa

17 September 1997

Mr. Chairman. I am pleased to be with you here today to discuss the Administration's initiatives to enhance our trade relationships with the Caribbean Basin and Sub-Saharan Africa. It is appropriate that my comments follow those of Ambassador Barshefsky and Secretary Rubin, who spoke of the importance of renewing the traditional trading authority and continuing U.S. leadership in the international trading system. I would like to speak about some of our other priorities where our leadership is crucial.

This year, the President announced two initiatives to enhance trade with the Caribbean Basin and Sub-Saharan Africa. The Africa initiative seeks to support the economic and political reforms that are already resulting in increased economic growth in Africa. The initiative recognizes that increased trade and investment can make a greater contribution to this growth. The Caribbean Basin initiative seeks to ensure that the increased trade and growth resulting from earlier initiatives continues to grow as the region moves toward a more mature trading relationship with the United States and strives to make the changes needed to participate in the Free Trade Area of the Americas.

These two regions hold the promise of opportunities for US firms and workers. The U.S. must take steps to increase trade, development, and investment in these regions of the world. A forward-looking trade policy with the Caribbean and Sub-Saharan Africa is in our national interest: it encourages U.S. business investment and expansion in those regions; it promotes economic growth, which enables both Caribbean and African nations to deal better with issues such as hunger, population growth and civil strife through regional efforts; and it allows the U.S. to continue to foster greater integration of global markets.

I will address each proposal separately.

Caribbean Basin Trade Enhancement

In response to the concerns of the Caribbean Basin countries that their exports to the United States would be placed at a competitive disadvantage vis-a-vis Mexico's exports as a consequence of the NAFTA, there have been several bi-partisan efforts during the past four years to pass legislation that would grant enhanced trade preferences to countries that currently benefit from the 1984 Caribbean Basin Economic Recovery Act (CBERA). Since the 1994 entry into force of the NAFTA, there have been significant changes in the region. The Administration's

proposed CBI trade enhancement legislation offers enhanced CBI trade preferences in the context of the important changes that have taken place in the Caribbean Basin since NAFTA implementation.

On June 17, 1997 the Administration transmitted the United States Caribbean Basin Trade Enhancement Act (CBTEA) to the Congress and it was introduced in the Senate by Senators Graham, Moseley-Braun, Mack, DeWine, and McCain. The purpose of the CBTEA proposal is to give Caribbean Basin countries enhanced market access and serve as a bridge toward the Free Trade Area of the Americas. This bill is part of an integrated Administration-wide strategy to advance economic progress and promote regional cooperation throughout the Caribbean. It signals our intention to expand trade with Caribbean countries on terms consistent with the objectives of the Free Trade Area of the Americas (FTAA) and their own obligations in the World Trade Organization (WTO).

The legislation fulfills the President's commitment, made during his recent trip to Costa Rica and Barbados, to forward legislation to the Congress that would provide enhanced trade preferences to countries in the region. The bill would cover all the products that are presently not eligible for preferences under the CBI program, including textiles and apparel. The CBTEA would extend to eligible Caribbean Basin Initiative (CBI) beneficiary countries certain trade preferences essentially equivalent to those Mexico receives under the North American Free Trade Agreement (NAFTA).

The Administration originally had expected the CBTEA proposal to move through the legislative process as free standing bill. However, when CBI enhancement was included in the Ways and Means reconciliation bill, we forwarded a proposal that the Administration supported in preference to the text in the reconciliation bill. Wishing to maximize the possibility of passage of CBI enhancement and to ensure funding for the measure, the Administration worked hard to reach compromise language that would enable CBI trade enhancement to remain in the budget reconciliation package. We were disappointed that a compromise could not be included in the Tax bill, but we stand ready to work with you again on a compromise.

In designing this legislation, the Administration considered the evolving economic and trade situation in the Caribbean Basin region. The increased openness of most Caribbean economies over the past decade, improved macroeconomic stability, and the growth of foreign direct investment have set CBI countries on a path toward improved economic growth. We also considered the perception among CBI countries that the implementation of the NAFTA is reducing their relative opportunities for expanding trade to the United States.

Indicative of the changes underway in the region is the fact that all but one of the CBI beneficiaries belong to the World Trade Organization, and that as members they have undertaken a commitment to adhere to the rules of that organization. In addition to meeting their WTO commitments, these countries will need to make structural reforms in order to take advantage of the benefits to be derived from a hemisphere-wide free trade zone.

The CBTEA will allow countries in the Caribbean Basin to enjoy enhanced trade preferences while encouraging them to meet their WTO commitments and helping them to prepare for participation in the Free Trade Area of the Americas. These new trade preferences would cover all of the products not included in the existing CBI legislation (i.e., textiles/ apparel, petroleum, footwear, certain categories of flat goods and gloves, leather apparel, canned tuna and a category of watches). Trade preferences for CBI beneficiaries would be phased in, with 50 percent of the benefits available immediately upon implementation of the legislation.

Textile/Apparel Provisions

Of course, the heart of any CBI trade enhancement bill is textiles and apparel. The bill would -- when fully implemented over the phase-in period -- provide beneficiary nations the same duty treatment and quota-free treatment as Mexico receives for all products meeting the NAFTA rules of origin (essentially a "yarn-forward" requirement). Basically, textiles that on a yarn-forward basis were made from CBI inputs would be eligible for the same tariff treatment as Mexican products. In addition, products assembled from U.S. cut and formed fabrics made from U.S. yarn, as well as handicrafts, also could enter duty-free.

The bill also contains specific provisions for apparel products made in the Caribbean Basin from non-U.S./non-CBI fabric. Under our bill, interested U.S. citizens could petition the President to provide such products preferential tariff treatment where the fabrics or yarn from which the articles were made are not commercially available from U.S. producers. The tariff preference level (TPL), if granted under the petition process, would be limited in quantity to 10 percent of a country's previous year's shipment of "Section 807" apparel assembled in the Caribbean using U.S. parts made from extra-regional (non-U.S./non-CBI) fabric. This petition process differs from NAFTA, in which we negotiated TPLs up-front with Mexico. We suggest this different approach in the Trade Enhancement Act because this is not the result of a negotiated agreement, but is a preference.

The bill would also contain safeguard provisions on both originating and non-originating products. Imports of non-originating products could be limited under the same conditions, both criteria and remedies, as in the NAFTA; also as under the NAFTA, imports of originating products could be subject to a tariff snap-back safeguard. The draft bill also expands the quota safeguard provision so that all textile and apparel products receiving benefits under the bill can be subject to quota safeguards. While NAFTA applies quota safeguards only to non-originating products, safeguards in this bill are more comprehensive, again because the bill is not a negotiated agreement.

If the President finds that goods from third countries are being transshipped through CBI countries and are receiving duty preferences that they should not, the USTR may reduce the amount of any quota -- including eliminating a country's access to the U.S. market for this product -- with the CBI countries involved in transshipment.

The common goal of the Administration and many in the textile and apparel industry groups has been to expand CBI trade preferences to the textile and apparel sector, which has until now largely been excluded from duty preferences. This bill responds to the concerns of the CBI countries that feel that they may be disadvantaged by Mexico having NAFTA benefits for apparel shipments to the U.S., and also to respond to the concerns of U.S. industry that their own investments and partnership production operations in the Caribbean have continued viability and success.

The key to the success of the existing CBI program is that the trade provides benefits to both the U.S. and to the Caribbean countries. The majority of our apparel imports from the Caribbean countries contains substantial U.S. content. The International Trade Commission estimates that over 80 percent of our apparel imports from the Caribbean are under these "production sharing" arrangements. This means that our producers and our workers make the fabric and the other inputs (linings, sewing thread, notions) that go into the CBI's apparel, our companies employ people in cutting and distribution in the U.S., and so on. However, the bill allows us to address situations of serious damage or threat from these imports if necessary.

The real benefit to the program is that we have seen apparel production come back to our hemisphere from Asian sources, including China. Last year, imports of apparel from the CBI grew 12 percent while imports from China were flat and imports from Hong Kong, Korea and Taiwan declined 8 percent.

Over the 10 year life of the quota preference program for the CBI, imports of apparel from the CBI have grown at an average annual rate of 20 percent, while imports from China grew by 4 percent on average and imports from Hong Kong, Korea and Taiwan declined by 3 percent. The CBI countries taken together are our largest foreign supplier of apparel products.

We fully expect the textile provisions of our proposed legislation to further expand such trade in a manner that will benefit the United States as well as the CBI beneficiary countries.

Given the potential benefits for these countries, the changing economic and trade environment in the region and the need for such a bill to include strong incentives for sound trade policy measures in the Caribbean, we have designed a program that would, through a phase-in process, give countries the incentive to continue to make progress on trade policy. We have also given a great deal of thought to ensuring increased market access for U.S. businesses as we grant increased preferences to CBI countries. This bill does not create a one-way street of open-ended trade preferences with no benefit to U.S. interests. Nor does it place unreasonable or unfair burdens on the countries of the Caribbean. It is a balanced trade package that promotes economic development in this region that is so important to the United States.

Initial Designation

To achieve our goals, prior to initial designation as a beneficiary, a country would have to

demonstrate a commitment to undertake its WTO obligations on or ahead of schedule and to actively participate in FTAA negotiations. We would expect all countries in the region to meet these initial criteria and be eligible for a 50 percent tariff reduction (between the MFN tariff and Mexico's prevailing rate under the NAFTA). Countries could receive up to 100 percent of the tariff reduction -- i.e., parity with Mexico's tariff rate under the NAFTA -- depending upon a three-year review of the country's compliance with the eligibility criteria.

These criteria were carefully constructed to ensure they were consistent with U.S. trade policy, that they encourage fair treatment of U.S. exports and investment, and that they would expand economic development to encourage citizens in beneficiary countries to direct their energies toward opportunities available in a growing formal economy. We are certain that increased economic growth among CBI countries will provide growing markets for U.S. products and enhance the ability of our neighbors to ensure justice and security within their own borders

To that end the CBTEA would require that, before granting additional benefits, the President consider the extent to which countries have met the following conditions.

International Trade Rules. The extent to which a country follows accepted rules of international trade will be considered in determining a country's eligibility for increased benefits. We would like to encourage all beneficiary countries to meet their WTO commitments on or ahead of schedule. We think it important to establish a "floor" of compliance with WTO rules, which will enable us to move toward the Free Trade Area of the Americas from within a WTO consistent framework.

Intellectual Property Rights. With respect to intellectual property rights, a CBI nation's compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and with the provisions of Chapter 17 (Intellectual Property) of the NAFTA would be eligibility criteria for the full benefits. The bill also includes provisions regarding the parallel importation of "gray market" goods and border enforcement against infringing imports. These provisions would benefit creative and inventive activity in the region as well as U.S. holders of intellectual property rights.

Investment. With regard to investment, the bill includes an eligibility criterion based on a CBI nation's compliance with the substantive provisions of NAFTA Chapter 11 (Investment). These conditions would ensure non-discriminatory treatment of U.S. investments and international standards of treatment, including third party arbitration for investor-state disputes. Such policies, of course, would increase the attractiveness of CBI countries to the foreign direct investment that is essential to increasing productivity and promoting the economic diversification of these countries.

Market Access. The bill offers the opportunity for expanded market access for U.S. goods because beneficiary countries would be expected to provide equitable and reasonable market access in product areas for which the CBI countries are receiving new benefits.

Worker Rights. Provision of internationally recognized worker rights is a CBTEA eligibility criterion. That is, a country's new -- as well as current -- benefits would depend upon the provision of internationally-recognized worker rights, including the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of coerced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety. We do not think it is appropriate to reward countries that are indifferent to the working conditions of their labor force. This provision is drawn from the GSP program.

Environment. To ensure that beneficiaries of the CBTEA pursue their new trade opportunities in an environmentally responsible way, each interested country will be reviewed on the extent to which it has adopted laws and regulations to protect the environment (including natural resource protection laws), as well as the extent to which it is effectively enforcing those laws and regulations. This provision is modeled on language in the NAFTA.

Narcotics Cooperation. We want to use every available tool to try to stamp out the scourge of narcotics production and trafficking. Therefore, the President will assess whether the beneficiary country has met the narcotics cooperation certification criteria set forth in section 490 of the Foreign Assistance Act of 1961 for eligibility for United States assistance.

Corrupt Business Practices. Corrupt business practices can be a more impenetrable barrier to trade than any tariff. This legislation will encourage CBI nations to ratify the newly-concluded Inter-American Convention Against Corruption. The President will take into account whether, having ratified this agreement, countries are taking necessary measures to implement the agreement.

Exchange of Tax Information. This bill will encourage countries in the region to join Barbados, Bermuda, Costa Rica, Dominica, the Dominican Republic, Grenada, Guyana, Honduras, Jamaica, Saint Lucia, and Trinidad and Tobago in entering an agreement with the United States for the exchange of tax information.

Government Procurement. Eligibility criteria for full benefits include a CBI country's support for the multilateral and regional objectives of the United States with respect to government procurement, including the negotiation of government procurement provisions of an FTAA and the work program in the WTO as agreed at the Singapore Ministerial Conference; and the extent to which the country applies transparent and competitive procedures in government procurement equivalent to those in the WTO Agreement on Government Procurement.

Customs Valuation. The bill includes an eligibility criterion based on the provisions of the WTO Agreement on Implementation of Article VII of the GATT 94, which addresses rules for customs valuation. U.S. exports are put at a disadvantage in the market when arbitrary customs valuations result in higher tariffs, making our exports less competitive in the market. Adherence to the WTO Agreement is of great importance to our exporters, and all WTO members in the

CBI region are required to implement those obligations by the year 2000.

Comparable Access. Also, the President would take into account the extent to which those CBI nations that have entered an FTA with any other countries (other than the CARICOM and the Central American Common Market) are prepared to grant the United States comparable access for commercially important products. This provision is intended to give the United States additional leverage to insist that a beneficiary country not discriminate in favor of our NAFTA partners even as we grant that country NAFTA-equivalent market access.

Duration

This new trade enhancement program would not be open-ended. Since it is designed as a bridge to the FTAA, it would terminate in 2005. At that time FTAA negotiations will have been completed and all beneficiary countries should begin to reap the benefits of the Free Trade Area of the Americas.

Phase-In of Benefits

In order to determine the extent to which countries have met the criteria for increased benefits at the end of three-years, the President would review the operation of the CBTEA program, including each country's compliance with the eligibility criteria -- the criteria currently existing in the CBI statute, as well as the new criteria. We would, of course, request public comment and undertake extensive consultations with the Congress on the operation of the program at the time of the review.

Maturing Relationship

In conclusion, this bill reflects the maturing relationship between the United States and the countries in the Caribbean Basin. Trade between the region and the United States has grown impressively since the beginning of the Caribbean Basin Economic Recovery Act in 1984. All but one CBI beneficiary belong to the World Trade Organization and all those that belong have agreed to implement all of the obligations needed for membership. All of the countries in the region are involved in the FTAA process. For those reasons, the Administration has constructed a proposal that asks beneficiary countries to continue on their trajectory toward more open markets and trade policies consistent with their WTO commitments and their participation in the FTAA.

We look forward to working with the Congress on legislation to implement this approach. Now I would like to turn to the President's strategy for economic growth and opportunity in Africa.

Africa: Growth and Opportunity

We welcome this occasion to discuss opportunities to expand U.S. trade and investment with

Africa and the Administration's program for seizing these opportunities. I want to commend the Congress for its leadership in focusing on the need to develop a new trade approach to Africa. The Clinton Administration enthusiastically endorses the basic approach of the African Growth and Opportunity Act (S. 778). We look forward to continuing our work with the Congress to develop, refine, and enact legislation that will help build a new trade relationship between the United States and African countries.

We believe that this is an opportune time for us jointly to address the issue of our economic and trade relations with Africa. Over the last year and a half, both the Administration and the U.S. International Trade Commission have submitted two reports on this question. Our most recent report sought to lay a foundation for our future work in this area. The Administration has also worked to develop new policies in this area, after consultation with African officials. The President is very interested in this subject and has directed us to determine what steps we can take to establish more substantial trade relations with Africa.

We recognize the achievements of many countries in Sub-Saharan Africa in pursuing economic and political reforms and wish to offer special support to those countries committed to pursuing accelerated reforms. Today, I want to discuss the Clinton Administration's new economic approach to Africa. We have worked intensely within the Administration to develop a program that we hope will help African countries lock in and accelerate the increase in growth that they are starting to achieve. I would like to acknowledge the contributions of a number of agencies, including the Treasury, State, Commerce, Labor and Agriculture Departments, USAID, OPIC, Export-Import Bank and the Trade and Development Agency. We have worked on this project as a team under the coordination of the National Security Council and the National Economic Council to produce this comprehensive program. I will focus on the trade and investment policy aspects of the program because that is my area of expertise and trade and investment is, I understand, the subject of this hearing.

Economic Reform in Sub-Saharan Africa

The Administration's program is entitled "Partnership for Promoting Economic Growth and Opportunity in Africa." This partnership begins with the simple but powerful idea that American interests are best served if we view African countries as partners in trade and investment.

We begin with the idea that building strong trade partnerships with Africa's rapidly growing and reforming economies is in our interest. It is also the key to generating growth and opportunity in the rest of the continent. The 48 countries in Sub-Saharan Africa are quite diverse. Some countries in the region are already showing that the continent can be a region of dynamic economic growth, and that there is no reason why they cannot achieve Asian levels of growth if they make the right policy choices. Only if we build on Africa's progress can we change the minds of those in the private and public sectors who doubt the continent's potential.

Our plan highlights Africa's success stories. In the last few years, more than 30 countries have

instituted economic reform programs. They have adopted the most critical reforms -- liberalizing exchange rates and prices, privatizing state-owned enterprises, instituting tighter disciplines over government expenditures, ending costly subsidies, and reducing barriers to trade and investment. Many countries have also undertaken political reforms.

Reform efforts have helped boost economic growth in Africa from 1.4 percent in the 1991-94 period to 4 percent in 1995 and 4.6 percent in 1996. The United States seeks to encourage these reforms and the growth that stems from them. The benefits for the United States are clear. In an increasingly competitive global economy, the United States cannot afford to neglect a largely untapped market of some 600-million-plus people, and the world cannot afford to see a vast region marginalized. The lowering of tariffs and other trade barriers will help African nations to grow. They will also help Americans by opening these markets to our goods and services. Increased growth will also contribute to social and political stability on the continent and to an enhanced capacity to address the problems with which we are all too familiar.

Trade and Investment

We must continue to address obstacles to trade and investment. In the last 40 years, Africa's share of global trade has fallen from 3.1 percent to 1.2 percent. A recent World Bank study has concluded that the most significant part of Africa's marginalization in world trade can be attributed to African trade barriers that are far more restrictive than those in high-growth developing countries and incorporate a substantial anti-export bias. For example, import tariffs in sub-Saharan Africa average 26.8 percent, whereas they only average 8.7 in the fastest-growing exporters in the developing world. African countries also impose some form of nontariff barrier restrictions on over one-third of all of their imports, a ratio that is almost nine times higher than the corresponding average for fast-growing exporters. Such trade protectionism erodes the competitive position of Africa's exports and, according to this study, costs the region an average of \$11 billion per year in annual trade losses -- about the same as total aid to Africa from all sources in 1991.

The core premise of our plan is that those nations willing and able to pursue the most aggressive growth-oriented economic policies -- principally by opening their economies to the world marketplace -- are the ones most likely to be the engines of growth on the continent. The plan provides incentives for all African countries to join this advance group of African reformers.

Many African countries have been able to make substantial achievements in restarting economic growth by taking bold steps to open, liberalize, and privatize their economies. The most dramatic progress has come when countries have focused on three areas: trade and investment liberalization, investing in human resources, and improving policy management. Our program seeks to emphasize support for countries that are making strong efforts in these areas.

In the area of trade and investment, we attach particular importance to the extent to which countries have made substantial progress toward reducing tariff levels, binding their tariffs in the

WTO and assuming meaningful binding obligations in areas of trade such as services, and in eliminating nontariff barriers to trade. We also think it is very important that any country in Sub-Saharan Africa that is not already a member of the WTO should be actively pursuing membership in the WTO and be prepared to take on meaningful obligations. We are pleased that several African countries made commitments in the recently concluded WTO telecom services negotiations. We hope that these countries will also make commitments in the WTO financial services negotiations which are now underway in Geneva.

We also believe economic growth may be enhanced by other factors in the trade and investment area such as the provision of national treatment for foreign investment, a readiness to begin negotiations with the United States on a Bilateral Investment Treaty, privatization of sectors of the economy that are most likely to attract foreign investment, compliance with programs with and obligations to the International Monetary Fund (IMF) and other international financial institutions and the introduction of current account convertibility.

The Administration's Initiative

Mr. Chairman, I would like to discuss briefly the specific elements of the Administration's program for Partnership for Economic Growth and Opportunity in Africa. Through this Partnership the United States would seek to work in particular with those countries making strong efforts at growth-oriented policies in areas such as those I have just discussed.

We recognize that not all African countries are ready or able to take the steps necessary to spur high levels of economic growth. Therefore, we propose to work with the relevant international institutions to make available the following opportunities to Sub-Saharan African countries, according to their desired level of participation. Under the overall partnership countries can participate at one of three different levels.

Level One Benefits

To support efforts to achieve sustainable economic growth throughout Sub-Saharan Africa, at the first level of participation the Administration will make broadly available the following opportunities and assistance. Level One will include notably:

Enhanced market access. African nations will continue to receive preferential market access under the existing Generalized System of Preference (GSP) program, which now provides less-developed countries duty-free access for products in some 4,000 tariff lines and will provide least-developed countries enhanced access on products in up to an additional 1800 tariff lines.

Investment support. The Overseas Private Investment Corporation (OPIC) is working with the private sector sponsors of a proposed \$150 million fund for equity investment in a variety of economic sectors. Two-thirds of the fund would consist of OPIC guaranteed debt. OPIC is also working to develop one or more separate funds that would focus on economic infrastructure

projects. These potential funds would have aggregate capital of up to \$500 million. We have also secured agreement that the African Development Fund will develop a capacity for financing infrastructure projects, in particular those that will improve linkages among markets, both within countries and regionally. We are pleased that HR 1432 calls for such funds.

Support for regional economic integration. Under the U.S. Agency for International Development's (USAID) Initiative for Southern Africa, support will be provided for private and public sector cooperative activities in areas of regional concern, including investment policy harmonization, regional business ties, financial sector development, privatization and facilitating cooperation between private sector and regional governments, labor statistics, and occupational health and safety.

Support for U.S.-African business relations. USAID will provide support to help catalyze U.S.-African business ties.

Export-Import Bank. The Export-Import Bank of the United States will encourage use of its programs through designation of a senior advisor on Africa to its board and a campaign for outreach, particularly with the private sector. In fact, Ex-Im Bank has already hired an Advisor for this purpose.

Assistant U.S. Trade Representative for Africa. To ensure that trade issues with Africa receive proper attention, Ambassador Barshefsky is creating an Assistant U.S. Trade Representative for Africa.

In addition, the Administration will work with the IMF, World Bank Group and the African Development Bank Group on the development and implementation of several initiatives to support private sector investment, trade development and capacity building.

Level Two Benefits

To support those countries pursuing aggressive growth-oriented policies, the Administration would offer, at the discretion of the President, the following additional opportunities, which we have characterized as Level Two participation:

Additional market access through expansion of the GSP program. We are very pleased that the "Africa Growth and Opportunity Act" would provide authority for the President, after receiving advice from the U.S. International Trade Commission, to include in the GSP program for these countries a number of products that are presently excluded. This is the one major area of our proposed program for which we need legislative authorization before moving forward. While we question the appropriateness of making eligible for GSP certain products mentioned in the bill, we wholeheartedly welcome this approach and want to work with the Committee on it.

Textiles. The Administration recognizes the importance of the textile and apparel industry to

developing countries. While we cannot support the textile proposals in S.778, we are ready to work with Congress to develop a program that will be consistent with our overall commitments under the WTO, while at the same time taking into account the interests of U.S. industry and Africa.

Debt reduction. To help ensure that the growth-oriented countries now burdened by excessive debt are in a position to invest in human resources, the Administration would support an approach that leads to the extinction of concessional bilateral debt for the heavily indebted poor countries (HIPC), and we would urge the World Bank and IMF boards to provide deep relief under the HIPC debt initiative.

Creation of an U.S.-Africa Economic Forum. The Administration will establish a Cabinet- and Minister-level forum to meet once per year in order to raise the level and caliber of the dialogue between the United States and Africa's strongest reformers.

Bilateral technical assistance to promote reforms. USAID will finance short-term technical assistance to African governments to liberalize trade and promote exports, comply with WTO obligations and assume additional ones, and make financial and fiscal reforms. The U.S. Department of Agriculture will provide technical assistance to promote agri-business linkages.

Support for agricultural market liberalization. As part of the new multi-year Africa Food Security Initiative, USAID will help address such critical agricultural policy issues as market liberalization, agricultural export development, and agribusiness investment in processing and transport of agricultural commodities.

Trade Promotion. The Trade Development Agency (TDA) will increase the number of reverse missions to growth-oriented countries.

Programming commodity assistance. To help countries experiencing budget shortfalls in the course of their growth-through reform programs, and to encourage more effective spending on human resource development and agricultural policy reform, the Administration will take steps to focus PL-480 Title I assistance more on growth-oriented countries in Africa and will explore the possibilities to increase funding for Title III assistance from within PL-480.

Support for economic policy reform. In FY-98 USAID will provide support for growth-oriented programs with both technical assistance and program support funds.

Financing and debt relief: The Administration has looked carefully at the need for well-targeted, appropriate financial assistance and debt relief. The need for financing --both budget and balance-of-payments support -- debt relief would be acute for countries pursuing aggressive trade liberalization and trying to maintain, or even increase, useful investments in health, education and infrastructure development. We want to ensure that liberalizing countries have enough breathing space to carry through with a comprehensive program of trade liberalization and

tax reforms. Accordingly, we proposed the debt relief initiative cited above and we also intend to seek enhanced financial support through the International Financial Institutions. Their specific contributions would include, for example:

- Enhanced financing under the Enhanced Structural Adjustment Financing (ESAF) and the International Development Agency (IDA) policy-based loans to support countries where bold structural reforms, such as trade sector liberalization, result in greater financing requirements;
- Financing for improvements to infrastructure related to trade and business development, such as improvements to ports, railways, roads, and storage facilities.

Level Three Benefits

Finally, the Administration's program will hopefully lay the groundwork for a third level of economic involvement: the creation of free trade areas. We share the view expressed in S. 778 that negotiations on removal of trade barriers and on eventual free trade agreements can be a catalyst for increased trade. We think that it is important that we send a signal to our private sector that we are serious when we say that Africa has the potential to become a more significant U.S. trading partner. Therefore, we believe we should affirm that we are open to pursuing free trade agreement negotiations with our trading partners in Africa, who are ready to take on those obligations, just as we have affirmed with our partners in South and Central America and in Asia. The proposal in the "Growth and Opportunity Act" that we report on plans for such agreements with African countries would provide such an opportunity.

We invite all Sub-Saharan countries to pursue a course toward freer trade and open markets by participating in this comprehensive program. This graduated approach takes into account their diversity, commitment, and potential.

Further Integrating Africa into the Global Trading System

To magnify the economic impact of our proposal, the Administration obtained agreement from our partners at the summit of industrialized nations in Denver in June to take bilateral and multilateral actions that work toward the same ends as those described above. Collaboration among Summit partners on matters affecting Africa has already yielded major results, with the unveiling last year of a program of multilateral debt reduction for Heavily Indebted Poor Countries --the HIPC Initiative --which will benefit a number of poor African countries that are pursuing strong reform policies but are burdened with particularly heavy debt loads.

As I noted earlier, Mr. Chairman, we believe the legislation before your Committee and the program I have just described are quite complementary. We hope that we can work together to develop legislation and a program that allows our trade relations with Africa to enhance broad economic reform and accelerated growth on the continent.

Mr. Chairman, on enhanced trade with the Caribbean and with Africa, we look forward to working with you and the other Members of the Committee. Please accept my thanks for this opportunity to speak with you.

STATEMENT OF HON. WILLIAM V. ROTH, JR.

Our hearing today focuses on one of the most important topics we will face during this Congress. Today, more than ever, our economic future is linked to trade. A growing percentage of our gross domestic product depends on international trade and access to overseas markets.

We will, foremost, hear of the President's proposal for renewal of his trade negotiating authority and the related Congressional implementing procedures.

Since Cordell Hull—Secretary of State under Franklin Roosevelt and a former member of this committee—first outlined his vision of a trade agreements program in the early 1930s, cooperation between the Congress and the Executive on trade has been the foundation for our economic progress.

The Constitution lodges the power to regulate foreign commerce with the Congress. At the same time, it is the President who the Constitution empowers to be our representative in foreign affairs. As a consequence, we need to work together to make progress on trade.

The fast track rules allowed Congress, and this committee in particular, to exercise their Constitutional responsibilities by—

- setting the objectives designed to guide our negotiators,
- playing an active oversight role throughout the negotiations, and
- considering legislation needed to implement any resulting accord.

At the same time, the fast track process allowed Congress to offer the assurance that any agreement that met the negotiating objectives set at the outset would receive an up-or-down vote as negotiated.

What I want to underscore is that the grant of "fast track" authority was intended to address trade barriers.

Seen in that light, I welcome the President's initiative. As we have made clear in past discussions with the Administration, the Committee has been waiting for the President's proposal for some time and are interested in hearing about the approach the Administration intends to take.

It is, however, already late in the year and the Senate's calendar is quite full with work we need to complete by the end of this session I believe the Committee can complete its work on a fast track bill, giving it the thought and consideration it deserves.

With that, we welcome the President's representatives—Secretary Rubin and Ambassador Barshefsky—to describe the President's proposal and their plans to lay the necessary foundation for prompt action on this legislation.

TREASURY SECRETARY ROBERT E. RUBIN
SENATE FINANCE COMMITTEE

Mr. Chairman, I appreciate the opportunity to appear today with Ambassador Barshefsky to say a few words about the importance of renewing the President's traditional trade negotiating authority.

Since taking office, President Clinton has pursued a coordinated economic strategy to foster growth and raise standards of living with three key parts: deficit reduction, investing in people, and opening international markets. His strategy is working. The U.S. economy enjoys the best conditions in the industrialized world. Unemployment has been below 6 percent for over 2 years and below 5 percent for 5 months, the economy has generated 13 million new jobs, and inflation has remained low. Real wages are rising, including for low-income workers.

But we must not let these current conditions, favorable though they may be, mask the challenges we still face in improving our economy. There is still much work to do to make sure we sustain this economic momentum into the future and that everyone enjoys the fruits of our economy. That is why we must maintain our fiscal discipline and work to equip Americans with the tools they need to prosper in today's economy, through stronger education and training, and assistance when dislocation occurs. And we must also build on our trade record of opening markets abroad to continue to create better jobs and raise standards of living.

Having trade negotiating authority is important because trade is so important to our economy. Millions of Americans owe their jobs directly or indirectly to trade. All Americans benefit as consumers from the greater choice and lower prices which increased trade brings. Promoting open markets and trade also play a key role in fostering global prosperity, which benefits the United States by increasing international stability, and creating new markets to sell our products. Mr. Chairman, the economic well-being of the United States is integrally linked to the rest of the world and U.S. leadership on global trade is necessary in promoting global growth.

With fast track authority, we can negotiate further trade agreements to open foreign markets to U.S. goods and services. Without it, no nation will enter into a serious negotiation with the United States, because of concern that the treaty will be revamped during the Congressional process, and our economic interests will suffer. Consultations with Congress, both before and during trade negotiations, are a key provision of our proposed legislation. This will ensure that Congressional views are fully integrated into the formulation of negotiating goals and strategies.

Already, countries around the world are moving ahead to expand trade with each other. There is no question this is going to continue. The only question is whether we will be part of the process of integration, or on the outside looking in. To cite one example, look at the Mercosur nations, who have created a preferential trade arrangement. U.S. exports to these countries in four of our most competitive industries -- road vehicles, metal goods, cosmetics, and electrical equipment -- fell by more than 10 percent in 1996, while our exports in these goods to the rest of the world grew by almost 6 percent. We must make sure that U.S. companies have a level playing field as these markets of the future open their doors to trade.

The next steps for our trade agenda are to move forward in agreements in some of our most competitive sectors, and reduce barriers to trade in services and agriculture, which are key U.S. exports, as well as complete a free trade agreement with Chile, a step towards elimination of trade barriers in Latin America. Latin America and Asia are the two most dynamic economic regions in the world and are areas of increasing importance as export markets for U.S. goods. We must reduce trade barriers in these regions and strengthen economic ties so that we may continue to create jobs and foster prosperity in this country. Meanwhile, as we turn, our competitors move ahead on trade arguments in both regions.

Fast track is about more than one trade agreement or set of trade agreements, however. It is about U.S. leadership in the growing global economy and is an integral part of the strategy that has put our economy on the right track.

Mr. Chairman, trade policy has been a bipartisan effort for the past fifty years and it should continue to be a bipartisan effort. We must continue to work together to devise an acceptable negotiating authority so that we can continue to open markets, expand trade, and raise living standards both at home and abroad.

COMMUNICATIONS



October 3, 1997

Editorial Section, United States Senate
Committee on Finance
Washington D.C. 20510

Dear Sir/Madam:

This statement supports immediate enactment of "fast track" legislation on behalf of ANSAC pursuant to the Finance Committee's press release dated September 15, 1997, #105-171, announcing the September 17, 1997 hearing on fast track authority.

ANSAC is the sole authorized exporter of U.S. soda ash. Soda ash is this country's largest U.S. chemical export with 1996 exports valued at over \$700 million, roughly \$560 million of which is attributed to ANSAC.

ANSAC's goal is to eliminate tariffs on soda ash around the globe. To achieve this zero-for-zero goal, it is vital that the President be given the authority to negotiate new trade agreements under fast track procedures. It is estimated that in the absence of trade barriers, an additional \$1 billion in new U.S. soda ash exports could be achieved and over 6,000 new U.S. jobs created.

Soda ash is a basic chemical commodity required to manufacture glass. The United States has a unique natural deposit of raw material (trona) for soda ash located in Green River, Wyoming, from which this country could supply world demand for 1200 years.

Both the Administration and the Senate Finance Committee have in the past made it clear that achieving a zero-for-zero global agreement on soda ash is a high priority. In its November 1994 Report accompanying the Uruguay Round Agreements Act ("URAA") the Senate Finance Committee specifically identified soda ash as one of the U.S. sectors where complete tariff elimination should be achieved. Similarly, the Statement of Administrative Action implementing the URAA states that "in some sectors, including... soda ash..., complete duty elimination was not achieved. Obtaining further reduction in these sectors is a priority for U.S. multinational, regional and bilateral negotiations" (emphasis added).

While ANSAC believes fast track negotiating authority is critical to enable the President to negotiate new bilateral, regional and multilateral trade agreements, achieving trade liberalization among the APEC countries is a particularly high priority.

More specifically, ANSAC's APEC goals are three-fold:

- A commitment from APEC countries (particularly Indonesia) not to increase tariffs on soda ash imports above 1995 applied rates.
- Tariff elimination and WTO bindings to zero in all APEC countries.
- Tariff elimination and WTO bindings to zero by all APEC countries seeking to join the WTO (i.e., China, Taiwan and conceivably Vietnam).

Over the past decade, U.S. soda ash exports to the 17 other APEC countries have expanded from \$226 million in 1990 to nearly \$400 million in 1996. This growth has been particularly important to the U.S. industry, whose domestic sales have declined over the last ten years. All told, APEC exports account for 12, 500 U.S. jobs.

U.S. exports to APEC countries now account for 62 percent of U.S. exports. Though U.S. soda ash is the most competitive in the world, it satisfies only 22 percent of aggregate demand in the 17 other APEC countries. This share should be much higher, but it is hindered by tariff barriers (China and Korea) and non-tariff barriers (Japan). Soda ash exports to the APEC countries are expected to increase dramatically from nearly \$400 million to nearly \$700 million by the year 2000.

Soda ash is currently produced in seven of the 18 APEC nations, not including the U.S. A soda ash plant is under construction in Indonesia, and there is potential of local production in Thailand. All current or prospective soda ash production in these APEC countries use the synthetic manufacturing process with higher costs than natural U.S. soda ash. Thus, establishment of a local soda ash industry will in all likelihood require significant import protection (i.e., high tariffs) to be competitive with U.S. soda ash or shut out U.S. exports completely.


With the exception of China, soda ash tariffs in APEC economies are relatively low, ranging from duty-free in Malaysia, New Zealand and Singapore to 14 percent in China. The U.S. rate is 1.2 percent ad valorem. Generally, the Uruguay Round was disappointing to the U.S. soda ash industry in that improved market access to APEC markets was not achieved.

Current APEC tariffs are already at or below the final WTO bound rates effective in 1999 with the exception of Korea, which has agreed to reduce its 8 percent rate to 5.5 percent by 1999. The U.S. and New Zealand are the only other countries that bound their duties at currently low levels. China and Taiwan are not WTO members, though they are

in the process of applying. *Of greatest concern is the possibility that Indonesia will increase its current five percent tariff to the WTO bound rate of 40 percent with the development of a local soda ash facility.* Considerable losses to U.S. exports are also at risk if Thailand and Malaysia were to raise their soda ash tariffs to the WTO-legal limit.

In conclusion, ANSAC seeks the immediate passage of fast track legislation so that new trade agreements can be negotiated and zero tariffs on soda ash achieved. Further, it is respectfully requested that in its Report accompanying the fast track legislation the Finance Committee once again specifically recognize soda ash as a zero-for-zero negotiating priority.

Sincerely,

A handwritten signature in black ink that reads "J S SKELLY". The signature is written in a cursive style with a horizontal line underneath it.

James S. Skelly
Director Planning and Development

**THE HON. DR. RICHARD L. BERNAL
AMBASSADOR FROM JAMAICA TO THE UNITED STATES**

THE CASE FOR NAFTA PARITY

**SUBMITTED TO THE
SENATE FINANCE COMMITTEE**

OCTOBER 1997

Thank you for providing me an opportunity to submit testimony on the impact of NAFTA on the US/Caribbean trade relationship.

I. INTRODUCTION

This year marks the 15th anniversary of the address in which Ronald Reagan proposed the Caribbean Basin Initiative (CBI) to strengthen the economic and security relationship between the United States and the countries of the Caribbean Basin. Congress responded to President Reagan's challenge by enacting the Caribbean Basin Economic Recovery Act (PL 98-67) during 1983. Since then, the CBI has stimulated commercial linkages, promoted the development of a thriving private sector in the Caribbean, and created a natural market for thousands of US exporters. In many respects, the CBI has been an unqualified success.

Despite these accomplishments, the CBI is now beginning to show its age as new policies are established that eclipse the US/Caribbean partnership or render the CBI provisions almost meaningless. The enactment of the North American Free Trade Agreement (NAFTA) -- although an important first step in the path toward hemispheric trade integration -- is one such policy that has inadvertently eroded Caribbean access to the United States. To understand the full scope of the effect of NAFTA on the Caribbean, it is important to first understand the structure of the US/Caribbean Basin partnership.

II. THE US/CARIBBEAN ECONOMIC PARTNERSHIP

Although many see the US/Caribbean relationship as altruistic or one-sided, it is truly a mutually beneficial relationship. Statistics on regional trade and investment flows underscore this point.

Presently, the US/Caribbean commercial relationship supports more than 300,000 jobs in the United States and countless more throughout the Caribbean. During the past decade, the US/Caribbean Basin

relationship has created more than 18,000 jobs a year in the United States.

- The Caribbean Basin is in aggregate now the tenth largest export market for the United States, surpassing countries such as France.
- The Caribbean Basin is one of the few regions in the world where US exporters maintain trade surpluses. In 1996, the 11th consecutive year for which the United States recorded a trade surplus with the Caribbean Basin, that surplus surpassed \$1.4 billion.
- In 1996, US exports to the region passed \$ 15.9 billion, resulting in a 170 percent increase in US exports during the past 11 years. Virtually every state in the union has benefited from this relationship.
- In 1996, US imports from the region reached \$ 14.5 billion, completing an 11-year growth rate of nearly 120 percent.
- It is estimated that between 60 to 70 cents of each dollar spent in the Caribbean Basin is spent back in the United States compared with only 10 cents of each dollar spent in Asia.
- When US trading partners are ranked by the US share of their markets, CBI countries claim 12 of the top 20 spots. Jamaica, which in 1995 purchased 75 percent of its imports in the United States, is ranked second and is only surpassed by Canada.

The basis of this healthy and balanced trade relationship is a complementarity between the CBI economies and the US economy. While the US economy is highly industrialized, the CBI countries tend to emphasize more agriculture, raw materials, tourism, and, increasingly, labour-intensive manufacture. These economic patterns are natural catalysts for the trade based-economic growth.

For example, apparel has become Jamaica's leading manufactured export and has grown very rapidly. It has grown because of a complementarity involving the combination of US capital goods and raw materials being produced with Jamaican labour for US companies. The result is the creation of jobs in the textile and shipping sectors both here and in Jamaica. In addition, this integrated transnational process of production draws upon the strength of both economies to manufacture a final product that can be competitive in the US and global market. This equation again adds up to jobs, especially through the preservation of jobs and corporate entities in the United States which could not survive by producing goods entirely in the United States.

III. THE NAFTA IMBALANCE

As a result of the NAFTA, the biggest issue facing the Caribbean Basin is the lack of parity of US market access with Mexico. The CBI has provided a good foundation, particularly in the era when aid from the United States is declining. It has been a good strategy of trade, and not aid, which has proved more beneficial in the long run. But the CBI has several built-in limitations.

One problem is that, while it liberalizes 90 percent of the trade categories, the CBI does not liberalize 90 percent of the actual trade flows, primarily because the very goods -- such as apparel and footwear -- in which the CBI has a comparative advantage are the goods that tend to be restricted by US import laws. The paralyzing effect of these exclusions becomes more noticeable as CBI economies begin to produce products that are not covered by the CBI. In 1996, the annual International Trade Commission survey on the CBI reported that average duties paid for CBI imports rose from 1.9 percent in 1984 to 12.3 percent in 1994. If left unchecked, the current CBI formula will have a declining impact on Caribbean economic development.

In contrast, NAFTA eliminates the duty and quota treatment for these same articles, either immediately or over a phase-out period. Under NAFTA, import duties were immediately removed on the overwhelming majority -- approximately 80 percent -- of Mexican apparel exports to the United States. The remaining 20 percent benefits from an accelerated implementation of free trade, with annual duty cuts and quota liberalization set to be completed by the year 2000. To be fair, NAFTA also phases out the duties on the products for which the CBI countries already enjoy duty free treatment.

But the result is far from even. Mexico gains parity with the Caribbean countries for CBI-covered products, establishing a level playing field for those items on which Mexican and Caribbean exporters face no duty. But on the products excluded from the CBI, such as textile and apparel products, Mexico gains access to the US market, exceeding that granted to the Caribbean countries. This tilts the playing field in Mexico's favor, and gives Mexican exporters a distinct advantage over Caribbean exporters. When combined with Mexico's access to cheap energy, lower transport costs, greater economies of scale, and low wage rates, this advantage becomes quite substantial.

IV. NAFTA'S IMPACT ON THE CARIBBEAN BASIN

Broadly speaking, NAFTA's implementation -- and advantages over the CBI -- poses clear risks for the US/CBI partnership. The elimination of quotas and the phase-out of tariffs on Mexican products removes the advantage enjoyed by CBI exports to the US market, diverting trade flows from CBI countries to Mexico. Since the NAFTA was implemented, there has already been a measurable diversion of trade from the CBI to Mexico. Before NAFTA was implemented, the growth rate of US apparel imports from Mexico and the CBI region were on par. Three years after the NAFTA was implemented, Mexican apparel import growth rates have consistently outpaced Caribbean

growth rates by a 3 to 1 margin. As this trend continues, Caribbean market share in the United States will be consumed by Mexican suppliers.

Another consequence of NAFTA's implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 3 years there has been a pause in investment in the region, as investors first waited to evaluate the NAFTA provisions and then established new operating facilities in Mexico, instead of in the Caribbean. This trend, which is now being fully realized, was anticipated by the US International Trade Commission, which reported in 1992 that "NAFTA will introduce incentives that will tend to favor apparel investment shifts away from the CBERA countries to Mexico".

As existing investors begin to source their products out of Mexico, others are rushing to transfer or close existing productive capacity -- particularly in the "foot-loose" apparel industries which can easily be relocated -- to take advantage of Mexico's market access. In many Caribbean Basin countries, NAFTA directly reverses past successes of the CBI program, effectively turning back the clock of Caribbean development. Employment is hit particularly hard by this trend, as manufacturers close factories and lay off employees. According to estimates by the Caribbean Textiles and Apparel Institute, more than 150 apparel plants closed in the Caribbean, resulting in the loss of 123,000 jobs during 1995 and 1996. This trend is particularly damaging to women, who often look to the textile and apparel sector for their livelihood.

An erosion of export access to the United States will eventually translate directly into a contraction of economic activity in the CBI region. Such a contraction would lower regional incomes, and, ultimately, the demand for imports from the United States. In such a scenario, US exports of goods and services to the CBI would decline while regional instability -- fostered by a decrease in economic opportunities -- would rise. Judging from past patterns, the resulting unemployment in the United States would be met with an increase in immigration from displaced Caribbean workers and a rise in narcotics trafficking.

V. CARIBBEAN PARITY AS AN IMMEDIATE REMEDY

While the long term solution is to determine how to fully integrate Caribbean countries -- and the specific needs of their smaller economies -- into the NAFTA or a Free Trade Area of the Americas (FTAA), a short term solution calls for the leveling of the playing field between Mexico and the Caribbean countries. In Bridgetown earlier this year, President Clinton renewed and unequivocally reconfirmed his strong commitment to seek enactment of a Caribbean Basin Trade Enhancement package during 1997.

Over the past few months, and indeed, over the past five years, Congress and the Administration have been exploring various Caribbean parity packages to re-impose balance between Mexican and Caribbean access to the US market. We were disappointed that the package was not included in the budget

legislation enacted last month. There is now some hope that parity legislation could be approved by the end of the year. As Congress moves ahead, it should ensure that the legislation on which they act encompasses several key principles:

First, the legislation must cover all products currently excluded from the CBI. As the Caribbean economies liberalize, it becomes increasingly difficult to erect artificial barriers between product categories. Improving market access for only certain textile and apparel products would have a limited effect, and would retain the anomalies that encourage unbalanced economic growth. Enacting a comprehensive bill, however, is both economically more feasible and symbolically more consistent with the notion of free and open trade.

Second, the legislation must serve as a gateway to the Free Trade Area for the Americas. One of the implicit goals of parity is to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for accession to the FTAA. While some countries -- such as Jamaica -- are now ready to negotiate either a free trade agreement with the United States or accession to a NAFTA, others may need a longer period. The Caribbean trade enhancement proposal should provide that transitional period, without locking CBI countries into a perpetual state where their trade posture is being slowly eroded.

Third, any Caribbean trade enhancement proposal must be of a sufficiently long duration to provide credibility and certainty, and to help re-establish confidence lost in past years. It is now clear that this legislation will require Caribbean countries to undertake certain obligations and implement specific measures in order to access the full benefits. Such reciprocity makes sense, but only if the reciprocal commitments are maintained in force indefinitely.

Fourth, on a related note, the legislation must not impose entrance requirements that are insurmountable. The 24 nations of the Caribbean Basin represent diverse economies that are at different stages of liberalization. Ideally, the legislation will not establish a new set of criteria by which countries can become eligible for the benefits, but rather link the enhanced benefits to more rigorous application of the existing CBI program criteria. In this way, countries can fully pursue trade liberalization without being harmed by a break in market access or the sudden resurgence of an unbalanced playing field.

VI. CONCLUSION

Countless studies have shown that strong regional economic links are crucial, not only in creating economic opportunities throughout the United States and the Caribbean Basin, but also in supporting stable and mutual beneficial security relationships. In the dozen years since it has been implemented, the CBI has provided a key framework of economic development

for the Caribbean, and has stimulated sound US/Caribbean commercial relations.

Three years and six months after the enactment of NAFTA, it now becomes imperative to update the CBI framework to rebalance Caribbean and Mexican access to the US market. Swift enactment of Caribbean parity legislation will restore that balance while benefiting the thousands of US and Caribbean workers who depend on this regional trade. Moreover, as a transitional measure, parity will help Caribbean countries prepare themselves to undertake the full disciplines of hemispheric trade liberalization.

Passage of Caribbean parity legislation will simultaneously advance the causes of trade liberalization, economic growth, and regional security. Congress should enact this proposal as the earliest possible date.



FLASHLIGHT TARIFF COALITION

Telephone (202) 872-8181 Facsimile (202) 872-8696

October 3, 1997

Editorial Section
United States Senate
Committee on Finance
Washington, D.C. 20510

RE: Support for Fast Track Negotiating Authority

Dear Madam/Sir

We are submitting this statement in support of swift enactment of Fast Track legislation on behalf of the Flashlight Tariff Coalition pursuant to the Finance Committee's press release dated September 15, #105-171, announcing the September 17 hearing on Fast Track Authority.

The goal of the Flashlight Tariff Coalition is to eliminate tariffs on flashlights and flashlight parts around the globe. The elimination of tariffs would enhance the competitiveness of the firms that manufacture flashlights on a worldwide basis and create a level playing field for all producers. In addition, the elimination of duties would increase U.S. exports of flashlights and would directly benefit consumers through both short and long term cost savings.

Specifically, U.S. exports of flashlights have more than doubled in the last five years. Exports of domestically produced flashlights would increase even more if duties, often as high as from 20% ad valorem to 57% ad valorem, were eliminated in key export markets in Europe, Asia and Latin America. In addition, the U.S. MFN tariff on flashlights is also relatively high -- 17.5%.

In order to achieve this goal and receive the anticipated benefits, the Coalition supports the following two efforts underway abroad and in Congress -- regional and multilateral trade initiatives, and the enactment of Fast Track legislation:

- (1) **The Coalition strongly supports the pursuit by the Administration of regional and multilateral agreements, which could result in the elimination at the earliest possible date of tariffs on flashlights and flashlight parts.** The Coalition is now working with the Clinton Administration to achieve this end in both the Asian Pacific Economic Cooperation Forum (APEC) and the Summit of the Americas negotiations for a Free Trade Area of the Americas (FTAA). The Administration on July 15 formally submitted a paper to APEC noting the interests of the flashlight industry in early sectoral liberalization.

The Coalition will seek to have flashlights considered in a possibly expanded Information Technology Agreement ("ITA II") and in the US/EU Sectoral Liberalization Study and Transatlantic Business Dialogue (TABD) market access discussions.

Suite 1200, 818 Connecticut Ave., NW,
Washington, D.C. 20006

- (2) **The Coalition strongly supports enactment by this Congress of Fast Track legislation to provide the Administration with the broad negotiating authority it needs to participate in the regional and multilateral trade initiatives it is now pursuing.** Fast Track authority is crucial to the achievement of the Coalition's goals. Without Fast Track, the U.S. will not be able to participate fully in regional and multilateral efforts to improve market access through the reduction of tariffs. Other countries will benefit from these negotiations; the APEC and FTAA negotiations will continue regardless of the extent of U.S. participation.

The following U.S. companies, which represent a majority of American flashlight companies, support the goals of the Coalition:

- Black and Decker Corporation, Towson, Maryland;
- The Coleman Company, Inc., Golden, Colorado;
- Dorcy International, Inc., Columbus, Ohio;
- Eveready Battery Company, Inc., St. Louis, Missouri;
- Garrity Industries, Madison, Connecticut;
- Lumilite Products Co., Portland, Oregon;
- Mag Instrument Company, Ontario, California;
- Panasonic Industrial Company, Secaucus, New Jersey;
- Polaroid Corporation, Cambridge, Massachusetts; and
- Tandy Corporation, Fort Worth, Texas.

In addition, the Coalition has been working with manufacturers and government officials in key countries in Asia and Europe to gain their support for regional and multilateral efforts.

In conclusion, we urge the Finance Committee to (1) move swiftly on broad Fast Track negotiating legislation to provide the Administration with the tools it needs to implement its trade policy initiatives and (2) request that the Committee urge the Administration to place a high priority on flashlight tariff negotiations in APEC and other negotiating fora. .

We thank you for this opportunity to provide comments and would be happy to provide any further information the Committee may require.

Sincerely,

John F. McDermid
Executive Director

