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CHAPTER 8

The United States in the World Economy

AMERICA HAS LONG LED THE WORLD in championing open trade and competition. The result has been an unprecedented period of worldwide growth in incomes and trade. The expansion of international trade that supported postwar growth in incomes has been accompanied by dramatic transformations in the economies of the United States and other countries. In 1960, trade—exports plus imports—was equivalent to just 9 percent of U.S. gross domestic product (GDP); that figure is now 23 percent. Twelve million American workers now owe their jobs to exports, and the opportunities for global sales represent a critical part of firms' investment, research and development, and hiring decisions. The importance of exports to the U.S. economy has been strikingly apparent in the last 3 years; U.S. exports of goods and services have grown by 20 percent, accounting for about one-third of real GDP growth.

Not only the size but also the geography of the international market has changed since the 1950s. Developing countries that adopted market-oriented policies grew significantly faster than those that clung to closed markets and statist policies. Now many of these successful emerging economies have become major markets. Whereas in 1970, 29 percent of U.S. exports went to developing countries, in 1995 these same countries absorbed 41 percent of U.S. exports. These will be the major growth markets into the next century and will generate huge demands for capital goods, infrastructure, and an increasing variety of consumer goods.

But a high-income, highly competitive economy poses challenges as well as opportunities. Technological change, business reorganization, and international competition have at times required painful adjustments of workers and firms. Critics of international trade often point to the trade deficit, "lost" domestic production due to imports, or expanding income differentials as evidence that foreign trade and investment are harmful to the United States.

Americans have legitimate concerns about job security and standards of living, and the Administration is strongly committed to fostering better jobs and greater economic security. But neither job security nor future income growth will be enhanced by closing the American economy to foreign competition. As the 21st century

approaches, the Administration firmly believes that economic isolation would lead only to economic decline, and that the most promising way forward is to rise to the challenges of the international market. We can and must compete, not retreat, in the face of global competition.

The Administration has pursued an aggressive trade policy to open markets abroad. Despite historic reductions in trade barriers and the striking growth in U.S. exports, many countries still maintain formal trade barriers, or more subtle administrative or collusive barriers, that prevent other nations' firms from competing on an equal basis. This Administration has insisted that other countries live up to their obligations under international and bilateral agreements and has attacked remaining barriers that discriminate against U.S. exports.

This chapter explains why outward-looking, competitive policies remain the best choice for America and examines the Administration's record in promoting open competition across the globe. Special attention is given to the role of trade policy and to the proper measure of its success. This chapter also discusses the causes and consequences of the trade deficit and effective policy for reducing it.

THE BENEFITS OF OUTWARD-LOOKING, MARKET-OPENING POLICIES

Open, competitive trade promotes the economic welfare of all countries that engage in it, and does so in four ways. It secures the benefits of national comparative advantage, allowing each trading economy to devote more of its resources to producing those goods and services that it can produce most efficiently. It sharpens domestic competitive pressures, spurring productivity gains. It quickens the flow of technology and ideas, allowing countries to learn from each other. And it broadens the variety of inputs available to producers and final goods available to consumers, boosting efficiency and standards of living.

Nations that engage in trade benefit from the logic of comparative advantage, as each imports those goods that are produced more cheaply abroad, and exports those goods that are produced more cheaply at home. Box 8-1 offers a simple example that illustrates this traditional argument favoring free trade. Critics argue, however, that many industries of increasing importance in the world economy (including many high-technology industries) are characterized by economies of scale in production, and that these scale economies undermine the simple comparative advantage argument. But although economies of scale do complicate the story, they do not invalidate the principle of comparative advantage or

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lessen its importance, as Box 8-2 explains. Now more than ever, unimpeded access to a world market is crucial.

Box 8-1.—Comparative Advantage and Living Standards

The classic argument for free trade is based on the principle of comparative advantage. Suppose U.S. workers are much better at producing computer software and somewhat better at producing shoes than workers in Thailand. Comparative advantage states that trade between the two countries—with the United States exporting software and Thailand exporting shoes—can still boost living standards in both.

A simple analogy may help illustrate this abstract and seemingly implausible intuition. Imagine a lawyer who happens to be a very good typist—so good that she is somewhat faster than her secretary. Even though the lawyer is better than her secretary at both practicing law and typing, it makes sense for her to spend all her time on the law and leave the typing to her secretary. A greater combined total of lawyering and typing will get done in the same amount of time than if each did some or all of the other's work, and the incomes of both workers will be greater than they would otherwise.

Similarly, by allowing countries to focus their resources on what they do *relatively* well, international trade boosts living standards. Especially when an economy is near full employment, the primary impact of trade is on the allocation of jobs among industries rather than the overall number of jobs. Trade allows employment to be shifted into relatively more productive, better jobs. This effect is manifest in U.S. wage data: jobs in the United States supported by goods exports pay 18 percent more than the national average. This is not surprising given that U.S. comparative advantage lies in highly specialized manufacturing and service activities, not in low skill, low wage sectors. Comparative advantage in high skill industries, however, appears to provide only a partial explanation for the higher wages paid in export jobs. Even after plant size, location, industry, and skill category are controlled for, exporting plants seem to pay higher wages than nonexporting plants.

The second argument in favor of open competition is that exposure to the challenges of the international marketplace strengthens competitive pressures in the domestic economy, stimulating efficiency and growth. An open trade regime effectively increases the number of both actual and potential competitors in the domestic market by including those located beyond the Nation's borders. This encourages domestic producers to innovate and become more

Box 8-2—The New Trade Theory

Over the past 15 years, economists have formalized new models of international trade that offer theoretical justifications for protectionism. These models, often referred to collectively as the "new trade theory," have prompted a reexamination of the costs and benefits of open trade.

The new trade theory assumes that certain industries enjoy increasing returns to scale or generate positive spillover benefits to society as a whole, for which the industry is not compensated. Increasing returns actually raise the gains from trade; they make it even more efficient to sell to a global market. But in some cases, unilateral protection can raise social welfare. Under the right conditions, for example, temporary protection can secure a permanent cost advantage for a domestic firm by discouraging foreign producers from entering the market. If the monopoly rents that then accrue to the domestic firm are large enough to offset the costs of capturing them, the nation as a whole benefits.

These sophisticated arguments for protectionism do not necessarily invalidate the case for free trade. Even with scale economies, if all countries adopt protectionist policies in the hope of making their national champion the global monopolist, the costs will be even higher than in the absence of increasing returns. With access to foreign markets blocked, all hope of any firm exploiting the increasing scale returns is lost. The traditional losses from protectionism (arising from ignoring comparative advantage) are then compounded by the failure to produce at efficient scale. In a sense, therefore, protectionism is even more costly with increasing returns than without them.

But perhaps the greatest challenge in the new trade theory sweepstakes is targeting only those industries and firms that best meet the theory's narrow conditions. In practice, selection would be complicated by political pressures from special interests, who are likely to exaggerate the positive spillovers their industries contribute. And the costs of an erroneous choice may prove counterproductive: granting protection in inappropriate cases may outweigh the benefits of granting it in appropriate ones. In sum, the new trade theories provide a possible theoretical justification for protectionist policies in some limited cases. But practical considerations suggest that the potential gains, if any, are likely to be small.

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A third, related argument is that access to international markets stimulates the flow of information across borders. Domestic firms engaged in international competition assimilate new ideas about production methods, product design, organizational structure, and marketing strategy, allowing them to employ their resources more efficiently. Open competition thus boosts productivity.

Finally, trade expands the menu of goods and services available to both producers and consumers. Firms gain access to a wider variety of inputs, and consumers get to choose from a broader assortment of final goods and services. By expanding the choices available to all, trade boosts efficiency and improves living standards.

One can also gauge the benefits of open markets by assessing the cost of the alternative, namely, protectionism. It is impossible to protect all industries; protecting some inevitably distorts market signals and imposes higher costs on other industries and on domestic consumers. For example, extending protection to the steel industry imposes a cost on automobile manufacturers, who pay more for steel, and on consumers, who pay more for a new car than they would if steel were available at the lower world price. Because the impact of such restrictions is both indirect and spread over a large number of consumers, the total cost may be difficult to discern. But it is nevertheless quite real, and it is likely to grow over time. By raising the relative price of the protected sectors' output, and thus drawing capital and labor into those sectors and away from others, protectionist policies prevent the most efficient long-run use of an economy's resources. These distortions may be particularly harmful when restrictions are imposed on inputs used by industries that are characterized by economies of scale in production (that is, by lower average costs per unit at higher levels of output; Box 8-2).

Finally, every protectionist action invites retaliatory reaction. The costs of a tit-for-tat escalation are so high that in the long run all countries are likely to lose from the adoption of restrictive policies. The experience of the 1930s provides a grim demonstration: the major industrial countries responded to the onset of the Great Depression by raising trade barriers against each other, which provoked retaliation in kind and succeeded only in weakening their economies still further. A better strategy is for all to strive for a regime of open and fair competition, rather than to focus on any possible (and in any case usually illusory) short-term gains from protection.

Many of the same advantages that accrue from an open trade regime also accrue from international investment flows. Inward flows of foreign direct investment can boost efficiency and cross-border learning. Direct investment in the opposite direction—that by do-

mestic firms in countries overseas—also promotes such learning and is closely linked to export expansion: approximately three-fifths of U.S. exports are sold by U.S. firms with operations abroad, and several recent studies have confirmed that foreign direct investment is more likely to increase trade than reduce it.

THE EVIDENCE ON OPEN ECONOMIES

Trade affects growth through various channels, but the cause-and-effect relationship is difficult to establish in practice: even if expanded trade is statistically associated with growth in income, does the expansion in trade *cause* the expansion in income, or vice versa? There can be no definitive answer, but careful studies generally conclude that trade liberalization establishes powerful direct linkages between the domestic and the world economy, unencumbering the flow of ideas and technology across borders, bolstering competitive pressures.

A recent economic analysis, which controlled for other national characteristics such as education, starting income, and political instability, found that the open economies in a sample of 79 countries grew by an average of 2.5 percentage points more per year (over a 20-year period) than did the closed economies. A comprehensive study of productivity across manufacturing industries in Germany, Japan, and the United States recently concluded that trade restrictions generally hurt productivity by reducing competitive pressures; productivity growth is the single most important factor underlying sustained increases in income. Other studies have found that protection of industries that produce intermediate inputs reduces growth. For example, one recent study found that, across a sample of over 70 countries, a 10-percentage-point increase in the tariffs on capital goods and intermediate products was associated with a decline in real growth of GDP per capita of 0.2 percentage point per year. For the United States, such a reduction in growth over the 10-year period through 1994 would have lowered GDP per capita by \$500 from its actual 1994 level of \$26,558.

Even when trade restrictions are used to curtail unfair foreign competition, they can still impose costs on consumers. The U.S. antidumping and countervailing duty laws, for example, are intended to offset the effects of unfair foreign competition: antidumping laws seek to counter unfair pricing by foreign firms, while countervailing duties seek to compensate for the anticompetitive effects of foreign government subsidies. The concern is a legitimate one: U.S. living standards could be diminished by certain types of predatory foreign behavior. But many analysts believe that many of the cases filed under these statutes have little to do with preventing unfair competition, and the duties make consumers and do-

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mestic businesses pay higher prices for imported goods and inputs.
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dumping duty orders and 76 countervailing duty orders in place in
the United States in 1991 was \$1.6 billion.

TRADE AND WAGE INEQUALITY

Over the past 15 years the real earnings of low-skilled U.S.
workers have fallen sharply while those of highly skilled workers
have risen: between 1980 and 1994, real average annual earnings
for high school dropouts aged 25 to 34 fell by 18 percent, while
those for college graduates rose by over 3 percent. Over the same
period, imports have risen as a percentage of GDP. Are these two
trends related? Is increased trade hurting low-skilled workers, and
if so, is this an argument for protectionism?

In theory, increased trade could worsen inequalities in wages
even while raising aggregate income. The U.S. economy has a re-
lative abundance of skilled labor, and so U.S. comparative advan-
tage is in producing skill-intensive goods. Traditional models of
trade therefore suggest that the United States would tend to export
goods requiring relatively large amounts of skilled labor and import
goods requiring relatively large amounts of unskilled labor. Inter-
national trade would in effect increase the supply of unskilled labor
to the U.S. economy, lowering the wages of unskilled American
workers relative to those of skilled workers, thus aggravating wage
inequality.

Economic theory does not, however (except under extremely re-
strictive assumptions), tell us how great the resulting gap in wages
will be. Moreover, careful examination of the channels through
which trade should affect wages suggests that other factors bear a
larger responsibility for the widening of wage differentials. Foreign
workers do not compete with American workers directly, but rather
through the products that they produce and sell. The argument
that imports drive down wages for unskilled labor is predicated on
a relationship between the relative prices of goods and the prices
of inputs used to produce them. If competition from developing
countries lowers the prices of goods requiring unskilled labor as
their major input, the wages of unskilled workers will be driven
down, widening income disparities. The problem with this argu-
ment is that there has been no such change in relative goods
prices: over the 1980s the average relative price of goods that re-
quire substantial inputs of unskilled labor actually increased.

If trade, or factors such as immigration that affect the relative
supply of workers, were the predominant cause of wage disparities,
one would expect to see domestic producers taking advantage of the
lower cost of unskilled workers by using more of them. Yet just the

opposite has occurred. In almost all industries, employment of skilled workers has increased relative to that of unskilled workers, despite the higher cost of skilled workers. This suggests that factors affecting the demand for different kinds of workers, such as technological changes that have increased the demand for skilled workers, have been the more powerful force in influencing relative wages.

Yet even if the effect is small, trade may indeed have some adverse impact on wage inequality. In many ways the effects of trade are similar to those of technological advance: both raise national income but can worsen inequality. Yet just as a neo-Luddite crusade against technology is not the solution to increased inequality due to technological progress, neither is protectionism the answer to wage inequality resulting from expanded trade. Several recent studies show that protection can impose costs on the economy that far outweigh the targeted benefits. Moreover, import protection cannot promise continuing reductions in inequality over time. At best, a strategy of import protection would narrow the wage gap temporarily at the risk of slowing the rate of productivity and income growth generally.

Ultimately, the only lasting solution to the increase in wage inequality that results from increased trade is the same as that for wage inequality arising from any other source: better education and increased training, to allow low-income workers to take advantage of the technological changes that raise productivity. In addition, programs such as the earned income tax credit and the minimum wage can be effective in raising the after-tax wages of low-income workers.

U.S. TRADE POLICY IN THE 1990s

Governments play a decisive role in determining the rules of competition in international markets. Just as governments must be responsible for regulating domestic markets, they must also be responsible for the rules that govern international trade and investment. This is a responsibility that cannot be shirked—even the absence of a formal trade policy is itself a policy. The objective is therefore to structure government involvement so as to help, not hurt economic performance.

The United States has led international efforts to liberalize world trade and investment, and this Administration has actively sought to eliminate foreign market barriers to U.S. exports. Regardless of their effects on the overall trade balance, these market-opening policies raise U.S. incomes by securing the gains from international trade. As already noted, the expansion of market opportunities is especially important in industries characterized by economies of

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scale (e.g., those with high fixed costs). The opportunity to sell in
a larger market allows these fixed costs to be spread over a larger
number of units, reducing average cost.

Opening up markets to U.S. exports also increases world demand
for our products by removing artificial barriers to their consump-
tion by foreigners. Stronger demand raises the prices that our prod-
ucts command on world markets, and so improves our terms of
trade with the rest of the world. The terms of trade (defined as the
ratio of the average price of our exports to that of our imports) af-
fects U.S. real incomes. An increase in the terms of trade means
that, for any given volume of exports, Americans can purchase
more foreign goods. Even a small change in the terms of trade can
have a huge effect: a 1 percent rise in the terms of trade cor-
responds to a real increase in income of more than \$7 billion.

Open markets benefit all participants in international trade,
even those whose own national markets are closed to foreign com-
petition. Open markets are a public good, the benefits of which are
available to all. As with any public good, countries have some in-
centive to "free ride"—to seize a share of the benefits without as-
suming any of the costs (the case of trade may be special, however,
in that every country may have an incentive to adopt open trade
policies regardless of what other countries do). The negotiators in
the Uruguay Round of the General Agreement on Tariffs and Trade
(GATT) recognized the importance of ensuring every nation's par-
ticipation in lowering trade barriers: in almost all respects, mem-
bership in the new World Trade Organization (WTO), created
under the 1994 Uruguay Round agreement, requires adherence to
all of its rules. Indeed this is one of the reasons why the Adminis-
tration strongly supported the Uruguay Round agreement.

Even those nations that have adopted the general rules of the
trading system often come under pressure to intervene in particu-
lar instances—to protect industries going through difficult adjust-
ments to foreign competition, to skew the rules in favor of domestic
companies, or to try to influence foreigners to purchase from do-
mestic firms. An aggressive policy to protect American interests
from such practices abroad helps ensure that U.S. firms do not lose
out, and that foreign governments are less inclined to try to bend
the rules. The strengthened dispute settlement process within the
WTO, together with the United States' own Section 301 legislation,
which addresses unfair or unjustified foreign practices, are the
most important tools that the United States uses to enforce our
rights in the trade and investment arenas.

THE ADMINISTRATION'S TRADE STRATEGY

This Administration has embraced an outward-oriented,
protrade, progrowth economic strategy. In its first 3 years in office,

this Administration has concluded over 200 trade agreements and done more to promote trade and open markets abroad than any previous Administration (Box 8-3). We are using all the tools available to us—multilateral, regional, and bilateral—to advance our protrade agenda. This multilevel approach to trade policy has become particularly important as the nontraditional aspects of trade policy have assumed increasing importance (Box 8-4), and as global trade patterns have shifted toward emerging markets. Recognizing that success is measured not by the number of agreements signed, but by concrete results, the Administration has taken great pains not only to reach mutually beneficial agreements with our trading partners, but also to follow through in implementing, monitoring, and enforcing those agreements.

In assessing the results of the Administration's trade policies to date, it is important to recognize what trade policy can and cannot do. Trade policy can raise U.S. income and productivity, but it cannot significantly affect the overall trade balance. That is determined by domestic saving and investment and by government fiscal policy. Although the overall trade *balance* may not change, trade policy can alter the composition (both the sectoral breakdown of products traded and the shares of individual trading partners) and the overall *level* of trade. But U.S. trade policy should not be judged by whether our trade is in balance in any particular product or with any particular country. Even if our overall trade were balanced, there is simply no reason to expect (or desire) that our imports of cabbages or computers will match our exports of cabbages or computers, or that our sales to Japan or Zambia will cancel out our purchases from those countries, in any given year or even over an extended period. As we have already seen, it is precisely the ability to specialize, to concentrate on what we produce most efficiently, and to sell it in those markets that offer the highest returns, that is the fundamental source of the gains from international trade.

Multilateral Initiatives

The Uruguay Round trade agreement was signed in April 1994. The agreement went into force on January 1, 1995, with some provisions phased in over a 10-year period. The 1995 *Economic Report of the President* describes the agreement in detail.

Over nearly five decades, a series of GATT negotiating rounds has developed basic principles for the international trading system, which have guided trade negotiations in other spheres and have informed (and been informed by) U.S. trade policy. These principles include nondiscrimination, transparency, and reciprocity. Nondiscrimination is defined by two precepts: the most-favored-nation (MFN) precept requires that the most favorable concessions that a country gives to any trade partner be applied to all its trade part-

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Box 8-3.—The Administration's Trade Achievements

Over the last 3 years the Administration has:

- Brought the Uruguay Round of multilateral trade negotiations to a successful close after 7 years. The Uruguay Round agreement cuts global tariffs by an average of 40 percent and extends international trade rules to agriculture, services, and intellectual property rights. The United States will eventually gain an estimated additional \$100 billion to \$200 billion in income per year from the agreement.
- Through the North American Free Trade Agreement (NAFTA) created a free-trade area encompassing our largest and third-largest trading partners. NAFTA has helped maintain and indeed increase U.S. exports to Mexico despite a financial crisis and recession there.
- Reached agreement with 33 other countries—including some of the world's biggest emerging markets—to seek a Free Trade Area of the Americas by 2005. Trade with countries in the hemisphere already accounts for roughly 40 percent of U.S. exports.
- Articulated a vision for achieving free trade and investment by 2020 in the fastest growing region of the world: the Asia-Pacific. At the 1995 Asia-Pacific Economic Cooperation summit in Osaka, Japan, the leaders of the 18 member countries detailed the steps they will take to make this vision a reality.
- Negotiated 20 bilateral trade agreements with Japan. In those goods sectors covered by these agreements for which precise data are available, U.S. exports to Japan have grown nearly 80 percent since this Administration took office.
- Established a National Export Strategy under the leadership of the Trade Promotion Coordinating Committee, which for the first time coordinates the Federal Government's efforts to assist U.S. exporters through advocacy, export financing, and business counseling.
- Promoted macroeconomic and trade policies that have contributed to strong export growth. Exports of goods and services have grown 20 percent in real terms since the Administration took office.

Box 8-4.—Trade and Intellectual Property Rights

A major nontariff barrier to U.S. exports is the lack of adequate protection for intellectual property rights (IPR) in certain countries. The nature of intellectual property has always made it vulnerable to piracy; theft of intellectual property costs U.S. exporters billions of dollars in lost sales and royalties annually. Many of the top U.S. export earners—including copy-righted products such as films, sound recordings, and computer software, and patented products such as new pharmaceuticals—are among the most vulnerable. Piracy not only reduces U.S. export earnings but also discourages the development of new products by lowering the returns to innovation. Efforts to establish strong IPR protection abroad have therefore been an essential element of this Administration's trade policy, advanced through multilateral, regional, and bilateral mechanisms.

The Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) makes significant progress in securing stronger protection for IPR worldwide. It is the first international agreement to protect a full range of intellectual property and to provide for the establishment of the legal and judicial structures needed to enforce IPR protection. The TRIPs agreement requires all WTO members to set improved rules for the protection of copyrights, integrated circuits, patents, trademarks, trade secrets, and designs. The new rules will then be subject to the WTO's improved dispute settlement system.

ners; national treatment requires that a country's laws and regulations treat foreign products no differently from domestic products. Transparency ensures that the rules governing trade are explicit and that due process is followed in applying them, and reciprocity refers to the balancing of concessions from different countries. In addition, the GATT process has endorsed the use of safeguards—escape clauses and other forms of temporary relief from import surges—to protect against job dislocation during transitions.

The Uruguay Round agreement called for negotiations in three service sectors to be extended beyond the Round's conclusion: financial services, telecommunications, and maritime transport. The WTO's major negotiating effort in 1995 focused on the first of these. As the extended negotiating period for financial services drew to a close, the United States concluded that many offers—especially those from several emerging economies—provided inadequate new market access or did not formally protect even existing market access. The United States therefore announced that it

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WTO negotiations on telecommunications liberalization were initiated at the meeting of trade ministers of the WTO member countries in Marrakesh in April 1994. The talks are scheduled to conclude by April 30, 1996. As of January 1996 there were 48 WTO members participating, 33 of which had submitted offers detailing the liberalization they are prepared to undertake. The telecommunications negotiations are taking place at a critical point in the evolution of the global telecommunications industry. As Chapter 6 has described, the telecommunications sector was long considered a natural monopoly and has been heavily regulated or state owned in most countries. In recent years, however, technological change has greatly increased the scope for entry and competition. At the same time, systems of regulation and public ownership that were designed to protect consumers have in many cases become obstacles to competition and further progress, from both domestic and foreign firms. Thus deregulation and trade liberalization are closely intertwined, and the outcome of the trade negotiations depends on legislative reform in the major participating countries.

The goals of the United States in these negotiations are to ensure market access and national treatment for U.S. telecommunications firms abroad and to secure agreement on procompetitive regulatory principles in the participating countries. Competition in this sector requires that all entrants be able to connect to existing networks on equal terms. It also requires safeguards to ensure competition and the independence of regulators from the operating companies they oversee. The United States has indicated that if there is a critical mass of high-quality offers from industrial and developing countries, it will be willing to lift restrictions on foreign ownership in the U.S. telecommunications industry and to guarantee national treatment for foreign firms operating in the United States. However, if offers of sufficient quality are not forthcoming, the United States has reserved the right to amend or withdraw its existing offer or to take an exemption to the MFN requirement, as it did in financial services.

Regional Initiatives

The Administration has promoted the creation of regional trade agreements as stepping stones toward global free trade. The Administration has set ambitious goals for free trade in the two most dynamic markets of the world: the Asia-Pacific and Latin America. The combination of rapid growth and unprecedented liberalization is likely to make export and investment opportunities in these markets a key engine of growth for the U.S. economy over the next decade, and developing countries already account for over 40 percent of U.S. exports.

Regional initiatives founded on the principles of openness and inclusivity serve to strengthen the multilateral trading system. The principle of inclusivity encourages members of a regional agreement to pursue additional liberalization with nonmembers, including possible accession to the agreement. Regional free-trade agreements that do not raise external barriers and that welcome new members can set off a virtuous cycle of liberalization. As the market encompassed by a free-trade area expands and becomes increasingly dynamic, other countries become more interested in joining.

The GATT has always recognized the "desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties [sic] to such agreements" (Article XXIV), as long as such agreements do not result in an increase in the parties' external barriers. This restriction helps to ensure that preferential regional agreements create more trade among the participants (and others) than they divert from nonparticipants. In general, cheaper imports improve the well-being of the member countries and create trade. But regional liberalization *may* reduce trade with nonmember countries, since imports from such countries do not benefit from the reduction of trade barriers. Trade diversion arises when countries within a regional agreement switch from importing goods from the lowest-cost nonmember to importing from other members. Minimizing such distortionary trade diversion is a key objective in well-designed regional agreements.

Regional agreements often achieve deeper and broader economic integration than multilateral agreements because, as neighbors, members have substantial interests in common. Such agreements therefore often become models for future multilateral liberalization in new areas such as services, investment, and environmental and labor standards. The expansion of regional free-trade areas has also encouraged nations to find more common ground in multilateral negotiations. The U.S. regional initiatives in North America and the Asia-Pacific, for example, were an impetus for the successful conclusion of the Uruguay Round.

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The North American Free Trade Agreement. NAFTA liberalizes trade with our two closest neighbors—who are also our largest and third-largest trade partners—over a period of 10 to 15 years. The impact of NAFTA on bilateral trade flows is difficult to isolate because Mexico experienced a severe financial crisis during 1995 (Box 8-5). In NAFTA's first year U.S. merchandise exports to Mexico and Canada grew by 16 percent—over twice as fast as U.S. exports to the rest of the world. Although U.S. exports to Mexico fell as Mexico entered recession, they remained higher during 1995 than they had been in 1993, before NAFTA. And despite the recession Mexico continued to honor its commitments to the United States, cutting tariffs on U.S. products in accordance with NAFTA's provisions—even as it increased tariffs on many goods from non-NAFTA partners by 15 percentage points. In part because of this, the U.S. share of Mexico's imports has grown from 69 percent in the first 9 months of 1994 to 74 percent over the same period in 1995. The performance of U.S. exports to Mexico in 1995 stands in sharp contrast to what happened after the previous Mexican financial crisis, in 1982, when the Mexican Government imposed 100 percent duties and import permit requirements on products from the United States and other countries. U.S. exports to Mexico were cut in half during that episode, and it took 6 years for U.S. exporters to recover their pre-1982 position. In contrast, U.S. exports to Mexico during the current episode fell by less than 10 percent and remain higher than before NAFTA.

In some instances, expanded trade with Mexico and Canada has displaced workers in the United States. Consequently, the President made it a priority to include a strong transitional program of trade adjustment assistance as part of the legislation implementing NAFTA. This program provides support to displaced workers in industries experiencing large increases in imports from, or whose plants have relocated to, Mexico or Canada, regardless of whether the job losses are directly related to NAFTA. In addition, the Department of Commerce's Economic Development Administration, through its Trade Adjustment Assistance program (which predates NAFTA), has provided assistance to a significant number of firms adversely affected by increased imports from Mexico and Canada.

NAFTA will serve both as a model for future multilateral liberalization in areas such as investment and as a vehicle for further regional liberalization. The Administration is committed to conducting negotiations with Chile on accession to NAFTA. Since Chile's population is only about one-seventh the size of Mexico's, the economic impact on the United States from Chile's accession is likely to be comparatively small. But Chile's accession will provide opportunities for American businesses to expand operations in this fast-growing market (which has grown by 7 percent per year on average

Box 8-5.—Mexico's Financial Stabilization

In December 1994 Mexico faced a balance of payments crisis. Investors lost confidence in Mexico's ability to maintain the exchange rate of the peso within its trading band, in part because of Mexico's large current account deficit, which had reached almost 8 percent of GDP in 1994. Intense pressure on the peso in foreign exchange markets threatened to exhaust Mexico's international reserves, compelling the Mexican Government to float the peso.

The President responded swiftly to Mexico's crisis, leading a \$50 billion multilateral effort to assist in Mexico's stabilization and making available \$20 billion in U.S. credit. This effort helped attenuate the impact of the crisis on other emerging markets. At the same time, the newly inaugurated Mexican President took the difficult steps essential to restoring stability and growth in Mexico. Government spending was cut, resulting in a budget surplus of 1.5 percent of GDP in the first three quarters of 1995. The Mexican Government also implemented a tight monetary policy, and because a lack of timely information was seen as having contributed to the crisis, Mexico took steps to make key financial and economic data more transparent and more widely available to investors.

Together these measures have begun to work, setting the stage for a return to growth. Nearly all of the \$29 billion stock of *tesobonos*—short-term, dollar-denominated government debt—has been retired. Mexico's international reserves have risen from \$6 billion at the beginning of 1995 to \$16 billion at year's end. Monthly inflation has fallen to 2 to 3 percent from a high of 8 percent. As of mid-January 1996 the peso had stabilized, after an additional sharp decline in November, and the stock market had staged a partial recovery. Interest rates have declined from over 80 percent at the height of the crisis to below 40 percent. In addition, Mexico appears to have largely regained access to the international capital markets after only 7 months—far less than the 7 years it took Mexico to regain the trust of foreign investors after the debt crisis of 1982.

The financial crisis engendered a severe recession in Mexico, leading to a contraction of 7 percent in the first three quarters of 1995. But U.S. support, Mexico's tough stabilization policies, and the strong economic foundation that had been laid by the preceding 7 years of structural reform in Mexico should accelerate a return to sustainable growth.

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since 1988), help encourage sound economic policies in the region, and serve as an important step on the road to creating a Free Trade Area of the Americas.

The Free Trade Area of the Americas (FTAA). In December 1994 in Miami, leaders from 33 Western Hemisphere countries joined with the President in embracing the goal of achieving free trade in the Western Hemisphere by 2005. Even though the FTAA will take years to achieve, by securing a commitment to work toward a hemispheric free-trade area now, hemispheric leaders set a high standard for the region, ensuring that subregional trade agreements will evolve in a manner consistent with the FTAA and the multilateral system.

The United States should reap significant benefits from establishment of the FTAA. It will create a market of over 850 million consumers with a combined income of roughly \$13 trillion. Latin America is one of the fastest-growing regions in the world. Total exports of countries in the hemisphere grew nearly 17 percent on a year-over-year basis in the first half of 1995. Import growth was also strong at over 18 percent. Total trade flows in the hemisphere are estimated to have reached over \$2 trillion in 1995. The FTAA will also level the playing field for U.S. exporters, reducing Latin American trade barriers that are currently three times higher on average than U.S. barriers. The increase in growth and improved access to new ideas that freer trade will bring should also promote U.S. goals of development and democracy in the region.

Trade ministers from throughout the hemisphere met in Denver in June 1995 to lay out a road map for achieving the leaders' vision of regional free trade. They agreed that trade liberalization should be consistent with WTO principles and comprehensive in scope. The Denver Ministerial established working groups in seven important areas: tariffs and nontariff barriers, customs procedures and rules of origin, investment, standards and technical barriers, sanitary and phytosanitary measures, antidumping and countervailing duties, and smaller economies. Each working group is responsible for compiling an inventory of regulations and regimes in its assigned area and undertaking a variety of other projects to prepare the foundations for the negotiated dismantling of trade and investment barriers. In March, trade ministers will meet again in Cartagena, Colombia. At the Cartagena Ministerial four additional working groups will be established, covering government procurement, IPR, services, and competition policy.

Asia-Pacific Economic Cooperation (APEC). The 18 members of APEC include some of the largest and most dynamic economies in the world today. Indeed, APEC is a unique combination of some of the world's most important established markets and some of its most important emerging markets. With a combined population of

2.1 billion and \$13 trillion in combined annual income (over half of world income), the members make up the largest consumer market in the world. More than 30 percent of global trade takes place between APEC countries. The Asia-Pacific region continues to grow at a faster pace than any other region in the world: in 1994 China grew by 12 percent in real terms, Singapore by 10 percent, and South Korea, Malaysia, and Thailand by more than 8 percent. Over the next decade the developing East Asian economies are projected to invest between \$1.2 trillion and \$1.5 trillion in infrastructure, generating enormous opportunities for sales of American goods and services. Already APEC accounts for over 60 percent of U.S. merchandise exports, and these exports have grown 35 percent since the beginning of the Administration. U.S. exports to the Asian countries of APEC have grown 55 percent since the beginning of this Administration.

APEC was formed in 1989 as an informal group of 12 nations focused on increasing economic cooperation in the region. Initially only the members' designated APEC ministers attended the group's meetings. In November 1993, however, the President hosted the first summit of the leaders of the APEC countries. At that meeting, held at Blake Island in Washington State, the Asia-Pacific leaders embraced the President's vision of a Pacific community based on shared strength, peace, and prosperity, as well as his determination to make APEC relevant to the everyday problems of businesses throughout the region. Having set their course in 1993, APEC leaders again met in Bogor, Indonesia, in 1994, where they made a momentous commitment. The Bogor Declaration set a goal of achieving free trade and investment between the member economies over the next 25 years. For the industrialized countries in APEC the benefits come even sooner: full implementation is scheduled to occur within 15 years.

This year at Osaka, Japan, the APEC leaders put in place a work program and a liberalization process to make the vision of freer and fairer trade a reality, and meanwhile to deliver some concrete measures of immediate value to business. The leaders adopted an Action Agenda for implementing free trade and investment in the region by 2020 (Box 8-6). The Action Agenda covers 15 broad areas for liberalization and sets out 135 specific actions that members should take to open their markets and reduce the costs of doing business. The agenda's broad scope covers market access issues such as tariffs, quotas, and services. It also includes new areas that are the source of some of the most pernicious market barriers in Asia, such as IPR protection and investment, and other issues of growing importance to the region such as competition policy and deregulation. In each of these areas the Action Agenda sets out key objectives, benchmarks, time frames, and specific actions. The prin-

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ciples embodied in the Action Agenda ensure that liberalization in each country will be comprehensive, covering all products, services, and investment, and require each country to achieve results that are balanced and comparable to those of other APEC members. In the coming months, each member will detail the specific steps it will take to begin implementing the Action Agenda, to be presented at the next meeting of the APEC leaders in Manila in 1996. Implementation could begin as early as January 1997—only 2 years after APEC leaders made the commitment to achieve free trade.

The Transatlantic Trade and Investment Initiative. The U.S.-European relationship is one of the oldest and most durable in international affairs. To further strengthen this partnership, the United States and the European Union initiated a Joint Action Plan at their Madrid summit in December 1995. The summit declaration included the commitment to foster a Transatlantic Marketplace. As part of this effort, the United States and the European Union have pledged to seek agreements on mutual recognition of testing data and standards certification, to cooperate and assist each other on customs procedures, to begin work on a comprehensive agreement on cooperation in science and technology, and to initiate a joint study on market barriers confronting transatlantic trade. The two sides will draw heavily on the advice of the private sector. Their cooperation will also extend to environmental and labor issues.

The OECD Multilateral Agreement on Investment. After 4 years of intensive work, the ministers of the member countries of the Organization for Economic Cooperation and Development (OECD) agreed in May 1995 to launch negotiations toward a multilateral agreement on investment. The aim is to conclude negotiations by 1997. At the negotiators' first meeting in September 1995, broad consensus was reached on ensuring a high standard of principles (including full national and MFN treatment of investment). Exceptions to such treatment will be limited in number and narrowly drawn. In future negotiations the United States hopes to establish international legal standards governing expropriation, freedom from performance requirements (such as the requirement that a foreign subsidiary's products contain at least a specified minimum local content, or that a specified minimum quantity be exported), guaranteed access to binding international arbitration of disputes between private investors and national governments, and the right to unrestricted investment-related transfers across borders. If these principles are adopted, the multilateral agreement on investment would establish a high standard for future work on investment issues in Asia.

Bilateral Initiatives

Disputes and negotiations between one country and another are inevitable in international trade relations. The United States ac-

Box 8-6: The APEC Action Agenda

The Action Agenda details steps that APEC members will take to dismantle key trade barriers that currently impede foreign businesses. Examples include:

- **Tariffs:** According to one estimate, automobile sales to Indonesia, Malaysia, and Thailand combined could equal U.S. auto sales to Canada and Mexico combined by 2000. Under NAFTA, U.S. car exports to Canada face no tariffs; those to Mexico face a 10 percent tariff, which will be eliminated by 2003. But tariffs on U.S. car exports to Indonesia, Malaysia, and Thailand range between 30 and 60 percent. The Action Agenda stipulates that members will progressively lower these tariffs. Some members will start reducing tariffs as early as January 1997.
- **Air transport:** Demand for air transport services in Asia is projected to grow by 8.5 percent annually through the end of the decade. This is a key opportunity for U.S. carriers, whose costs per passenger-mile are half those of their Japanese competitors. Yet barriers are high. APEC has commissioned a group of experts to develop options to lower barriers to competition in this fast-growing market.

The Action Agenda also contains a variety of measures that will reduce the cost of doing business in the region:

- **Infrastructure database:** APEC is assembling an infrastructure opportunity database, which will provide information on the Internet—in English—on all government procurement open to foreign bidding. APEC has already launched a pilot home page on the World Wide Web that includes projects from Hong Kong, the United States, Japan, and Australia.
- **Customs harmonization:** APEC is working to promote uniform customs classifications and procedures and to establish common forms for manifests, travel documents, and the electronic transmission of business documents. Businesses can look forward to the day when a single customs form is accepted in all APEC countries.
- **Standards harmonization:** APEC is developing so-called mutual recognition agreements in toys and some food products, which will enable companies to sell their products throughout the APEC countries after a single laboratory test.

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tively engages in bilateral consultations, negotiations, and dispute settlement procedures to defend U.S. commercial interests and to ensure that trade agreements are implemented, market access is expanded, and offending foreign practices are addressed. The focus of U.S. bilateral agreements is to open foreign markets to producers from all countries, not just those from the United States. These agreements are designed to support a more open, less distorted world trade regime. This Administration has also insisted on agreements that lead to tangible market opening, not simply agreements in form. The Administration's trade agreements specify qualitative and quantitative indicators of progress, agreed to by both countries, and the Administration has actively reviewed and monitored the agreements it has reached, comparing actual progress made against these indicators.

Japan. Japan remains among the most important of our economic partners. The Administration's goals in our relationship with Japan are to increase both access for and sales by non-Japanese firms in the Japanese market, to stimulate demand-led growth in the Japanese economy, and to raise standards of living in both Japan and the United States. To these ends, in 1993 the Administration signed the Framework for a New Economic Partnership with Japan. The Framework laid out macroeconomic goals and identified areas for sector-specific and structural negotiations. In the past year alone the Administration has signed new agreements under the Framework in automobiles and auto parts (discussed below), financial services, and investment. These agreements bring to 20 the number of trade agreements that the Administration has concluded with Japan.

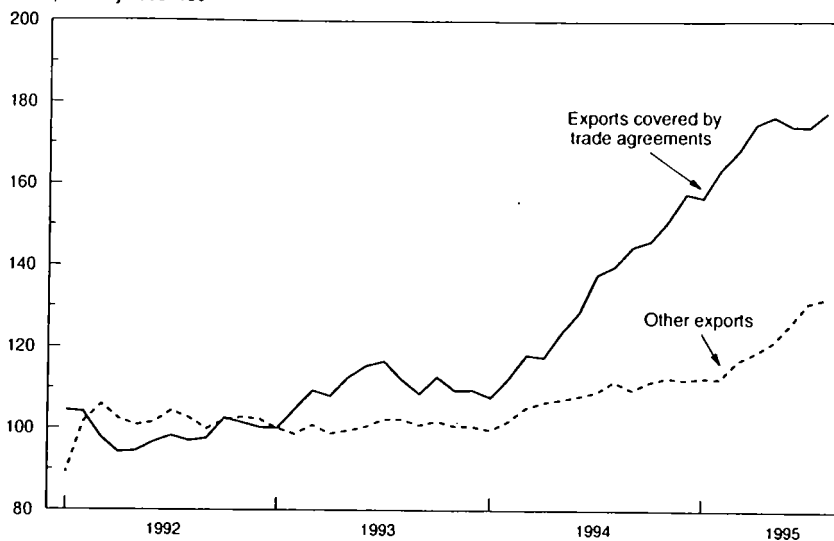
The sectoral agreements with Japan are beginning to produce results. The Framework set up mechanisms, including qualitative and quantitative criteria, for both countries to use in reviewing the progress made on these agreements. Although it is still too early to judge the effects of the 1995 agreements, the results from the agreements concluded in 1993 and 1994 have generally been positive. By any measure, growth of U.S. exports to Japan has been striking, especially given that country's continuing economic stagnation. Overall U.S. exports to Japan were 20 percent higher in the period from January through November 1995 than in the previous year, and 47 percent higher than when the Administration took office. Growth of U.S. exports to Japan has been even stronger in those goods sectors covered by the Administration's trade agreements with Japan (Chart 8-1).

After 2 years of negotiations to open Japan's markets in automobiles and auto parts to U.S. and other foreign suppliers, an agreement was reached in the summer of 1995 to increase Japanese purchases of foreign automobiles and parts. Under the agree-

Chart 8-1 Merchandise Exports to Japan

Exports in goods sectors covered by Administration trade agreements with Japan have increased at a faster rate than other U.S. exports to Japan since 1993.

Index, January 1993=100



Note: Data are 6-month moving averages.

Sources: Department of Commerce and Council of Economic Advisers.

ment, Japan promised to improve foreign automakers' access to Japanese dealerships. U.S. industry expectations are for access to 1,000 new outlets and the annual export of 300,000 U.S.-made vehicles to Japan by 2000. Also in connection with the agreement, the Japanese Big Five automakers announced plans for their U.S. assembly plants that are expected to increase those plants' purchases of North American auto parts by \$6.75 billion by 1998. Japan also agreed to deregulate the repair and replacement market for auto parts in Japan, which will make it much easier for foreign firms to sell auto parts in the Japanese aftermarket. Finally, the Japanese Government will increase the budget of the Japan Fair Trade Commission and consider U.S. suggestions for improved antitrust enforcement.

The two countries also signed an investment agreement in July 1995. Despite the abolition of most formal barriers to foreign direct investment in Japan, Japan has absorbed only 1 percent of world foreign direct investment—remarkably little for an economy that accounts for about 16 percent of world output. A tangible market presence is increasingly important for overseas sales in many industries, and for many service industries it is indispensable for conducting business. Efforts to facilitate foreign direct investment in Japan were therefore an important part of the Framework negotiations. Under the United States-Japan Investment Arrangement,

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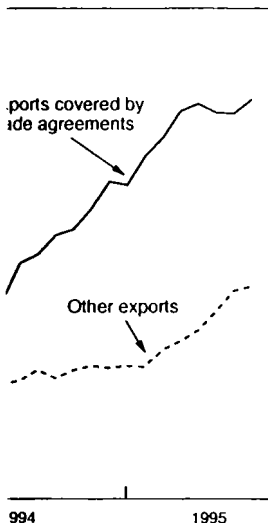
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Japan will review the few remaining restrictions on foreign investment, make foreign investors eligible for low-interest loans from the Japan Development Bank, and ensure that foreign-owned firms are eligible for government-funded employment programs. Japan has also pledged to make land available to foreign investors in designated foreign access zones, and the Keidanren (Japan's major business organization) has pledged to facilitate foreign contacts with its members.

China. China is an increasingly important player in the world economy. China's share of world trade has tripled since market reforms were launched in the late 1970s, making it the world's 10th-largest exporter. The Chinese economy has recently recorded some of the fastest growth rates in the world (12 percent in 1994 and roughly 10 percent in 1995). Already the world's most populous country, China may have the world's largest economy by early in the next century. U.S. exports to China continue to grow quickly, as incomes, and hence demand for high-quality U.S. goods, increase. This Administration is committed to encouraging further economic liberalization and to integrating China more fully into the world economy. Success at these efforts will support U.S. foreign policy objectives of democratization, economic reform, and development in China. Although great progress has been made on these fronts, there is still a long way to go.

China's accession to the WTO is an important goal for both the United States and China, with negotiations under way since 1988. The United States and other WTO members have stipulated that China must join the organization on commercial terms. Every country that has joined the GATT in the past has agreed to adhere to the basic principles of the multilateral trading regime, such as transparency of the trade regime and uniform application of trade rules. The United States is working with China to reach these world trade standards in a variety of forums, including bilateral trade initiatives on market access, protection of intellectual property, and services.

In February 1995 the United States reached a bilateral agreement with China on IPR protection. The new agreement lays out specific enforcement measures for China to undertake, and consultations between China and the United States have been occurring frequently to ensure that these measures are being carried out. In addition to creating a new enforcement structure, the agreement increases market access for U.S. audiovisual products, software, books, and periodicals by placing a ban on quotas and by allowing U.S. companies to set up joint ventures in several urban areas around the country.

Chinese pirating of U.S. software and audiovisual materials and infringements of U.S. trademarks and patents had become a con-

cern to the United States as exports of pirated goods began turning up in Southeast Asia, Latin America, and even Canada and the United States. China has more than 29 factories with the capacity to produce 75 million compact discs annually—in a domestic market that, according to estimates, can absorb only 5 million. Under the new agreement, task forces have been set up to raid illegal retail and manufacturing establishments as well as to provide border control. As of the end of 1995, implementation of the agreement has been mixed. Although China has attacked piracy at the retail level, massive production, distribution, and export of pirated materials continue. In particular, China has yet to halt production of pirated CDs.

Korea. Although Korea is the fifth-largest manufacturer and a rapidly growing exporter of automobiles, a variety of barriers have effectively closed the Korean automobile market to imports. These barriers include onerous standards and certification procedures, limits on consumer financing and advertising by foreign firms, and excise and registration taxes that fall disproportionately on the medium-sized and larger models that U.S. automakers produce. Until recently, Koreans were required to report the automobiles that they owned on their income tax returns, and owners of foreign cars feared tax audits. These barriers, which help explain why the foreign share of Korea's automobile market is only 0.3 percent, were serious enough to warrant active consideration as a "priority foreign country practice" in the U.S. Super 301 process this past year.

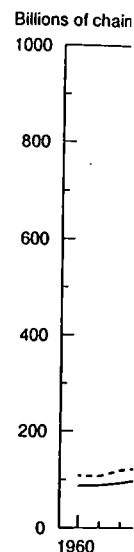
Negotiations led to the signing of a memorandum of understanding with Korea on September 27, 1995. The Korean Government agreed to reduce significantly the tax burden on larger automobiles and to affirm that foreign car ownership would not subject Koreans to tax audit or other harassment. In addition, Korea will substantially reduce the documentation required to secure safety approval and will allow testing for a new noise standard to be done outside Korea. Foreign firms will be able to establish or acquire automobile finance companies and will be given equal access to television advertising time.

Monitoring foreign practices. One of the principal objectives of U.S. trade policy has been the identification and elimination of unfair foreign trade barriers. The Administration has placed a high priority on enforcing U.S. trade agreements and on ensuring that other countries do not engage in practices that violate trade agreements they have signed with the United States. The U.S. Trade Representative, in close consultation with U.S. firms, its private sector advisory committees, and other interested parties, monitors the trade practices of other countries and their compliance with U.S. trade agreements and is responsible for addressing those practices identified as unfair.

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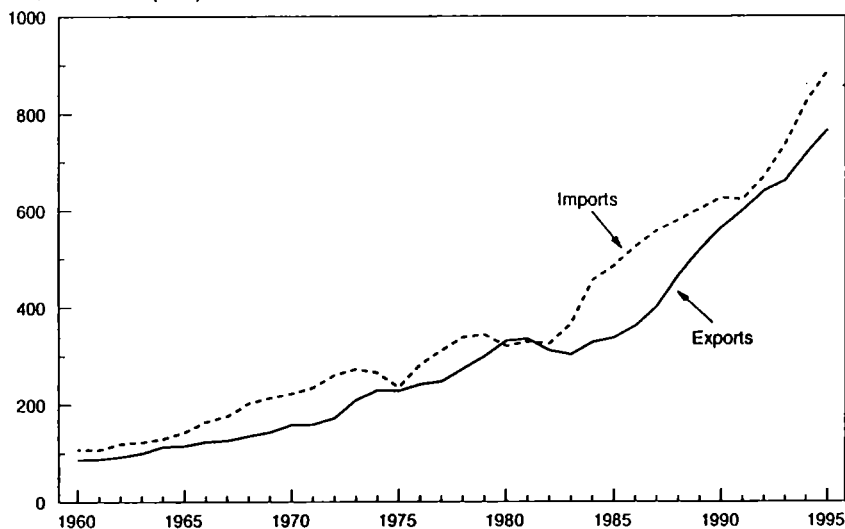
MEASURING THE SUCCESS OF TRADE POLICY

The Administration's protrade policies have been associated with rapid export growth. Real exports of goods and services have grown by 20 percent since the first quarter of 1993 (Chart 8-2). Real export growth has risen: from 3.3 percent in 1993 to 8.3 percent in 1994 and 9.0 percent through the third quarter of 1995 (on a year-over-year basis). The United States is once again the largest merchandise exporter in the world, accounting for roughly 12 percent of global exports. Moreover, the U.S. share of industrial-country merchandise exports has grown to 18 percent, from 15 percent in 1986, and now exceeds the shares of Germany and Japan (at 15 and 14 percent, respectively).

Chart 8-2 Export and Import Volumes

Exports have grown vigorously in recent years, but, with imports also rising, the trade balance remains in deficit.

Billions of chained (1992) dollars



Note: Data are for goods and services; data for 1995 are estimates.
Sources: Department of Commerce and Council of Economic Advisers.

Although U.S. exporters are once again extremely competitive on world markets, the U.S. trade balance remains in deficit. The next section explains why the trade deficit is a misleading measure of the success of U.S. trade policies and the strength of the U.S. economy. Fundamentally, the trade deficit is caused by macroeconomic factors, not trade policy, which is capable of making only marginal changes in the overall deficit. Eliminating or substantially reducing the trade deficit will require macroeconomic policy measures, such as the elimination of the Federal budget deficit.

CAUSES AND CONSEQUENCES OF THE TRADE DEFICIT

International trade and competition make a vital contribution to the growth and well-being of the United States, and U.S. firms and workers have proved themselves successful in that competition. Yet despite the rapid growth of U.S. exports and export-related jobs, public commentary often focuses on the overall trade balance, which shows a large and seemingly intractable deficit. Many critics point to the trade deficit as evidence that the United States is not competing successfully and that international trade is detrimental to the health of the economy. Therefore, they argue, the United States should modify its longstanding policy of encouraging open markets and liberal trade.

This focus is unfortunate, because the trade balance is a deceptive indicator of the Nation's economic performance and of the benefit that the United States derives from trade. Trade policy is neither responsible for, nor capable of significantly changing, the overall trade balance. As noted above, trade policy can have a substantial impact on the sectoral and geographic composition of trade, but the aggregate trade balance is determined by larger macroeconomic factors. Persistent external deficits do entail costs, but effective policies to reduce these costs by narrowing the external deficit are beyond the realm of trade policy.

SOURCES OF THE U.S. TRADE DEFICIT

The trade balance is simply the difference between the value of goods and services sold by U.S. residents to foreigners and the value of goods and services that U.S. residents buy from foreigners. Most of what the United States produces (89 percent in 1995) is sold to residents of the United States; the rest is exported. And most of what the United States buys (88 percent in 1995) is produced here; the rest is imported. When we compare total production and total expenditure, those goods and services that we purchase from ourselves net out, and the difference is exports minus imports, or the trade balance. A trade deficit thus results when the Nation's expenditure exceeds its production.

Trade is by far the largest source of foreign income and foreign payments, but there are other external income flows: the main ones are interest and other investment earnings, aid grants, and transfers. Adding these other current flows to the trade balance produces the current account balance, which is the net income that the United States receives from the rest of the world. The current account balance thus represents the bottom line on the income statement of the United States. If it is positive, the United States is spending less than its total income and accumulating asset claims

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The net borrowing of the Nation can be expressed as the sum of the net borrowing by each of the principal sectors of the economy: government (Federal, State, and local), firms, and households. In other words, the current account deficit (CAD) is equal to the government's budget deficit ($G - T$, or net borrowing by the public sector) plus the difference between private sector investment and private sector saving ($I - S$, or net borrowing by the private sector):

$(G - T)$	+	$(I$	-	$S)$	=	CAD
Government deficit		Private investment		Private saving		Current account deficit

The crucial insight of this identity is that the current account deficit is a macroeconomic phenomenon: it reflects an imbalance between national saving and national investment. The fact that the relationship is an identity and always holds true also means that any effective policy to reduce the current account deficit must, in the end, narrow the gap between U.S. saving and U.S. investment.

Economic Performance and the Current Account

If the current account deficit has little to do with trade policy, neither does it necessarily indicate poor economic performance. In fact, in the short run it may indicate precisely the opposite. Consider two situations: one in which the economy is operating with fully employed resources, and one in which the economy is operating with excess capacity.

When resources are fully employed, a current account deficit does not constrain the level of economic activity and thus cannot represent "lost" production. The U.S. economy in the past 2 years provides a good example, since it has been very close to full employment and production capacity. During 1994 and the first three quarters of 1995, total U.S. production of goods and services (GDP) averaged \$7.1 trillion per year. Total U.S. expenditure was \$7.2 trillion. The difference, just over \$100 billion worth of goods and services per year, came from overseas, as reflected in the trade deficit.

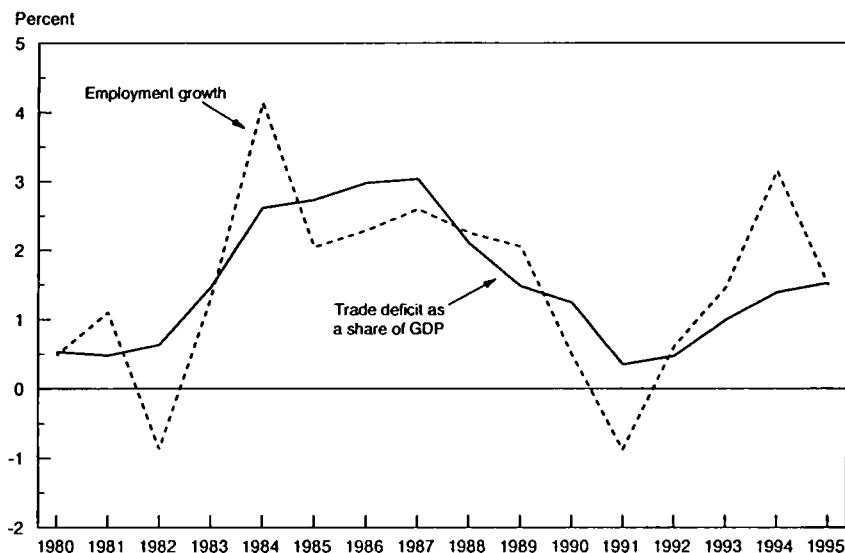
It would have been very difficult to have produced those extra goods and services ourselves and thus eliminated the trade deficit. The monthly unemployment rate in 1994 and 1995 averaged 5.8 percent and twice fell to 5.4 percent, very near the point at which economists believe inflation begins to accelerate. Both labor force participation and overtime in manufacturing were at postwar highs. In such a tight labor market, any attempt to close the trade deficit in 1994 or 1995 by producing more domestically would un-

doubtedly have been frustrated by rising prices, or by an increase in interest rates that would have reduced output in other sectors. In sum, when the economy is near full employment, the trade deficit does not affect the level of economic activity and therefore provides no insight into how well or poorly the economy is performing.

The second case to consider is an economy operating at less than full employment. Here trade outcomes can affect the level of economic activity. Rates of foreign economic growth and the exchange rate of the dollar have a strong influence on U.S. export sales, and therefore on the level of U.S. production. And unlike in the case of full employment, the expansionary impact from export sales in this situation is not necessarily fully offset. At the same time, the cyclical state of the U.S. economy exerts a strong influence on the demand for imports. In practice, this channel is so strong that the trade and current account deficits have tended to increase when the U.S. economy is growing rapidly, as it has in the last 3 years, and to diminish when the U.S. economy is weak. An increasing trade deficit is therefore usually the result of a strong economy, not the cause of a weak one. Over the past 15 years, U.S. employment growth has tended to be highest when the trade deficit was large, not when it was small (Chart 8-3).

Chart 8-3 Employment Growth and the Trade Deficit

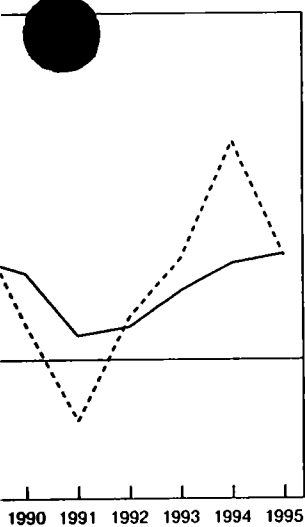
The trade deficit tends to rise when employment growth is strong because of increased demand for imported goods and services.



Note: Data for 1995 are estimates.
Sources: Departments of Commerce and Labor, and Council of Economic Advisers.

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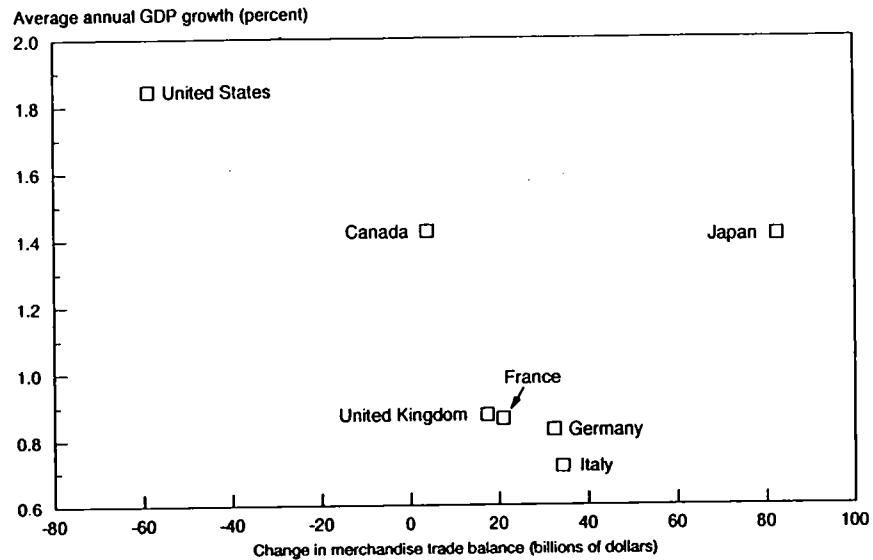
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The same conclusion holds if we look across the other major industrial countries. In the 1990s trade balances have improved in those of the seven leading industrial market economies (the Group of Seven, or G-7) where economic growth and employment creation was weak (Chart 8-4).

Chart 8-4 Economic Growth and Changes in Trade Balances in the G-7 Countries, 1990-94
 Across the major industrial countries, recent improvements in the trade balance have been associated with weak economic performance.

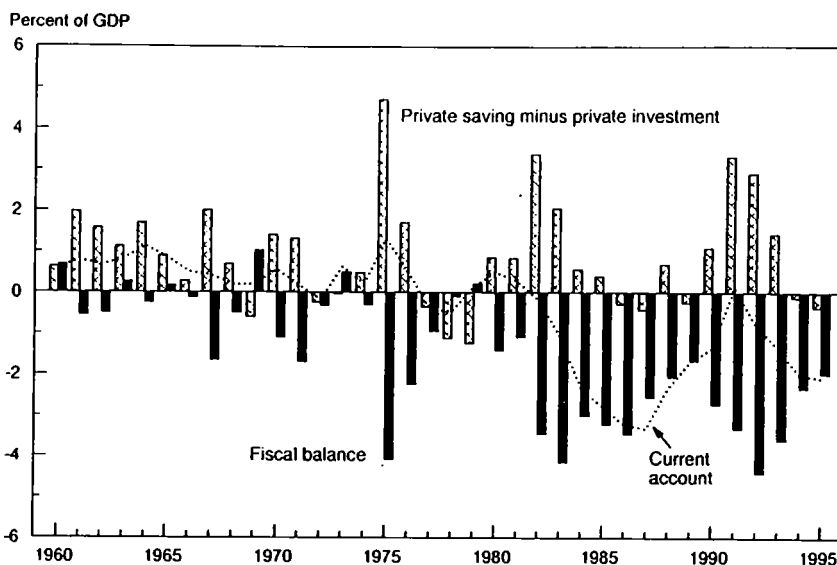


Note: Germany refers to unified Germany, 1991-94.
 Sources: Department of Commerce, Organization for Economic Cooperation and Development, and Council of Economic Advisers.

Growth of the Current Account Deficit

From 1946 until 1982 the U.S. current account balance fluctuated around zero but was generally in surplus. Government deficits during recessions were balanced by weak domestic investment and an excess of private saving (Chart 8-5). The adoption, early in the 1980s, of tight monetary policy to combat inflation led to a sharp increase in U.S. interest rates, an inflow of foreign capital, and an appreciation of the dollar. At the same time, fiscal (tax and expenditure) policy led to large budget deficits that did not disappear when the economy was growing strongly and private investment was high. The so-called structural budget deficit, which is the actual deficit corrected for short-term fluctuations in GDP, increased by a full 2 percentage points of GDP between 1982 and 1984. Econometric simulations indicate that the shift in fiscal policies, coupled with a move toward more restrictive budget policies abroad, explains about two-thirds of the deterioration in the current account in the first half of the 1980s.

Chart 8-5 Private Saving and Investment, the Fiscal Balance, and the Current Account
The emergence of large fiscal deficits in the 1980s and a rebound in investment in the 1990s led to increasing current account deficits.



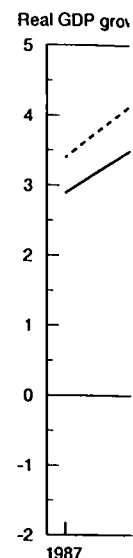
Note: The private saving and investment measures are gross private saving and gross private investment. The fiscal balance is gross government saving less gross government investment. The current account equals net foreign investment plus capital grants received. Data for 1995 are estimates.
Sources: Department of Commerce and Council of Economic Advisers.

Fiscal policy changes in the middle of the 1980s partly reversed the widening of the Federal budget deficit. But the slight reduction in the budget deficit was more than offset by a fall in private saving: the U.S. gross private saving rate (the sum of the saving rates of businesses and households), which averaged 18.3 percent of GDP in the first half of the decade, fell to 16.0 percent in the second half. In broad terms, then, the increase in the budget deficit and the fall in the domestic saving rate were responsible for the chronically large U.S. current account deficit. Although the budget deficit (both actual and structural) has fallen significantly during this Administration, a sharp increase in domestic investment during the cyclical recovery has driven the current account further into deficit over the past 3 years.

Current Account Developments in 1995

The current account deficit continued to increase in 1995, driven largely by high U.S. economic growth relative to our major trading partners. Although U.S. growth has been below the OECD average for much of the postwar period, in the period since 1992, the U.S. economy has grown faster than the economies of most other OECD countries, including major trading partners such as Germany and Japan (Chart 8-6). Although U.S. economic growth moderated in 1995, consistent with a desired "soft landing" of the economic expansion, it remained above the OECD average.

Chart 8-6 C
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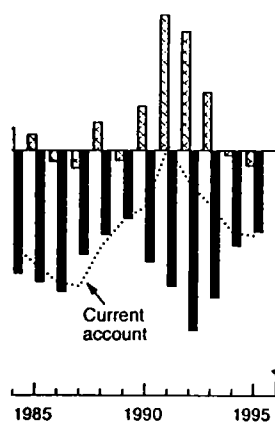
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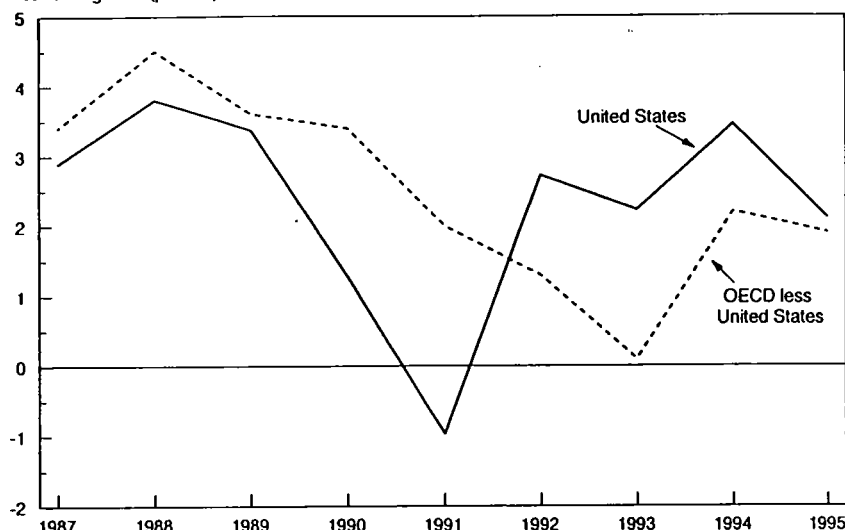
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Chart 8-6 Growth of Real GDP in the United States and Abroad
Faster growth relative to other industrial countries since 1992 has contributed
to the rise in the current account deficit.

Real GDP growth (percent)



Note: Data for 1995 are estimates.

Sources: Department of Commerce, Organization for Economic Cooperation and Development, and
Council of Economic Advisers.

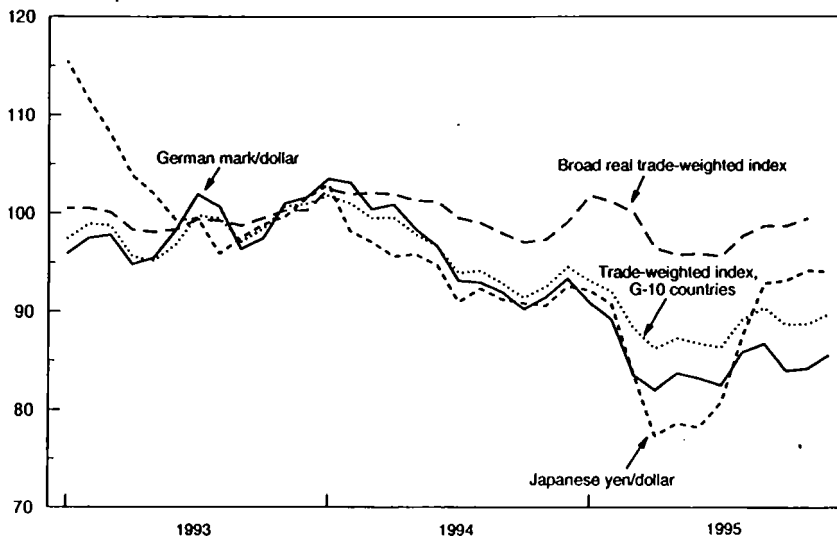
Along with relative economic growth rates, changes in relative prices (most often due to exchange-rate changes) have important short-run influences on both bilateral trade balances and the overall current account balance. Beginning in February 1995 the U.S. dollar depreciated against the currencies of our major trading partners, and most sharply against the Japanese yen (Chart 8-7). The depreciation of the dollar went beyond what many viewed as justified by economic fundamentals, and a statement by the G-7 finance ministers and central bank governors at the end of April called for an orderly reversal of the preceding exchange-rate movements. Interest rate reductions in Japan and Germany and concerted currency market intervention in July and August were followed by a recovery of the dollar. Between the end of April and the end of August, the dollar appreciated by 16 percent against the yen and by 6 percent against the deutsche mark. Although these bilateral moves are noteworthy and will have a significant effect on bilateral trade, the movement of the dollar against a weighted average of the currencies of U.S. trading partners was more modest, particularly when an index covering a broad range of trading partners is examined.

Relative price and income movements influence bilateral trade balances in the short run, and there were important developments along these lines with several U.S. trading partners in 1995. The

Chart 8-7 U.S. Dollar Exchange Rates

The dollar has fluctuated sharply against the currencies of Japan and other major trading partners, but less sharply against broader indexes of foreign currencies

Index, fourth quarter 1993=100



Note: The broad real trade-weighted index is relative to 101 trading partners, adjusted for domestic inflation. A rise in an index indicates an appreciation of the dollar.
Sources: Board of Governors of the Federal Reserve System, Federal Reserve Bank of Dallas, and Council of Economic Advisers.

most dramatic change was in the balance with Mexico, following a severe financial and exchange-rate crisis in that country beginning in December 1994 (Box 8-5). The dramatic nominal depreciation of the peso outstripped the sharp increase in Mexico's price level, and so the real (inflation-adjusted) value of the peso fell, encouraging exports and discouraging imports. In addition, the downturn in economic activity within Mexico greatly affected that country's demand for imports. Consequently, the U.S. bilateral balance with Mexico fell from a \$1.4 billion surplus in the first 11 months of 1994 to a deficit of \$14.4 billion for the first 11 months of 1995.

Even so, as was emphasized above, U.S. exports to Mexico have held up far better than those of Mexico's other trading partners, and the provisions of NAFTA spared U.S. exporters from the emergency measures that Mexico imposed on its trade with other countries. Despite the severity of the crisis, Mexico appears to be adjusting successfully, and its longer term prospects are encouraging. As Mexican economic growth resumes, imports from the United States should rebound strongly.

Trends in the U.S. trade balance with Japan over the past year are the result of income and relative price forces pulling in opposite directions. The Japanese economy has seen almost no growth in output since 1991, and the recovery that was expected to occur in 1995 failed to materialize; current estimates of Japanese economic

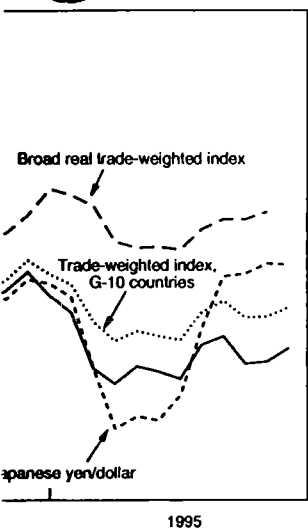
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growth for 1995 are about half a percent. Despite this stagnation in demand, imports by Japan have surged because of the appreciation of the yen over the past 3 years, coupled with some market-opening measures, and Japan's current account surplus has narrowed. U.S. exports to Japan have grown rapidly in the last 3 years, particularly in those sectors covered by Framework and other trade agreements. The U.S. bilateral deficit with Japan has declined since mid-1995 and for the first 11 months of the year it was down 7 percent relative to 1994. Should the long-awaited recovery in Japan begin this year, the deficit with Japan should decline further.

As the events of the past year illustrate, individual exchange-rate movements and shifts in economic growth rates have large influences on bilateral balances. Movements in the overall current account balance are generally less extreme, because of the averaging that takes place across various country markets. But the rate of U.S. growth relative to that of its trading partners, together with overall movements in the dollar's exchange rate, has a considerable influence on the U.S. external balance, particularly on a year-to-year basis. Over longer periods cyclical movements tend to average out, and real exchange rates are influenced more by the requirements of long-run current account positions and current account servicing requirements. Over this longer time frame it makes sense to think in terms of propensities rather than levels (in other words, the shares of national income devoted to private saving, to domestic investment, and to financing the government budget deficit). The emergence of the U.S. current account deficit over the past 15 years has been the result of a decline in national saving as a share of GDP (resulting from lower private saving and an increase in the Federal budget deficit, both as shares of GDP), which has more than offset a decline in the investment-GDP ratio since the early 1980s.

CONSEQUENCES OF THE CURRENT ACCOUNT DEFICIT

The current account deficits that arose in the 1980s are an indicator neither of the ability of the United States to compete in the world market, nor of the efficacy of U.S. trade policy. U.S. export growth, and more broadly the growth of the U.S. economy, are much more informative measures of our relative economic standing. The current account deficit has not prevented a rapid increase in employment, and the recent increase in the external deficit is primarily the result of rapid economic growth. Furthermore, given the fiscal policy adopted in the early 1980s and the subsequent decline in the U.S. saving rate, the ability to borrow overseas and run a current account deficit has been critical in maintaining domestic

investment and growth over the last 15 years. Had the United States been forced to run a balanced current account, interest rates would have been higher, and investment and economic growth lower, than what we experienced.

If this is so, why should one care about the trade and current account deficits? As explained above, the current account deficit is the difference between our expenditure and our income, and represents our net borrowing from the rest of the world. By running a large and persistent current account deficit we have been borrowing against future income, building up liabilities to the rest of the world that will have to be serviced in the future. Estimates show the United States moving from a net creditor position of over \$250 billion in the early 1980s to a net debtor position of over half a trillion dollars by 1994. The positive net international asset position that the United States had built up over 100 years was eliminated in the space of about 6 years during the 1980s.

The debt-servicing requirements of this buildup of external debt are already making their presence felt. Net income on U.S. external assets was over \$30 billion per year in the early 1980s. This inflow declined over the 1980s and eventually turned negative: in 1995 our net overseas *payments* are likely to be over \$11 billion. Although these numbers are still quite manageable in an economy that produces \$7,000 billion in income each year, the current trend is for an increasing share of U.S. income to be paid out to foreigners, and thus to be unavailable to support U.S. consumption and investment. In a period in which the size of the retirement-aged population will increase sharply, servicing our net foreign debt will be a further drain on the future working population.

The extent to which we rely on foreign borrowing also influences the terms on which we can borrow. Modern portfolio theory emphasizes the importance of relative rates of return in determining asset holdings. To induce foreigners to hold a larger share of their assets as claims on the United States, we may have to offer a higher interest rate. Very rough estimates place the share of U.S. assets in foreign portfolios at about 9 percent, about 2 percentage points higher than in 1982. This does not appear to be unduly large given the low transactions costs, high liquidity, and strong investor protection that characterize U.S. financial markets. In addition, the ratio of U.S. external debt to GDP is still moderate, and well below the ratios of some other industrial countries. But as the stock of foreign claims on the United States increases, U.S. financial markets will inevitably be more sensitive to foreign perceptions and external considerations.

POLICY OPTIONS TO REDUCE THE CURRENT ACCOUNT DEFICIT

Given that a sustained current account deficit is costly to the Nation, what policy options are available to reduce it? As we have seen, trade policy has little impact on the overall current account balance. To shrink or eliminate the current account deficit, either the government budget deficit must be narrowed, or private saving must rise relative to investment, or both. Maintaining and if possible increasing the rate of investment in the United States is critical for the growth of American incomes and is a firmly held goal of the Administration. So the only desirable options are to raise the rate of saving and to reduce the government budget deficit. Unfortunately, the policy tools to raise private saving are inherently limited: anything that might strengthen incentives to save by raising the return to saving would also reduce the amount of saving required to meet a future wealth or consumption target. And if private saving incentives take the form of tax expenditures ("tax breaks"), the induced increase in private saving must be greater than the loss of tax revenue in order for national (public plus private) saving to increase. The budget deficit is under far more direct policy control. The Administration's budget, which would eliminate the Federal deficit by 2002, provides the most promising way of reducing the U.S. current account and trade deficits.

Reducing the U.S. current account deficit is primarily, but not entirely, in our own hands. Since global saving equals global investment, the sum of all countries' current account balances (when accurately measured) must equal zero. Thus a reduction in the U.S. current account deficit must go hand in hand with a decline in the current account surplus of the rest of the world. Complementary policy in foreign countries, particularly those with large current account surpluses, would assist in the transition. That is why an important component of the Framework negotiations with Japan focused on the promotion of macroeconomic policies in that country that would encourage strong domestic demand-led growth. But one should not exaggerate the foreign responsibility for reducing the U.S. deficit. A reduction in one country's surplus will not ensure a corresponding fall in the U.S. deficit. And even without any policy actions by foreign countries, changes in exchange rates and in world interest rates would accommodate the elimination of the U.S. current account deficit. Fundamentally, the U.S. current account balance will be determined by our own saving, investment, and budget policy, and continued reduction of the Federal budget deficit is the most effective tool for reducing our external deficit.

CONCLUSION

A system of liberal international trade and investment boosts overall living standards by allowing all participants to concentrate on what they do best, to learn from others, and to ensure competition. Consumers in open economies enjoy access to a wider variety of goods at lower prices than those living in economies that insulate domestic producers from foreign competition. Trade shifts jobs into sectors in which an economy is relatively efficient, and therefore boosts productivity and wages. In the United States, jobs supported by goods exports pay 13 percent more than the national average. Open trade and investment also have positive dynamic effects: exposure to the competitive pressures of the international marketplace spurs domestic firms to improve productivity and boost innovation. At the same time, exposure to international markets and foreign direct investment facilitates the flow of technology across borders, allowing producers to employ domestic resources more efficiently.

Abundant evidence testifies to the advantages of open markets over protectionism. Countries with outward-looking, liberal trade and investment policies grow faster, the data show, than countries with inward-looking, closed policies. The general consensus among economists is that open markets raise growth and productivity.

Achieving the benefits of trade requires continual change and adaptation. And even though most studies suggest that the effect has been small in the United States, trade can worsen wage inequality. The Administration therefore recognizes that, while outward-looking trade and foreign direct investment policies are critical to the future strength of the economy, we must help those injured by the lowering of trade barriers to make the requisite adjustments. In today's global economy, there is simply no alternative to competing.

This Administration has been remarkably successful in promoting competition around the world. A concerted set of multilateral, regional, and bilateral trade negotiations has produced the Uruguay Round agreement, NAFTA, and the Framework agreement with Japan. Ambitious plans have been laid for free trade across the Pacific and throughout the Americas. Partly reflecting this active trade policy, U.S. exports of goods and services have grown by 20 percent since this Administration took office.

The continuing external deficit remains a cause for concern, but it must be kept in mind that the deficit is caused by macroeconomic factors, not trade policy. It should not be used as a test of whether trade is beneficial or whether our trade policy is effective. The most effective policy option for reducing the trade deficit is the reduction or elimination of the Federal budget deficit.

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Testimony of
Ambassador Charlene Barshefsky
United States Trade Representative

before the Senate Finance Committee
June 3, 1997

Thank you, Mr. Chairman and Members of the Committee. I appreciate the opportunity to appear before you today.

Trade and Domestic Prosperity

Trade, as you know, has a profound effect on the lives of millions of Americans. It is both a pocketbook issue and a strategic issue. Never before have the benefits of trade for Americans been so deep, so diverse, so widespread, and so sustainable. More than 11 million Americans now work in jobs supported by exports; these jobs pay 13%-16% above the national average wage. Those jobs represent the leading edge of the current economic expansion, now in its sixth year, and they cover the spectrum from agriculture to high tech, small businesses to multinationals, blue collar to white collar, and small-town Main Street to Wall Street. Exports have increased dramatically across the country, with 47 of 50 states registering significant export growth over the last 4 years. Exports from California are up 45%, Michigan 68%, Illinois 64%, Ohio, 42%, Texas 40%, Nebraska 54%, North Dakota 76%, Montana 52%. Exports from Florida, Rhode Island, Louisiana, and West Virginia have increased more than 30%. States from New York to Utah also have posted double digit increases.

Export-driven growth is one of the reasons that the American economy today is strong and sound. Over the past four years, we have created nearly 12 million new jobs. Unemployment is at its lowest level in 24 years standing at 4.9% in April. Inflation is down to a low of 2.5% for the period ended April 1997. At the same time, family incomes are up significantly; home ownership has hit a 15-year high; growth of our industrial capacity is at its highest level since 1970; business investment has been stronger than at any time since the 1960s. Our current economic expansion has been investment-led, which establishes a firm footing for an even greater climb.

The best way to continue this prosperity is to give our workers and businesses a full and fair chance to tap into the global economy. If the momentum of the American economy begins to stall, the world economy can help it recharge. America's growth in trade has been faster than its overall economic growth for years. Our exports to the rest of the world increased by more than \$49 billion last year alone; an increase of more than 6 percent. Exports are at record levels across the board. Since 1992, manufactured exports increased 42%; high-tech exports were up 45%; agricultural exports were up 40%, and services exports increased by 26%.

Since the beginning of this Administration, exports have accounted for fully one-fourth of the increase in our GDP. Today, exports account for 30% of our GDP, compared to 13% in 1970. Increases in GDP combined with a 70% reduction in the federal budget deficit over the last four

years, and the balanced budget agreement recently announced, lay the foundation for continued economic expansion, but only if we continue to use all the tools necessary to compete in and shape the global economy.

While exports are at record levels, our competitors are determined and sophisticated. They too appreciate the importance of export opportunities to their economic prosperity and security. They continue to seek out new export markets and forge alliances with a view to defining the global landscape.

Trade and Economic Security

Since the end of the Cold War, trade and economic development have emerged as fundamental strategic issues. The strength and prosperity of the United States depends increasingly on our ability to create and maintain trade relationships that are beneficial to us and to our trading partners. It is therefore critical that we continue to identify those markets that present growth opportunities, ensure access to those markets, and do so in such a way as to create enduring relationships that foster not only short-term economic prosperity, but also our long-term economic security. Doing so requires continued American leadership.

Ninety six percent of the world's consumers live outside our boundaries, and 85 percent of them reside in developing countries. These are the large growth regions. Last year, the developing world imported over \$1 trillion in manufactured goods from the industrialized countries, and that is the tip of the iceberg. Over the next decade, the global economy is expected to grow at two times the rate of the U.S. economy; Asian and Latin American growth is projected to be 3 times that of the U.S. We must work to create fair access to the world's expanding markets.

For 50 years, the United States has led the world in opening global markets. Our persistent leadership has helped bring global tariffs down from an average of 40 percent at the end of World War II to about 5 percent today, leading to a 90-fold increase in world trade. Our trade policy has been driven by two factors: our emphasis on building prosperity at home through the expansion of our export and trade opportunities; and ensuring that we are strategically well positioned in the world to advance our economic and security interests through a growing number of enduring trade arrangements.

We have embraced the unique and difficult responsibility of making the world a more secure place by ensuring the peace and providing a foundation for economic growth. We asked more of our people during World War I, World War II, and the Cold War than any other nation could have possibly delivered. That special responsibility for global security continues today quite visibly. We see it in the dedication of our Armed Forces within and among nations such as Bosnia, Haiti, and Korea; in their regional roles, throughout Europe, the Middle East, and the Asia-Pacific; and literally around the world, in their vigilance against terrorism and weapons of mass destruction.

Our efforts have strengthened the foundation for peace and prosperity. With that foundation strong, we must move forward and lead with policies that achieve economic security. We need to be positioned to play a catalytic role in all key regions of the world, utilizing the full range of our

trade and other tools to maintain the centrality of America's role in world trade.

The Importance of Fast Track Authority

Just as we are the world's military superpower and the world's strongest democracy, we are the world's most competitive and dynamic economy.

To seize the opportunities in the global economy and to fully meet the competition, the President will seek a new grant of authority to implement global, sectoral and regional trade agreements -- fast track authority. In consultation with the Senate and House leadership, we have determined that proceeding with fast track legislation in September provides the best opportunity for proper consideration and passage of this legislation by year end. Between now and September, we will work with you towards developing legislation that will allow us to continue our important initiatives.

There is no substitute for our ability to implement comprehensive trade agreements. The absence of fast track authority is the single most important factor limiting our capacity at this time to open markets and expand American exports and trade opportunities in the new global economy. Its absence also undermines America's leadership abroad.

Fast track allows the U.S. to set the pace and timing of many of our most important trade negotiations. More importantly, such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts. It tells other countries that the Administration and the Congress stand together in negotiating the best possible agreements for the United States. In light of the extraordinary opportunities before us, and the economic security of the nation, retreat is not an option.

Improving American Trade Opportunities Globally, in Sectors and Regionally

Our trade policy has created enormous economic opportunities thus far, but to sustain progress we must remain aggressive and focused. We must also be mindful of the danger posed by continued inaction and the extraordinary potential held by trade agreements that, in the absence of fast track, may be just beyond our reach. Let me review for you the scope and breadth of the trade agenda ahead of us.

Multilateral Efforts

Within the next three and one-half years, major WTO negotiations will occur in a number of areas where the United States is a top global competitor; of particular note, agriculture, services, and the rules for intellectual property rights. This year we have also resumed WTO negotiations on financial services, a sector where U.S. companies excel. These are the very goods and services that the fastest growing economies need most, and in which America does best. American workers, farmers, engineers and manufacturers will increasingly be just within reach of new markets that are measured in billions of dollars, but they will never get a secure hand on

them if the United States cannot negotiate from a position of unequivocal strength, as it should.

Negotiations to further open the \$526 billion global agriculture market are to be initiated in 1999. While the Uruguay Round reduced some of the most difficult barriers to agricultural trade, helping us to attain a record level of agricultural exports in 1996, our work is far from done. Removing agricultural barriers wherever they exist is one of our highest priorities of the next four years, so follow-on negotiations in the WTO are extremely important.

Services negotiations will expand this \$1.2 trillion global market -- where U.S. firms exported more than \$220 billion in 1996 with a surplus of \$73 billion. The trade related intellectual property rights (TRIPs) agreement which protects, for example, the interests of fast-growing U.S. copyright industries exporting over \$400 billion a year, is to be reviewed as well. We must do everything possible to expand opportunities for such vibrant industries.

In the financial services negotiations, we are committed to achieving a meaningful and comprehensive agreement by the end of the year. Earlier efforts to reach agreement were not successful due to inadequate offers by key countries. To successfully conclude these negotiations this year, our trading partners must significantly improve their commitments based on the GATS principles of market access, national treatment and MFN. With the precedent that has now been established in the telecommunications agreement, unless we see significantly improved offers in the financial services talks, we will continue our MFN exception.

The work this year to improve and expand the coverage of WTO rules on government procurement can facilitate U.S. efforts to improve our access to the lucrative infrastructure projects now planned or under way in the rapidly growing regions of the world. We estimate that Asia alone will provide opportunities for up to \$1 trillion in business for such projects over the next decade.

The "built-in agenda" from the Uruguay Round provides further critical opportunities to open foreign markets. In a world trading environment increasingly less characterized by traditional tariff barriers, the built-in agenda is in many respects aimed at clearing away the impediments left by non-tariff barriers -- be they deliberate or the unintended consequence of bureaucracy and inefficiency.

The U.S. has pursued a consistent strategy to ensure that the WTO is a forum for continuous negotiation and liberalization. That strategy and U.S. leadership resulted in the commitment to review and opportunity to improve agreements covering such areas as the rules governing technical barriers to trade, sanitary and phytosanitary measures, customs valuation and pre-shipment inspection and import licensing procedures. Continued leadership is essential if we are to dismantle barriers in these and other areas as we confront them, rather than waiting for a "new Round" as some of our trading partners would prefer.

We also have a full agenda of accession negotiations regarding the WTO. As always, we are setting high standards for accession in terms of market access and adherence to the rule of law. Accessions offer an opportunity to help ground new economies in the rules-based trading system

and promote sustainable development including environmental protection. The Administration believes that it is in our interest that China become a member of the WTO; however, we have been steadfast in leading the effort to insure that China's accession to the WTO will occur only on commercial, rather than political, grounds. The pace of China's accession negotiations depends very much on Beijing's willingness to improve its offers.

While China's accession has attracted far more attention, the United States takes every opportunity to pursue American interests with the 28 applicants that are now seeking WTO membership, and to give leadership to the process. Russia's WTO accession could play a crucial part in confirming and assuring Russia's transition to a market economy, governed by the rule of law. Discussions so far on Russia's accession, while still at an early stage, have been quite positive and we look for more progress. We also are interested in the prospects for the accession of many of the former Soviet Republics, the Baltic States, Taiwan, Saudi Arabia and others.

Within the Organization for Economic Cooperation and Development, we are in active negotiations over the Multilateral Agreement on Investment to ensure equitable and fair treatment for U.S. investors. In both this forum and the WTO, we are also actively engaged in efforts to address bribery and corruption, competition policy and transparency in government procurement.

Fast track is essential if we are going to capitalize on the additional market access opportunities presented by the full range of WTO-related negotiations, and OECD initiatives. Before the close of the Uruguay Round, the United States insisted on commitments for ongoing market access efforts. The WTO marked the beginning, not end, of a process of achieving greater market openness for U.S. companies. Without fast track authority, serious preparatory work before the scheduled negotiations will be impaired, as will the U.S.' ability to contribute meaningfully to actual negotiations.

Sectoral Efforts

Sectoral initiatives have succeeded to ensure that U.S. industries that are global competitive leaders will enjoy export success commensurate with their competitive position. Such initiatives are designed so that all those that compete in a particular sector compete on the same terms. They can revive and maintain the momentum of trade liberalization in cases where more comprehensive efforts might falter.

Several recent agreements demonstrate the opportunities such market access initiatives provide for American companies, workers and consumers. We should build on these recent successes, and the commitments we have now obtained from key trading partners to maintain the momentum. Fast track authority is essential if we are to capitalize on these opportunities now.

Our most recent successes are the Information Technology Agreement (ITA) and the Agreement on Basic Telecommunications -- two far-reaching multilateral agreements reducing trade barriers around the world for our high technology industries.

The information technology market is a \$500 billion market, in which the United States is the largest single exporter. The ITA covers more than 93% of global trade in information technology products and includes 42 countries. Under the agreement, global tariffs will be reduced to zero on all goods associated with the information superhighway -- such products as semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of \$5 billion annually.

The telecommunications agreement ensures that U.S. companies can compete against and invest in all existing carriers. Before this agreement, only 17 percent of the top 20 telecom markets were open to U.S. companies; now they have access to nearly 100 percent of these markets. Our international long distance industry will gain access to serve markets accounting for over 95% of global revenue in Europe, Asia, Latin American and Africa, gaining the right to use their own facilities and to work directly with their customers everywhere their customers go. The agreement also offers important opportunities for American investors and entrepreneurs who will be able to acquire, establish or hold a significant stake in telecom companies around world. These opportunities span all sectors.

Telecommunications is a \$600 billion industry; under the agreement revenues are expected to double or even triple over the next ten years. U.S. companies are the most competitive telecommunications providers in the world; they are in the best position to compete and win under this agreement. We expect the agreement will lead to the creation of approximately one million U.S. jobs in the next ten years -- not only in communications companies but also in high-tech equipment makers and in a range of industries such as software, information services, and electronic publishing that benefit from telecom development.

This agreement will also save billions of dollars for American consumers. We estimate that the average cost of international phone calls will drop by 80% -- from \$1 per minute on average to 20 cents per minute over the next several years. Every American with relatives or friends overseas and every business that operates internationally will benefit from this agreement.

The Information Technology Agreement has set a new standard such that the 18 nations of the Asia-Pacific Economic Cooperation forum (APEC) agreed last month in Montreal to explore other sectors for similar market opening treatment. The APEC Ministers also agreed to follow up the ITA by pursuing an "ITA II" trade agreement, which would go beyond tariffs to encompass non-tariff trade barriers, increased product scope and broadened country participation. Our Quad partners have concurred in the goal of negotiating an ITA II. Let me stress here that the original ITA -- already a model agreement affecting hundreds of billions of dollars in goods and services worldwide -- would have been impossible without residual tariff cutting fast track authority from the Uruguay Round.

With respect to the non-IT sectors, the APEC Ministers established an expedited process for launching new market-opening initiatives. Specifically, the APEC countries will each propose sectors for market access initiatives that will be developed by trade officials this summer and presented by the Trade Ministers for Leaders' consideration in November. These initiatives may

encompass goods as well as services, and cover tariff and non-tariff measures.

As we move forward to identify specific initiatives, we are looking broadly at sectors where the U.S. can capitalize further on its global competitive advantage if market access barriers are reduced. We are working closely with U.S. industry to identify such sectors. Among those that may be included for such market access initiatives are environmental products and services, health care products and services and global electronic commerce.

Fast track authority is essential to ensuring that the United States again plays the critical role in opening markets on a sectoral basis as it did in the ITA and telecom agreements. While we retain residual tariff cutting authority in certain areas left over from the Uruguay Round, immediate new opportunities of the type just noted will be lost without a new grant of authority.

Regional Efforts

Latin America and the Caribbean were the fastest growing markets for U.S. goods exports in 1996; our exports grew by more than 13 percent, reaching \$109 billion. That growth rate is more than twice the rate of U.S. exports to the rest of the world. If these trends continue, Latin America will exceed the EU as a destination for U.S. exports by the middle of next year, and we have only begun to see the potential of this huge emerging economic region. Its potential as a source of growth for U.S. exports can be seen in the case of Chile: a country of less than 14 million people, but to which we exported more last year than we did to nations such as India, Indonesia, or Russia.

Latin America is the second fastest growing region in the world, having transformed itself over the last decade in a manner unnoticed by some, but with profound positive implications for the United States. It is already the developing region with the highest per capita consumption of U.S. imports of any region in the world, and it has only begun to generate its full capacity to absorb imports. The Administration recognizes the enormous opportunity to build on this historic transformation. Mexico, for example, is already on the verge of replacing Japan as our second largest export market; in fact, in October of last year, Mexico did exceed Japan in purchases of U.S. exports. This, in spite of the worst economic downturn in modern Mexican history during late 1994 and most of 1995.

At the recent ministerial meeting of the Free Trade Area of the Americas in Belo Horizonte, Brazil, the Trade Ministers of the participating nations agreed that FTAA negotiations should be launched at the Santiago Summit of the Americas in March 1998. To this end, the Trade Ministers established a formal Preparatory Committee which will take all the necessary steps to prepare for comprehensive negotiations early next year addressing a full range of issues from tariff reductions to agriculture to structural issues such as IPR and government procurement.

A comprehensive trade agreement with Chile is our first step in the FTAA process. It will be viewed as a bellwether for our plans in the region. Chile is symbolic of both the opportunities in the region and the region's rising strategic significance to our longer-term economic interests.

U.S. exports to Chile are up 148 percent since 1990. Chile is a leading reformer in Latin America. Without fast track, the United States will not be positioned to conclude an agreement with Chile, and the longer our promise remains unfulfilled, the more likely that Chile, as many countries in our hemisphere will form alternative alliances in place of the U.S.

The Asia Pacific region, likewise, is a region of rapid progress and vital interests. It is enormous in its scope and has major implications for the future of the United States. It contains the fastest growing economies in the world, largely emerging economies with a total population nearing 3 billion people. Within the Asia Pacific Economic Cooperation (APEC) forum, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 13 percent annually, or almost \$80 billion a year.

As a step towards the ultimate APEC goal of free and open trade, market-opening agreements with key economies and key sectors of the Asian Pacific rim would provide U.S. exporters with a strategic advantage over U.S. competitors in the region. It would also provide the United States with a strong economic anchor in Asia, a key step in further cementing U.S.-Asian ties and U.S. opportunity.

There may be no aspect of our trade agenda in which the nexus between economic prosperity and economic security is as profound as it is in our regional agenda. We have the unprecedented opportunity to build enduring economic relationships with the countries in our hemisphere, and in Asia, a region also of vital importance to us. Through trade agreements, we have an opportunity also to enhance our strategic positioning in these critical regions. Globalization will occur with us or without us. U.S. objectives and interests demand action; fast track will help ensure continued U.S. leadership.

Dangers of Inaction

With all we have accomplished in the past four years, the world has continued to change in ways that are critically important to understand. We must recognize the dangers of inaction. In every region of the world, but particularly Asia and Latin America, the two fastest growing regions of the world, our competitors are pursuing strategic trade policies and, in some cases, preferential trade arrangements that will open up markets for their exporters, their products, their workers, their farmers. In short, in this post Cold War global economy countries are creating new exclusive trade alliances to the potential detriment of U.S. prosperity and leadership.

More than 20 such agreements have been concluded without the United States since 1992 alone and the trend continues. Increasingly, the rules are being written without us. Unless we are in a leadership role, our vital economic interests may be compromised. We must maintain strong, consistent influence in these critical regions. Without that presence, nations will look elsewhere for their opportunities and long-term economic alliances. Examples already abound:

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 -- just

announced that they were accelerating their target date for the creation of free trade area, setting a deadline of 2001. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. Indifference to its development can only harm our economic security.

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.

Canada, as you know, has already negotiated a trade pact with Chile and has started discussions with MERCOSUR.

The Presidents of Argentina and Brazil have both expressed an interest in a MERCOSUR-ASEAN free trade agreement, a trade alliance that would incorporate more than 600 million people and two of the most important emerging markets in the world. We simply cannot underestimate the impact of these efforts on our global export competitiveness.

In addition:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with a GDP of over \$1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and has 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. The MERCOSUR ambition is in part driven by the decades old vision of a Latin American free trade area, but also by a clear strategic objective regarding commercial expansion and a stronger position in world affairs.
- The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR. They have also concluded a framework agreement with Chile that is set up to lead to a free trade agreement.
- 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 its 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.
- ASEAN -- the Southeast Asian free trade area -- will include 400 million people and

some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. As noted earlier, Argentina's President Menem recently suggested a MERCOSUR -ASEAN free trade area -- an agreement that would encompass over 600 million people.

- Countries within this hemisphere are equally aggressive. Mexico wants to be the commercial hub between North and South America, and also serve as a venue in which to enter North, Central and South America from Asia and Europe. It is jointly pursuing a free trade area with Europe and is reaching out to Asia. President Zedillo and his Cabinet have undertaken numerous missions to Asia and have been well received. It has reached trade agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua. It has initiated talks with MERCOSUR.
- Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela and Ecuador. It intends to start similar negotiations with Central America and has an eye toward agreements with Asia. Japan is its largest export market, but Chile sees itself as a bridge from MERCOSUR to Asia and back, and is positioning itself with its MERCOSUR neighbors for that purpose.
- In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region. Competition within Asia is the most intense. Japan has been ahead of the U.S. in East Asia in terms of corporate presence, and especially in the past decade, in terms of the amount of overseas development assistance (ODA) it is willing to spend to advance its commercial interests. In more recent years, Korean conglomerates have likewise pursued an aggressive strategy to both invest and attain market share in dynamic East Asian economies, ranging from textiles to steel to autos.

The consequences of these developments for American companies and workers are real, not theoretical. A recent example will suffice: In November 1996 Canada reached a comprehensive trade agreement with Chile that will eliminate Chile's 11% across-the-board tariff starting this year. Northern Telecom recently won a nearly \$200 million telecommunications equipment contract over U.S. companies in part because a purchase from a U.S. producer meant an additional \$20 million in costs (duties) relative to purchasing from Canada.

We cannot stand by idly. U.S. leadership is essential if we are not only to maintain, but enhance our competitive position. We must use every tool in our arsenal, supplemented by fast track authority, to ensure that the rules that emerge from this process of rapid economic integration, reflect our interests and our values.

The Decision to Compete

We have an extremely rare opportunity. Never before have so many nations looked to a freer market and believed in it enough to let competition come right to their doorstep. This is a season of open minds on more open markets. Why -- when the benefits of expanded trade are so clear

and the costs of sidelining ourselves so great -- should we retreat? We cannot afford to do so and we must not.

We should begin by recognizing that our economy is the strongest in the world, that expanded trade has played an important role in building that strength; and that no country in the world is better positioned to take advantage of the enormous opportunities presented by a growing global economy. In fact, we are at a unique moment and we need to seize it now. Our competitors cannot beat us, but we can lose if we put ourselves on the sidelines.

As we contemplate the next four years in trade, we face a very clear choice:

We can recognize that the American economy is the model for the world, and continue to open foreign markets and seize the initiative when it comes to international competition. We can recognize the extraordinary opportunities presented by the growing global economy, in which developing nations, which want and need the full range of our manufactured goods, services and agricultural products, are poised to fuel continued global growth.

At the same time, we would face up to problems as we identify them together: working to put in place education, training and adjustment policies needed to help those who are not benefitting from the new economy; advancing core labor standards and protecting the environment; being vigilant to the consequences and potential threat of forced technology transfers. But we would be starting from the proposition that we have been basically on the right track, and we should stay fully engaged, using all our tools, taking advantage of opportunities that present themselves as we did when we saw the chance to reach an ITA.

Or, we can convince ourselves, against the evidence, that we are on the wrong track. We can choose our course guided by a picture of economic decline and disinvestment that bears no resemblance to what is happening in our country. Our competitors would like nothing better than for us to sideline ourselves, debating NAFTA and our relationship with Mexico for years to come while they move ahead. It would be a serious, self-inflicted wound.

America is poised to seize great opportunities. Our competitors cannot beat us; we can only lose by removing ourselves. We can, in short, lose our momentum, abdicate our position of strength, either permit markets to stay closed, or let others seize the initiative from us and gain preferential treatment. The choice is that clear.

Labor and the Environment

Similarly, we can no longer allow our disagreements over the relationship between trade, labor standards and environmental protection to prevent us from granting the President fast track authority. We simply have to forge a consensus of this subject which eluded us in 1994 and 1995. I have been consulting broadly with members of Congress, business, labor and environmental groups, and will continue to do so. I do not intend to put forward a specific formulation today, but wanted to share several thoughts in this area.

It is important to recognize that a commitment to the protection of core labor standards and their relationship to trade, is not new, nor is it unique to the United States. The international commitment to address this issue goes back as far as the Havana Charter, which was the effort to establish the International Trade Organization after World War II. We were gratified that at the WTO Ministerial in Singapore, the trading nations of the world acknowledged, for the first time in a Ministerial declaration, the importance of core labor standards to trade, although we fought for stronger steps. Advancing worker rights and labor standards is in our national interest and it is consistent with our deepest national values.

Making environmental and trade policy mutually supportive, although a somewhat newer public policy phenomenon on a global scale, similarly enjoys strong support in our country, and internationally. The 1992 Rio Sustainable Development Summit, the 1994 Summit of the Americas, and ongoing work in the WTO all reflect an international commitment to the importance of making these policy areas mutually supportive.

In my view, the challenge is how to maximize progress in three areas which are of major importance to us: expanded market access, advancing worker rights and core labor standards, and promoting environmental protection and sustainable development. We are committed to a strong strategy of pursuing our goals, and maintaining flexibility rather than pretending that one prescription would fit all countries or all cases. Based on my experience over these past four years, I think there is no substitute for building a consensus at home behind a strategy to advance our objectives on core labor standards and environmental protection. I am also certain that we will not convince other nations to improve their labor standards or environmental protection by denying the President the ability to negotiate trade agreements with them. We will, however, cripple our own export performance and lose jobs at home.

Conclusion

Clearly, this should not be a matter of party or politics. Every President since President Ford has had fast track authority for key periods on a bipartisan basis. For over 60 years, in response to the lessons of the Smoot-Hawley tariffs, America has led the effort to open foreign markets and increase U.S. and global prosperity. We cannot take that role for granted.

Rather, the Administration and the Congress must work together to seize the immense opportunities presented by the global economy. We must continue to play a central role in shaping that economy. Doing so is vital to our domestic prosperity, our longer term economic security and our broader strategic interests. I look forward to working with you on this trade agenda of the 21st century and the enactment of fast track legislation this year.

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What Should Trade Negotiators Negotiate About?*

PAUL KRUGMAN

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IF ECONOMISTS RULED the world, there would be no need for a World Trade Organization. The economist's case for free trade is essentially a unilateral case: a country serves its own interests by pursuing free trade regardless of what other countries may do. Or, as Frederic Bastiat put it, it makes no more sense to be protectionist because other countries have tariffs than it would to block up our harbors because other countries have rocky coasts. So, if our theories really held sway, there would be no need for trade treaties: global free trade would emerge spontaneously from unrestricted pursuit of national inter-

Fortunately or unfortunately, however, the world is not ruled by economists. The compelling economic case for unilateral free trade carries hardly any weight among people who really matter.

* *Fair Trade and Harmonization: Prerequisites for Free Trade?* Vol. 1. *Economic Analysis*. Vol. 2. *Legal Analysis*. Edited by JAGDISH BHAGWATI AND ROBERT E. HUDEC. Cambridge and London: MIT Press, 1966. Vol. 1: Pp. xi, 598. ISBN 0-262-02401-2; Vol. 2: Pp. vi, 294. ISBN 0-262-02401-0.

¹ Students of international trade theory know that there is actually a theoretical caveat to this statement: large countries have an incentive to limit imports—and exports—to improve their terms of trade, even if it is in their collective interest to refrain from doing so. This “optimal tariff” argument, however, plays almost no role in real-world disputes over trade policy.

If we nonetheless have a fairly liberal world trading system, it is only because countries have been persuaded to open their markets in return for comparable market-opening on the part of their trading partners. Never mind that the “concessions” trade negotiators are so proud of wresting from other nations are almost always actions these nations should have taken in their own interest anyway; in practice, countries seem willing to do themselves good only if others promise to do the same.

But in that case, why should the tit we demand in return for our tats consist only of trade liberalization? Why not demand that other countries match us, not only in what they do at the border, but in internal policies? This question has been asked with increasing force in the last few years. In particular, environmental advocates and supporters of the labor movement have sought with growing intensity to expand the obligations of WTO members beyond the conventional rules on trade policy, making adherence to international environmental and labor standards part of the required package; meanwhile, business groups have sought to require a “level playing field” in terms of competition policy and domestic taxation. Depending on your point of view, the idea that there must be global harmonization of standards on employment,

environment, and taxation is either the logical next step in global trade negotiations or a dangerous overstepping of boundaries that threatens to undermine all the progress we have made so far.

In 1992 Columbia's Jagdish Bhagwati (one of the world's leading international trade economists) and Robert E. Hudec (an experienced trade lawyer and former official now teaching at Minnesota) brought together an impressive group of legal and economic experts in a three-year research project intended to address the new demands for an enlarged scope of trade negotiations. *Fair Trade and Harmonization: Prerequisites for Free Trade?* is the result of that project. This massive two-volume collection of papers is unavoidably a bit repetitious. One also wonders why only economists and lawyers were involved—what happened to the political scientists? (More on that later.) But the volumes contain a number of first-rate papers and offer a valuable overview of the debate. In this essay, I will not try to offer a comprehensive review of the papers; in particular I will give short shrift to those on competition and tax policy. Nor will I try to deal with the quite different question of how much coordination of technical standards (e.g., health regulations on food—remember the Eurosausage!), or safety regulations on consumer durables—is essential if countries are to achieve “deep integration.” Instead, I will try to sort through what seem to be the main issues raised by new demands for international labor and environmental standards.

I. *The Economics and Politics of Free Trade*

In a way, the most interesting paper in the Bhagwati-Hudec volumes is interesting precisely because the author seems not to understand the logic of the eco-

nomic case for free trade—and in his incomprehension reveals the dilemmas that practical free traders face. Brian Alexander Langille, a Canadian lawyer, points out correctly that domestic policies such as subsidies and regulations may influence a country's international trade just as surely as explicit trade policies such as tariffs and import quotas. Why then, he asks, should trade negotiations stop with policies explicitly applied at the border? He seems to view this as a deep problem with economic theory, referring repeatedly to the “rabbit hole” into which free traders have fallen.

But the problem free traders face is not that their theory has dropped them into Wonderland, but that political pragmatism requires them to imagine themselves on the wrong side of the looking glass. There is no inconsistency or ambiguity in the economic case for free trade; but policy-oriented economists must deal with a world that does not understand or accept that case. Anyone who has tried to make sense of international trade negotiations eventually realizes that they can only be understood by realizing that they are a game scored according to mercantilist rules, in which an increase in exports—no matter how expensive to produce in terms of other opportunities foregone—is a victory, and an increase in imports—no matter how many resources it releases for other uses—is a defeat. The implicit mercantilist theory that underlies trade negotiations does not make sense on any level, indeed is inconsistent with simple adding-up constraints; but it nonetheless governs actual policy. The economist who wants to influence that policy, as opposed to merely jeering at its foolishness, must not forget that the economic theory underlying trade negotiations is nonsense—but he must also be willing to think as the negotiators think, accepting for the sake of argument their view of the world.

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What Langille fails to understand, then, is that serious free-traders have never accepted as valid economics the demand that our trade liberalization be matched by comparable market-opening abroad; and so they are not being inconsistent in rejecting demands for an extension of such reciprocity to domestic standards. If economists are sometimes indulgent toward the mercantilist language of trade negotiations, it is not because they have accepted its intellectual legitimacy but either because they have grown weary of saying the obvious or because they have found that in practice this particular set of bad ideas has led to pretty good results.

One way to answer the demand for harmonization of standards, then, is to go back to basics. The fundamental logic of free trade can be stated a number of different ways, but one particularly useful version—the one that James Mill stated even before Ricardo—is to say that international trade is really just a production technique, a way to produce importables indirectly by first producing exportables, then exchanging them. There will be gains to be had from this technique as long as world relative prices differ from domestic opportunity costs—regardless of the source of that difference. That is, it does not matter from the point of view of the national gains from trade whether other countries have different relative prices because they have different resources, different technologies, different tastes, different labor laws, or different environmental standards. All that matters is that they be different—then we can gain from trading with them.

This way of looking at things, among its other virtues, offers an *en passant* refutation of the instinctive feeling of most non-economists that a country that imposes strong environmental or labor standards will necessarily experience dif-

ficulties when it trades with other countries that are not equally high-minded. The point is that all that matters for the gains from trade are the prices at which you trade—it makes absolutely no difference what forces lie behind those prices. Suppose your country has been cheerfully exporting airplanes and importing clothing in return, believing that the comparative advantage of your trading partners in clothing is “fairly” earned through exceptional productive efficiency. Then one day an investigative journalist, hot in pursuit of Kathy Lee Gifford, reveals that the clothing is actually produced in 60-cent-an-hour sweatshops that foul the local air and water. (If they hurt the global environment, say by damaging the ozone layer, that is another matter—but that is not the issue.) You may be outraged; but the beneficial trade you thought you had yesterday has not become any less economically beneficial to your country now that you know that it is based on these objectionable practices. Perhaps you want to impose your standards on these matters, but this has nothing to do with trade *per se*—and there are worse things in the world than low wages and local pollution to excite our moral indignation.

This back-to-basics case for rejecting calls for harmonization of standards is elaborated in two of the papers in Volume 1 of Bhagwati-Hudec: a discussion of environmental standards by Bhagwati and T. N. Srinivasan, and a discussion of labor standards by Drusilla Brown, Alan Deardorff, and Robert Stern. In each case the central theme is that neither the ability of a country to impose such standards nor its benefits from so doing depend in any important way on whether other countries do the same; so why not leave countries free to choose?

Bhagwati and Srinivasan also raise two other arguments on behalf of a *laissez-faire* approach to standards, arguments

echoed by several other authors in the volume. The first is that nations may legitimately have different ideas about what is a reasonable standard. (The authors quote one environmentalist who asserts that "geopolitical boundaries should not override the word of God who directed Noah" to preserve all species, then drily note that "as two Hindus . . . we find this moral argument culture-specific" pp. 182.) Moreover, even nations that share the same values will typically choose different standards if they have different incomes: advanced-country standards for environmental quality and labor relations may look like expensive luxuries to a very poor nation.

Second, to the extent that nations for whatever reason choose different environmental standards, this difference, like any difference in preferences, actually offers not a reason to shun international trade but an extra opportunity to gain from such trade. It is very difficult to be more explicit about this without being misrepresented as an enemy of the environment—an excerpt from the entirely sensible memo along these lines that Lawrence Summers signed but did not write at the World Bank a few years ago is reprinted in my copy of *The 776 Stupidest Things Ever Said*—so it is left as an exercise for readers.

The back-to-basics argument against harmonization of standards, then, is completely consistent and persuasive. And yet it is also somehow unsatisfying. Perhaps the problem is that we know all too well how little success economists have had in convincing policy makers of the case for unilateral free trade. Why, then, should we imagine that restating that case yet again will be an effective argument against the advocates of international harmonization of standards?

Confronted with the failure of the public to buy the classical case for free trade, and unwilling simply to preach

the truth to each other, trade economists have traditionally followed one of two paths. Some try to give the skeptics the benefit of the doubt, attempting to find coherent models that make sense of their concerns. Others try to make sense not of the skeptics' ideas but their motives, attempting to seek guidance from models of political economy. The same two paths are followed in these volumes, with several papers following each approach.

II. *Second-best Considerations and the "Race to the Bottom"*

The general theory of the second best tells us that if incentives are distorted in some markets, and for some reason these distortions cannot be directly addressed, policies in other markets should in principle take the distortions into account. For example, environmental economists have become sensitized to the likely interactions between pollution fees—designed to correct one distortion of incentives—with other taxes, which have nothing to do with environmental issues but which, because they distort incentives to work, save, and invest may crucially affect the welfare evaluation of any given environmental policy.

There is a long history of protectionist arguments along second-best lines. (Among Bhagwati's seminal contributions to international trade theory was, in fact, his work showing that many critiques of free trade are really second-best arguments—and that the first-best response rarely involves protection.) Here's an easy one: suppose that an industry generates negative environmental externalities that are not properly priced, and that international trade leads to an expansion of that industry in your country. Then that trade may indeed reduce national welfare (although of course trade may equally well have the opposite

effect: it may cause your country to move out of "dirty" into "clean" industries, and thereby lead to large welfare gains).

However, the advocates of international environmental and labor standards seem to be offering a more subtle argument. They seem to be claiming that an environmental (or labor) policy that would raise welfare in a closed economy—or that would raise world welfare if implemented by all countries simultaneously—will reduce national welfare if implemented unilaterally. Thus the independent actions of national governments in the absence of international standards on these issues can lead to a "race to the bottom," with global standards far too lax.

What sort of model might justify this fear? In an extremely clear paper in Volume 1, John D. Wilson gives the issue his (second) best shot, showing that international competition for capital—in a world in which the social return to capital exceeds its private return, for example due to capital taxation—could do the trick. Other things being the same, tighter environmental or labor regulation will presumably decrease the rate of return on investments, and thus any country which has a pre-existing tendency to attract too little capital will have an incentive to avoid such regulations; whereas a collective, international decision to impose higher standards would not lead to capital flight, because the capital would have nowhere to go.

Is this a clinching argument? Not necessarily. For one thing, like all second-best arguments it is very sensitive to tweaking of its assumptions. As Wilson points out, capital importation may have adverse as well as positive effects, especially from the point of view of an environment-conscious country. In that case a positive rate of taxation is appropriate—and if the actual rate of taxation is too low, countries may adopt excessively

strong environmental standards in a "race to the top." If this seems implausible, Wilson reminds us of the NIMBY (not in my backyard) phenomenon in which no local jurisdiction is willing to be the site for facilities the public collectively needs to locate *somewhere*.

Even if you regard a race to the bottom as more likely than one to the top, there is still the question of whether such second-best arguments are really very important. This is doubtful, especially where environmental standards are concerned. The alleged impact of such standards on firms' location decisions looms large in the demands of activists who want these standards harmonized. But the chapter by Arik Levinson, surveying the evidence, finds little reason to think that international differences in these standards actually have much effect on the global allocation of capital.

So while it is possible to devise second-best models that offer some justification for demands for harmonization of standards, these models—on the evidence of this collection, at any rate—do not seem particularly convincing. The classical case for laissez-faire on national economic policies is surely not precisely right, but it does not seem wrong enough to warrant the heat now being generated over the issue of harmonization.

Simply pointing this out, however, while important, does not make the phenomenon go away. So it is at least equally important to try to understand the political impulse behind demands for harmonization, and in particular to ask whether the political economy of standard-setting offers some indirect rationale for insisting on harmonization of such standards.

III. *The Political Economy of Standards*

Consider—as Brown, Deardorff, and Stern do—a single industry, small

enough to be analyzed using partial equilibrium, in which a country is considering imposing a new environmental or labor regulation that will raise production costs. As they point out, if the costs of the regulation are less than the social costs imposed by the industry in its absence, then it is worth doing regardless of whether other countries follow suit. But the distribution of gains between producers and consumers does depend on whether the action is unilateral or coordinated. If one country imposes a costly regulation while others do not, the world price will remain unchanged and all of the burden will fall on producers; if many countries impose the regulation, world prices will rise and some of the burden will be shifted to consumers.

So what? Well, it is a fact of life, presumably rooted in the public-goods character of political action, that trade policy tends to place a much higher weight on producers than on consumers. So even though the national welfare case for the regulation is not weakened at all by the fact that the good is traded, the practical political calculus of getting the regulation implemented could quite possibly depend on whether other countries agree to do the same.

This suggests an alternative version of the "race to the bottom" story. The problem, one might argue, is not that *countries* have an incentive to set standards too low in a trading world. Rather, it is that *politicians*, who respond to the demands of special-interest groups, have such an incentive. And one might argue that this failure of the political market, rather than distortions in goods or factor markets, is what justifies demands for international harmonization of standards.

An environmentalist or defender of workers' rights might also make a related argument. He or she might say "You know that countries aren't in a zero-sum competition, and I know that they aren't,

but the public and the politicians think they are—and industry lobbies consistently use that misconception as an argument against standards that we ought to have. So we need to set those standards internationally in order to neutralize that bogus but effective political ploy."

It is very difficult for trade economists to reject this line of argument on principle. After all, it is very close to the reason why free-traders who know that the economic case for liberal trade is essentially unilateral are nonetheless usually staunch defenders of the GATT: trade negotiations may be based on a false theory, but by setting exporters as counterweights to producers facing import competition they nonetheless are politically crucial to maintaining more or less free trade. That is, the true purpose of international negotiations is arguably not to protect us from unfair foreign competition, but to protect us from ourselves. (When the United States recently imposed utterly indefensible restrictions on Mexican tomato exports, an Administration official remarked off the record that Florida has a lot of electoral votes while Mexico has none. The economically correct rebuttal to this sort of thing is to point out that the other 49 states contain a lot of pizza lovers; the politically effective answer is to subject U.S.-Mexican trade to a set of rules and arbitration procedures in which the Mexicans do too have a vote.)

While one cannot dismiss such political-economy arguments as foolish, however, the problem is to know where to stop. Here is where it would have been useful to hear from some political scientists, who might be able to tell us more about when international negotiations over standards are likely to improve domestic policies, and when they are likely simply to serve as a cover for protectionist motives. But while I would have liked to see an analysis from that point of

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view, much of the legal analysis that occupies Volume 2 of the Bhagwati-Hudec books does shed light on the problem.

IV. *Standards and the Rule of Law*

Economists pronounce on legal matters at their peril: law, even international trade law, is a discipline all its own, with a jargon just as impenetrable to us as ours is to them. Let me therefore tread cautiously in interpreting the arguments here.

As I understand it, the problem involved in defining the limits of free trade is not too different from that of defining the limits of free speech. Take it as a given that countries can do things that are perceived to be economically harmful to other countries—it does not necessarily matter whether this perception is correct. Which of these things can realistically be prohibited, and which should be tolerated? The answer is a matter of degree. The fellow at the next table who insists on talking loudly to his partner about marketing is annoying, but one cannot reasonably ask the law to do anything about him; the person who shouts "Fire" in a crowded theater is something else again. Where does one draw the line in international economic relations?

The prevailing principle of international law derives from the seventeenth century Treaty of Westphalia, which ended the Thirty Years' War by establishing the rule that states may do whatever they like (such as imposing the sovereign's religion) within their borders—only external relations are the proper concern of the international community. By this principle, labor law, or environmental policies that do not spill across borders, should be off limits.

Now in practice we do not always honor the principle of the hard-shell Westphalian state. We are sometimes willing to impose sanctions or even in-

vade to protect human rights. Even in trade negotiations, it is an understood principle that if a country *de facto* undoes its trade concessions with domestic policies—for example, offsetting a tariff cut with an equal production subsidy—it is considered to have failed to honor its agreement. But while borders are fuzzier in legal practice than they are on a map, the structure of trade negotiations is still basically Westphalian.

The demand for harmonization of standards is, in effect, a demand that this should change. We have seen that the strictly economic case for that demand is fairly weak, but there may be a stronger case on grounds of political economy. But what do the legal experts say?

The general answer, as I understand it, is that they don't think it is a good idea. A lucid chapter by Frieder Rousseler grants that the political argument for harmonization has some force, but concludes that to give in to it would open up too wide a range of potential complaints, much the same as would happen if I were allowed to sue people whose words annoy rather than actually slander me. Other authors, such as Virginia Leary and Robert Hudec himself, seem to have a similar point of view, suggesting only that nations might want to enter into specific environmental and labor agreements that would then be enforced by the same institutions that enforce trade agreements. (One essay, however, a piece by Daniel Gifford and Mitsuo Matsushita on competition policy, seems more economic than the economists: it argues that the international acceptability of competition policies should be judged on whether they seem likely, or at least motivated by the desire, to enhance efficiency.)

To an economist, at least, the legal case here seems fairly similar to the economic case for trade negotiations. We have a purist principle: unilateral free

trade, the Westphalian state. We recognize based on experience that it is useful to compromise that principle a bit, so that we work with mercantilists rather than simply castigating them and allow a bit of international meddling in internal affairs. But while a bit of pragmatism is allowed, the principle remains there; and it is not a good idea to stray too far.

On the evidence of these volumes, then, the demand for harmonization is by and large ill-founded both in economics and in law; realistic political economy requires that we give it some credence, but not too much. Unfortunately, that will surely not make the issue go away. Expect many more, equally massive volumes to come.

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Annex Table 30. General government financial balances
Surplus (+) or deficit (-) as a percentage of nominal GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections	
																		1997	1998
United States	-1.4	-1.1	-3.5	-4.1	-3.0	-3.2	-3.5	-2.6	-2.1	-1.7	-2.7	-3.3	-4.4	-3.6	-2.3	-2.0	-1.6	-1.1	-1.2
Japan	-4.4	-3.8	-3.6	-3.6	-2.1	-0.8	-0.9	0.5	1.5	2.5	2.9	2.9	1.5	-1.6	-2.3	-3.7	-4.4	-3.1	-2.3
Germany ^a	-2.9	-3.7	-3.3	-2.6	-1.9	-1.2	-1.3	-1.9	-2.2	0.1	-2.1	-3.3	-2.8	-3.5	-2.4	-3.6	-3.8	-3.2	-2.7
France ^b	-0.0	-1.9	-2.8	-3.2	-2.8	-2.9	-2.7	-1.9	-1.7	-1.2	-1.6	-2.0	-3.8	-5.6	-5.6	-5.0	-4.2	-3.2	-3.0
Italy	-8.6	-11.5	-11.4	-10.7	-11.7	-12.6	-11.7	-11.0	-10.7	-9.9	-11.0	-10.2	-12.1	-9.7	-9.6	-7.0	-6.7	-3.2	-3.8
United Kingdom	-3.4	-2.6	-2.5	-3.3	-3.9	-2.8	-2.4	-1.6	0.7	1.0	-1.2	-2.5	-6.3	-7.8	-6.8	-5.5	-4.4	-2.8	-1.8
Canada	-2.8	-1.5	-5.9	-6.9	-6.5	-6.8	-5.4	-3.8	-2.5	-2.9	-4.1	-6.6	-7.4	-7.3	-5.3	-4.1	-1.8	-0.2	0.5
Total of above countries	-2.7	-2.8	-4.0	-4.4	-3.6	-3.4	-3.4	-2.5	-1.9	-1.2	-2.1	-2.7	-4.0	-4.3	-3.6	-3.4	-3.1	-2.1	-1.9
Australia	-1.7	-0.7	-0.5	-3.9	-3.3	-2.8	-3.0	-0.3	1.0	1.0	0.6	-2.7	-4.0	-3.8	-4.0	-2.0	-1.4	-1.0	-0.1
Austria	-1.7	-1.8	-3.4	-4.0	-2.6	-2.5	-3.7	-4.3	-3.0	-2.8	-2.2	-2.7	-1.9	-4.2	-4.8	-5.3	-3.9	-3.0	-3.4
Belgium	-8.8	-12.9	-11.0	-11.6	-9.5	-9.0	-9.5	-7.7	-7.0	-6.4	-5.6	-6.5	-7.2	-7.5	-5.1	-4.1	-3.4	-2.8	-2.7
Denmark	-3.3	-6.9	-9.1	-7.2	-4.1	-2.0	3.4	2.4	0.6	-0.5	-1.5	-2.1	-2.9	-3.9	-3.4	-1.9	-1.6	0.0	0.7
Finland	2.8	3.5	1.9	0.6	3.0	2.9	3.4	1.0	4.1	6.3	5.4	-1.5	-5.8	-7.9	-6.2	-5.1	-2.6	-2.0	-1.4
Greece ^c	-2.6	-8.3	-6.3	-7.1	-8.4	-11.5	-10.3	-9.5	-11.5	-14.4	-16.1	-11.5	-12.3	-14.2	-12.1	-9.2	-7.4	-5.2	-4.0
Iceland	1.3	1.3	1.7	-2.0	2.2	-1.7	-4.1	-0.9	-2.0	-4.6	-3.3	-2.9	-2.8	-4.5	-4.7	-3.1	-1.8	-1.1	-0.7
Ireland	-12.3	-13.0	-13.4	-11.4	-9.5	-10.9	-10.7	-8.6	-4.5	-1.8	-2.3	-2.4	-2.5	-2.5	-1.8	-2.1	-0.9	-1.2	-1.0
Korea	0.1	0.5	1.7	1.7	1.5	1.2	1.7	2.7	3.7	3.6	3.7	2.0	1.5	2.8	3.4	4.0	4.0	3.8	3.9
Netherlands	-4.2	-5.4	-6.6	-5.8	-5.5	-3.6	-5.1	-5.9	-4.6	-4.7	-5.1	-2.9	-3.9	-3.2	-3.4	-4.1	-2.4	-2.3	-1.7
New Zealand	..	..	..	..	..	..	-6.8	-2.5	-5.1	-4.2	-5.4	-4.1	-3.6	-1.2	3.0	3.2	3.1	2.8	2.9
Norway	5.2	4.4	4.0	3.7	7.4	9.9	6.2	5.1	2.7	1.8	2.6	0.1	-1.7	-1.4	0.4	3.3	5.9	6.7	7.1
Portugal	5.6	-10.7	-7.7	-10.2	-7.1	-7.5	-6.4	-5.6	-3.6	-2.5	-5.6	-6.7	-3.6	-6.8	-5.7	-5.0	-4.0	-2.9	-2.8
Spain	-2.0	-3.5	-5.2	-4.4	-5.0	-6.8	-5.8	-3.0	-3.0	-2.5	-3.8	-4.4	-3.6	-6.8	-6.3	-6.6	-4.5	-3.0	-2.6
Sweden ^d	-4.0	-5.3	-7.0	-5.0	-2.9	-3.8	-1.2	4.2	3.5	5.4	4.2	-1.1	-7.8	-12.3	-10.3	-7.7	-3.6	-2.1	-0.2
Total of above smaller countries	-2.0	-3.7	-4.0	-4.2	-3.4	-3.6	-3.3	-1.9	-1.4	-1.2	-1.7	-2.9	-3.6	-4.6	-3.8	-3.1	-1.7	-1.0	-0.5
Total of above OECD countries	-2.6	-2.9	-4.0	-4.3	-3.5	-3.4	-3.3	-2.4	-1.8	-1.2	-2.1	-2.7	-3.9	-4.3	-3.6	-3.3	-2.9	-1.9	-1.7
Memorandum item																			
Total of above European Union countries	-3.4	-5.1	-5.3	-5.1	-4.9	-4.9	-4.5	-3.9	-3.4	-2.5	-3.8	-4.4	-5.6	-6.5	-5.8	-5.2	-4.4	-3.0	-2.6
General government financial balances excluding social security																			
United States ^e	-1.3	-0.9	-3.3	-4.1	-3.1	-3.5	-3.8	-3.1	-2.9	-2.7	-3.7	-4.2	-5.2	-4.4	-3.2	-2.8	-2.5	-2.0	-2.2
Japan ^e	-7.0	-6.6	-6.3	-6.3	-4.8	-3.9	-4.1	-2.4	-1.6	-0.8	-0.7	-0.8	-2.0	-4.8	-5.1	-6.6	-7.3	-5.8	-4.7

Note: Fiscal policy assumptions are based on announced measures and stated policy intentions, where they are embodied in well defined programmes. Detailed assumptions for individual countries are provided in special boxes in the country notes. There may be large margins of error around the "point forecasts" of fiscal positions, reflecting uncertainties about:

- economic growth rates and inflation rates;
- income elasticities of tax revenues, especially in the event of tax reforms;
- impacts of new structural measures (e.g. in the labour market) on spending propensities;
- future measures, notably those which should contribute to the achievement of the declared intents by European Union governments planning to meet the Maastricht fiscal criteria in 1997, but are as yet not concrete or not known; and
- calendar year estimates for countries whose fiscal year does not start on 1 January.

a) Includes balances of the German Railways Fund from 1994 onwards and of the Inherited Debt Fund from 1995 onwards.

b) As of 1992, due to several accounting changes, the above deficits calculated using the "Maastricht" definition, are smaller than those published by INSEE, the national statistical agency.

c) Due to changes in accounting procedures, the general government deficits for 1995 and 1996 do not include capitalised interest and payments of called guarantees, amounting to 1 and 1.3 per cent of GDP respectively.

d) As of 1995, the financial balance is based on the principles applied by the European Union ("Maastricht" definition). Compared to the numbers published in the national accounts, this implies a somewhat smaller deficit for 1995 and a larger one for 1996.

e) OECD Secretariat estimates, derived from fiscal year data converted to a calendar year basis. The coverage of the social security systems is not the same in the United States and Japan.

Annex Table 29. General government current receipts^a
As a percentage of nominal GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997 1998	
United States	30.0	30.6	30.0	29.3	29.3	29.7	29.7	30.5	30.0	30.2	30.1	30.1	30.0	30.3	30.7	31.3	31.7	31.8	31.8
Japan	27.6	29.0	29.4	29.6	30.2	30.8	31.0	32.5	32.8	33.1	34.2	33.8	33.2	32.1	32.1	32.0	31.8	32.9	33.2
Germany	45.0	45.0	45.7	45.3	45.5	45.8	45.0	44.8	44.1	44.9	43.0	44.5	45.7	46.0	46.5	46.0	45.2	45.1	44.7
France	46.1	46.7	47.6	48.2	49.2	49.3	48.6	49.0	48.3	47.9	48.3	48.3	48.2	49.0	48.4	48.9	50.4	50.3	50.2
Italy	33.6	34.8	36.5	38.3	38.1	38.6	39.4	39.5	39.8	41.6	42.4	43.4	44.3	47.4	45.2	45.1	46.2	48.4	46.8
United Kingdom	39.6	41.6	42.1	41.4	41.2	41.2	40.0	39.3	38.6	38.5	38.7	38.1	36.8	35.7	36.3	37.6	37.6	38.0	37.9
Canada	36.1	38.3	38.8	38.4	38.5	38.5	39.2	39.7	40.0	40.3	41.9	42.6	42.8	42.1	41.9	42.4	42.9	42.8	42.6
Total of above countries	33.5	34.4	34.5	34.3	34.5	34.8	34.8	35.4	35.1	35.4	35.5	35.8	35.7	35.9	35.9	36.2	36.6	36.9	36.8
Australia	29.7	30.7	32.4	31.1	32.1	33.6	34.4	35.0	34.7	34.1	35.5	34.5	33.7	33.6	32.8	34.3	35.1	35.1	35.1
Austria	46.4	47.8	46.7	46.4	47.5	48.5	48.0	47.6	47.1	46.2	46.5	47.2	48.6	49.0	47.0	47.1	47.8	47.8	47.1
Belgium	49.0	49.9	52.0	51.5	52.4	52.5	51.5	51.5	49.8	48.1	48.7	49.2	49.0	49.7	50.6	50.8	50.9	50.7	50.2
Denmark	52.9	52.9	52.0	54.4	56.3	57.3	59.1	59.7	60.0	59.1	57.1	57.1	58.2	59.9	60.6	59.2	59.9	59.7	59.0
Finland	40.9	42.5	42.7	43.0	45.0	46.8	48.1	46.0	48.0	48.3	50.7	52.5	53.3	52.3	53.2	53.2	54.8	54.1	53.5
Greece	27.8	26.5	29.3	30.3	31.4	31.5	32.1	32.8	30.7	29.2	32.1	32.9	33.7	34.4	35.9	37.8	37.3	38.4	38.4
Iceland	33.8	34.9	36.0	34.0	35.4	34.0	33.8	33.9	37.4	37.5	36.0	37.3	37.8	35.9	35.4	36.1	36.3	36.1	36.1
Ireland	35.9	36.5	38.8	40.5	40.6	40.2	40.0	40.3	40.6	36.8	36.7	37.8	38.1	38.2	38.8	36.3	36.7	36.2	35.1
Korea	19.4	19.5	19.9	20.3	19.2	18.8	18.5	18.7	19.7	20.8	21.8	21.4	22.5	23.4	24.2	24.5	25.2	25.5	25.7
Netherlands	51.6	52.2	53.2	54.1	53.3	53.6	51.9	52.6	52.1	49.1	49.0	51.7	51.2	52.0	49.6	48.1	47.6	47.2	46.4
New Zealand	..	..	..	..	..	..	50.4	50.9	49.3	51.0	52.2	50.5	50.8	49.7	50.7	50.7	50.1	49.2	48.5
Norway	49.0	47.9	48.0	48.1	49.7	51.6	51.9	52.2	52.1	51.0	52.3	50.7	50.3	49.6	50.2	50.6	51.5	51.4	50.6
Portugal	29.2	30.9	32.9	35.1	34.7	33.4	34.9	34.3	35.5	35.8	36.3	37.9	41.6	39.8	40.1	41.3	43.1	43.5	43.5
Spain	30.1	31.4	31.4	33.3	33.0	34.4	34.9	36.6	36.5	38.3	38.2	39.0	40.9	40.9	39.6	38.1	38.8	38.8	38.4
Sweden ^b	56.1	57.4	57.8	59.5	59.0	59.5	60.4	62.1	61.6	63.7	63.3	60.2	59.4	58.8	57.9	58.7	61.1	61.2	60.6
Total of above smaller countries	36.2	37.0	37.7	38.4	38.6	39.2	39.5	40.1	40.0	40.0	40.5	40.8	41.5	41.6	41.2	41.1	41.8	41.8	41.4
Total of above OECD countries	34.0	34.8	35.0	35.0	35.2	35.6	35.5	36.1	35.9	36.1	36.3	36.5	36.6	36.8	36.7	37.0	37.4	37.7	37.5
<i>Memorandum item</i>																			
Total of above European Union countries	41.3	42.2	43.0	43.6	43.8	44.1	43.8	43.9	43.5	43.9	43.8	44.4	44.8	45.4	45.0	45.0	45.4	45.8	45.3

a) Current receipts exclude capital receipts.

b) As of 1995, receipts are based on the principles applied by the European Union ("Maastricht" definition). Compared to the numbers published in the national accounts, this implies higher receipts for 1995 and smaller receipts for 1996.

Annex Table 34. General government gross financial liabilities^a
As a percentage of nominal GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections	
																		1997	1998
United States	37.0	36.2	40.7	43.7	45.3	49.5	52.4	53.7	54.2	54.1	55.5	59.5	61.8	63.3	62.8	63.4	63.9	63.8	64.6
Japan	51.2	55.5	59.4	63.8	65.8	67.0	70.5	72.5	70.9	68.7	65.1	62.4	63.6	67.4	73.1	80.6 ^b	86.4	90.8	93.4
Germany ^{c,d}	31.1	35.0	39.0	40.3	41.8	42.8	42.7	43.4	43.4	41.0	45.5	44.4	45.8	51.9	51.7	62.2	64.9	65.9	66.1
France	30.9	30.1	34.2	35.3	37.1	38.6	39.3	40.7	40.6	40.6	40.2	41.0	45.8	53.0	56.4	60.7	63.0 ^b	64.3	65.0
Italy	58.1	60.3	65.3	70.2	75.5	82.3	86.4	90.6	92.8	95.7	104.5 ^e	108.4	117.3	118.9	125.5	124.7	125.2	124.1	123.0
United Kingdom	54.0	54.5	53.2	53.4	60.3 ^e	58.9	57.9	55.6	49.3	42.9	39.3	40.6	47.6	56.6	54.3	60.0	61.3 ^b	60.8	59.5
Canada	44.0	44.7	49.7	55.2	58.7	64.1	67.8	68.4	68.1	69.2	72.5	79.4	87.2	94.4	97.5	100.5	100.3	97.2	93.5
Total of above countries	41.6	42.5	46.5	49.5	51.9	54.9	57.3	58.6	58.2	57.4	58.3	60.1	63.4	67.0	68.4	72.0	73.8	74.6	75.1
Australia ^f	..	..	..	..	..	..	..	31.0	24.6	22.6	21.3	22.9	27.8	31.9	42.6	43.4	43.8 ^b	42.7	39.5
Austria	37.3	39.3	41.8	46.5	48.6	50.5	54.9	58.7	59.5	58.9	58.3	58.7	58.3	62.8	65.1	69.3	69.8	71.3	72.6
Belgium	78.2	92.4	102.5	113.4	118.0	122.1	127.0	132.0	132.7	129.9	129.7	129.4	130.6	136.8	134.8	133.5	130.1	127.2	124.5
Denmark	44.7	54.9	67.0	77.8	79.3	76.6	73.4	70.2	68.2	66.9	68.0	69.1	73.2	82.6	80.5	76.9	74.8 ^b	71.5	66.5
Finland	14.1	14.5	16.9	18.5	17.8	18.9	20.0	20.5	19.5	17.1	16.9	25.6	46.2	59.7	62.4	61.8	61.4 ^b	60.7	59.4
Greece ^d	22.9	27.1	29.8	34.0	40.9	47.8	48.4	53.3	63.5	66.6	90.1	92.4	99.2	111.8	110.4	111.8	111.9 ^b	106.9	103.4
Iceland	25.2	22.6	29.4	31.3	33.4	33.1	30.6	28.1	31.5	37.2	37.0	38.9	46.7	53.5	56.4	58.8	57.6 ^b	55.8	54.2
Ireland	72.7	77.4	83.3	97.3	101.6	104.6	116.3	117.6 ^e	113.6	103.7	96.3	96.6	94.0	97.1	91.0	84.9	76.5	72.0	67.3
Korea	16.0	16.6	18.0	17.9	16.7	16.3	14.4	12.6	9.8	9.1	8.2	7.2	7.1	5.6 ^b	4.1	3.6	2.7	1.9	1.5
Netherlands	46.9	50.9	56.5	62.7	67.0	71.7	73.5	76.2	79.2	79.1	78.8	78.8	79.6	80.6	77.3	79.5	78.5	74.5	72.6
Norway	47.6	43.3	38.4	35.4	35.3	37.1	46.6	39.0	35.3	35.6	32.5	30.6	36.5	45.5	43.7	42.8 ^b	40.1	36.7	33.6
Portugal	32.8	41.3	44.3	49.4	55.0	58.0	68.2 ^e	65.8	66.6	64.7	65.2	71.0	64.3	64.2	66.1	68.4	67.6 ^b	66.3	65.2
Spain	18.3	24.0	30.4	38.7	45.4	50.8	51.4	50.7	46.9	48.4	50.3	51.5	54.2	65.9	68.3	70.7	74.6 ^b	74.1	73.9
Sweden	44.3	52.1	61.7	65.6	67.0	66.7	66.2	59.0	53.1	48.4	44.3	53.2	71.1	76.3	81.2	80.3	79.8 ^b	79.4	76.4
Total of above smaller countries	32.8	36.9	41.5	46.3	49.3	51.9	53.1	52.9	51.1	50.3	50.8	52.3	55.6	61.2	62.5	63.2	63.2	61.6	60.0
Total of above OECD countries	40.2	41.7	45.8	49.0	51.5	54.4	56.6	57.7	57.1	56.3	57.1	58.9	62.2	66.1	67.5	70.6	72.2	72.6	72.8
<i>Memorandum item</i>																			
Total of above European Union countries	40.8	43.7	47.7	51.0	54.9	57.3	58.5	59.4	58.6	57.4	59.6	60.7	65.4	71.8	73.2	77.4	78.8	78.5	77.9

a) Includes all financial liabilities as defined by the System of National Accounts (where data permits) and covers the general government sector, which is a consolidation of central government, state and local government and the social security sector. It should be noted that the definition of debt applied under the Maastricht Treaty differs from the System of National Accounts definition shown here. Estimates of general government gross debt according to the Maastricht definition are shown in Annex Table 60.

b) OECD Secretariat estimates starting from this year.

c) Includes the debt of the German Railways Fund from 1994 onwards and of the Inherited Debt Fund from 1995 onwards.

d) Assets held by one sub-sector of general government which constitute liabilities for another sub-sector of general government have not been fully consolidated.

e) Break in the series starting this year.

f) Debt data refer to fiscal years ending 30 June. Data include indebtedness of local government towards other levels of general government.

Annex Table 28. General government total outlays^a

As a percentage of nominal GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections	
																		1997	1998
United States	31.4	31.7	33.4	33.4	32.3	32.9	33.1	33.0	32.1	31.9	32.8	33.4	34.4	33.9	33.0	33.2	33.3	32.8	33.1
Japan	32.0	32.8	33.0	33.3	32.3	31.6	31.9	32.1	31.3	30.6	31.3	30.9	31.7	33.7	34.4	35.7	36.2	36.0	35.5
Germany ^b	47.9	48.7	49.0	47.8	47.4	47.0	46.4	46.7	46.3	44.8	45.1	47.9	48.5	49.5	48.9	49.5	49.0	48.3	47.4
France ^c	46.1	48.6	50.3	51.4	51.9	52.1	51.3	50.9	50.0	49.1	49.8	50.4	52.0	54.6	54.0	53.9	54.5	53.6	53.2
Italy	42.1	46.3	47.8	48.9	49.8	51.2	51.0	50.5	50.6	51.5	53.4	53.7	56.3	57.1	54.8	52.1	52.9	51.6	50.7
United Kingdom	43.0	44.2	44.5	44.7	45.1	44.0	42.4	40.9	37.9	37.6	39.9	40.7	43.1	43.5	43.1	43.2	41.9	40.8	39.7
Canada	38.8	39.8	44.8	45.3	45.0	45.3	44.6	43.5	42.5	43.1	46.0	49.2	50.2	49.4	47.2	46.5	44.7	43.0	42.0
Total of above countries	36.2	37.2	38.5	38.6	38.1	38.2	38.1	37.9	37.0	36.6	37.6	38.5	39.6	40.1	39.5	39.6	39.6	39.0	38.7
Australia	31.4	31.4	32.9	35.0	35.4	36.5	37.4	35.3	33.7	33.0	34.9	37.2	37.7	37.4	36.8	36.3	36.6	36.1	35.2
Austria	48.1	49.5	50.1	50.4	50.0	50.9	51.6	51.9	50.2	49.0	48.6	49.9	50.5	53.2	51.8	52.3	51.7	50.7	50.5
Belgium	57.8	62.9	63.0	63.1	61.9	61.6	60.9	59.2	56.8	54.5	54.3	55.7	56.2	57.1	55.7	55.0	54.3	53.6	53.0
Denmark	56.2	59.8	61.2	61.6	60.4	59.3	55.7	57.3	59.4	59.6	58.6	59.2	61.1	63.8	64.0	61.1	61.5	59.6	58.2
Finland	38.1	39.0	40.8	42.4	42.0	43.8	44.7	45.0	44.0	42.0	45.3	53.9	59.1	60.2	59.3	58.3	57.4	56.1	54.9
Greece ^d	30.4	34.8	35.6	37.5	39.9	42.9	42.4	42.3	42.2	43.6	48.2	44.4	46.0	48.6	48.0	47.0	44.7	43.5	42.5
Iceland	32.5	33.7	34.3	36.1	33.1	35.7	37.8	34.7	39.5	42.0	39.4	40.2	40.6	40.4	40.1	39.2	38.1	37.2	36.8
Ireland	48.2	49.5	52.2	51.9	50.1	51.0	50.7	48.9	45.1	38.6	38.9	40.2	40.6	40.7	40.5	38.4	37.6	37.4	36.1
Korea	19.3	19.0	18.2	18.6	17.7	17.6	16.8	15.9	16.1	17.2	18.0	19.4	21.0	20.6	20.7	20.5	21.2	21.8	21.7
Netherlands	55.8	57.6	59.8	59.8	58.9	57.2	57.0	58.6	56.7	53.9	54.1	54.6	55.1	55.2	53.0	52.2	49.9	49.4	48.1
New Zealand	..	..	..	..	..	..	57.3	53.5	54.4	55.2	57.6	54.7	54.4	50.9	47.8	47.5	47.1	46.4	45.5
Norway	43.8	43.5	44.0	44.3	42.3	41.7	45.7	47.1	49.5	49.1	49.7	50.6	52.0	51.0	49.8	47.3	45.5	44.7	43.6
Portugal	23.6	41.6	40.6	45.3	41.8	40.9	41.3	39.9	39.1	38.3	41.9	44.6	45.2	46.6	45.8	46.3	47.0	46.4	46.3
Spain	32.2	34.9	36.6	37.7	38.0	41.2	40.7	39.6	39.5	40.9	42.0	43.4	44.4	47.7	45.9	44.8	43.3	41.8	40.9
Sweden ^e	60.1	62.6	64.8	64.5	62.0	63.3	61.6	57.8	58.1	58.3	59.1	61.3	67.2	71.0	68.3	66.4	64.7	63.3	60.8
Total of above smaller countries	38.2	40.7	41.7	42.6	42.0	42.8	42.8	42.0	41.4	41.2	42.3	43.6	45.0	46.2	45.1	44.2	43.5	42.8	41.9
Total of above OECD countries	36.5	37.7	39.0	39.3	38.7	38.9	38.8	38.5	37.7	37.3	38.4	39.3	40.5	41.1	40.3	40.3	40.3	39.6	39.2
<i>Memorandum item</i>																			
Total of above European Union countries	44.7	47.3	48.3	48.7	48.7	49.0	48.3	47.8	46.9	46.4	47.5	48.8	50.4	51.9	50.8	50.2	49.8	48.8	47.9

a) Current outlays plus net capital outlays.

b) Includes outlays of the German Railways Fund from 1994 onwards and of the Inherited Debt Fund from 1995 onwards.

c) As of 1992, due to several accounting changes, the above total outlays calculated using the "Maastricht" definition, are smaller than that published by INSEE, the national statistical agency.

d) Due to changes in accounting procedures, the general government deficits for 1995 and 1996 do not include capitalised interest and payments of called guarantees, amounting to 1 and 1.3 per cent of GDP respectively.

e) As of 1995, expenditures are based on the principles applied by the European Union ("Maastricht" definition). Compared to the numbers published in the national accounts, this implies slightly higher expenditures in both 1995 and 1996.

Annex Table 21. Unemployment rates: commonly used definitions^a

	1993 Unemployment (thousands)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997 1998	
United States ^b	8 927	7.2	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.0	5.1
Japan	1 666	2.0	2.2	2.3	2.7	2.7	2.6	2.8	2.8	2.5	2.3	2.1	2.1	2.1	2.5	2.9	3.1	3.3	3.2	3.1
Germany	3 419	3.2	4.5	6.4	7.9	7.9	8.0	7.7	7.6	7.6	6.9	6.2	6.7	7.7	8.9	9.6	9.4	10.3	11.1	10.9
France	2 946	6.2	7.4	8.0	8.3	9.7	10.2	10.4	10.5	10.0	9.3	8.9	9.4	10.4	11.7	12.2	11.5	12.4	12.6	12.2
Italy	2 335	5.6	6.3	6.9	7.7	8.5	8.6	9.9	10.2	10.5	10.2	9.1	8.6	8.8	10.2	11.3	12.0	12.1	12.1	11.9
United Kingdom	2 884	5.3	8.3	9.7	10.5	10.7	11.0	11.0	9.8	7.8	6.0	5.8	8.2	9.9	10.2	9.2	8.1	7.4	6.1	5.6
Canada	1 649	7.5	7.6	11.0	11.9	11.3	10.5	9.6	8.8	7.8	7.5	8.1	10.4	11.3	11.2	10.4	9.5	9.7	9.4	9.1
Total of above countries	23 826	5.3	6.1	7.6	7.9	7.3	7.2	7.2	6.8	6.2	5.7	5.6	6.5	7.1	7.3	7.1	6.8	6.9	6.7	6.6
Australia	944	6.0	5.7	7.1	9.9	8.9	8.1	8.0	8.0	7.1	6.1	7.0	9.5	10.7	10.9	9.7	8.6	8.5	8.4	8.2
Austria	222	1.6	2.1	3.2	3.8	3.9	4.2	4.5	4.9	4.7	4.3	4.7	5.2	5.3	6.1	5.9	5.9	6.2	6.4	6.2
Belgium	511	8.0	10.3	12.0	13.3	13.4	12.4	11.8	11.5	10.4	9.4	8.8	9.4	10.4	12.1	13.1	13.1	12.9	12.7	12.3
Czech Republic	184	..	..	..	..	..	..	..	..	..	..	..	..	..	3.6	3.2	3.1	3.5	3.8	4.6
Denmark	349	7.0	9.2	9.8	10.4	10.1	9.0	7.8	7.8	8.6	9.3	9.6	10.5	11.3	12.3	12.2	10.3	8.8	8.1	7.4
Finland	444	4.7	4.9	5.4	5.4	5.2	5.0	5.4	5.1	4.5	3.5	3.5	7.6	13.1	17.9	18.4	17.2	16.3	14.7	13.7
Greece	398	2.8	4.0	5.8	7.9	8.1	7.8	7.4	7.4	7.7	7.5	7.0	7.7	8.7	9.7	9.6	10.0	10.4	10.4	10.5
Hungary	519	..	..	..	..	..	..	..	..	..	..	..	..	..	12.1	10.8	10.3	10.6	10.5	10.4
Iceland	6	0.3	0.4	0.7	1.0	1.3	0.9	0.6	0.5	0.6	1.7	1.8	1.5	3.0	4.4	4.8	5.0	4.3	3.8	3.5
Ireland	220	7.3	9.9	11.4	14.0	16.2	17.6	17.7	16.9	16.3	15.1	12.9	14.7	15.3	15.7	14.7	12.1	11.3	10.8	10.5
Korea	550	5.2	4.5	4.4	4.1	3.8	4.0	3.8	3.1	2.5	2.6	2.4	2.3	2.4	2.8	2.4	2.0	2.0	2.7	2.8
Luxembourg	4	0.7	1.0	1.3	1.6	1.7	1.7	1.5	1.7	1.6	1.4	1.3	1.4	1.6	2.1	2.7	3.0	3.3	3.3	3.2
Mexico ^c	511	4.7	4.2	4.2	6.1	5.6	4.4	4.3	3.9	3.5	2.9	2.7	2.6	2.8	3.4	3.7	6.3	5.5	4.5	4.2
Netherlands	415	4.0	5.8	8.5	11.0	10.6	9.2	8.4	8.0	7.8	6.9	6.0	5.5	5.4	6.5	7.6	7.1	6.7	6.2	5.6
New Zealand	157	2.5	3.3	3.6	5.3	4.5	3.5	4.0	4.1	5.6	7.1	7.8	10.3	10.3	9.5	8.1	6.3	6.1	6.0	6.0
Norway	127	1.7	2.0	2.7	3.4	3.2	2.6	2.0	2.1	3.2	4.9	5.2	5.5	5.9	6.0	5.9	5.4	4.9	4.5	4.2
Poland	2 427	..	..	..	..	..	..	..	..	..	..	..	..	..	14.0	14.4	13.3	12.4	11.7	11.1
Portugal	248	8.0	7.7	7.5	7.9	8.6	8.7	8.6	7.1	5.8	5.1	4.7	4.1	4.2	5.6	6.9	7.2	7.3	7.1	7.0
Spain ^d	3 481	11.5	14.3	16.4	18.2	20.1	21.5	21.0	20.5	19.5	17.3	16.3	16.3	18.4	22.7	24.2	23.2	22.7	22.1	21.2
Sweden	356	2.0	2.5	3.1	3.5	3.1	2.9	2.5	2.1	1.7	1.5	1.6	3.0	5.3	8.2	8.0	7.7	8.0	8.1	7.5
Switzerland	163	0.2	0.2	0.4	0.9	1.0	0.8	0.7	0.7	0.6	0.5	0.5	1.1	2.5	4.5	4.7	4.2	4.7	5.4	5.0
Turkey ^e	1 601	8.1	7.1	7.0	7.7	7.6	7.1	7.9	8.3	8.4	8.6	8.0	7.9	8.0	7.7	8.1	7.5	6.5	6.6	6.5
Total of smaller countries ^f	13 837	6.3	6.8	7.6	8.7	8.8	8.7	8.6	8.3	7.5	6.9	6.6	7.0	7.7	9.3	9.5	9.2	8.7	8.5	8.2
Total OECD ^f	37 662	5.6	6.3	7.6	8.1	7.7	7.6	7.5	7.2	6.5	6.0	5.9	6.6	7.3	8.0	7.9	7.6	7.5	7.3	7.1
Memorandum item																				
European Union	18 232	5.6	7.2	8.4	9.4	10.0	10.2	10.3	10.0	9.4	8.5	7.9	8.5	9.6	11.1	11.6	11.2	11.3	11.2	10.8

a) For sources and definitions; see "Sources and Methods".

b) Break in series as of January 1994.

c) Data based on the National Survey of Urban Employment; see "Sources and Methods".

d) Rebased; see "Sources and Methods".

e) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

f) Totals exclude Mexico prior to 1988.

Annex Table 20. **Employment^a**
Percentage changes from previous period

	1993 Employment (thousands)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997	1998
United States ^b	120 259	0.5	1.1	-0.9	1.3	4.1	2.0	2.3	2.6	2.3	2.0	1.3	-0.9	0.7	1.5	2.3	1.5	1.4	2.3	1.0
Japan	64 491	1.0	0.8	1.0	1.7	0.6	0.7	0.8	1.0	1.7	2.0	2.0	1.9	1.1	0.2	0.1	0.1	0.5	1.2	1.0
Germany	35 215	1.6	-0.1	-1.2	-1.4	0.2	0.7	1.4	0.7	0.8	1.5	3.0	2.5	-1.8	-1.7	-0.7	-0.3	-1.2	-0.9	0.4
France	22 226	0.1	-0.5	0.4	-0.2	-0.9	-0.1	0.5	0.4	1.0	1.5	0.8	0.0	-0.6	-1.2	0.1	0.9	-0.2	0.2	1.0
Italy	20 467	1.5	-0.6	-0.4	0.1	0.3	0.3	0.4	-0.3	0.5	-0.1	1.2	0.7	-0.9	-2.5	-1.7	-0.6	0.4	0.0	0.2
United Kingdom	25 400	-0.9	-3.4	-1.9	-0.2	2.3	1.0	0.3	2.4	3.5	2.7	0.4	-3.1	-2.4	-0.8	0.8	0.8	0.5	1.3	0.7
Canada	13 017	3.0	2.9	-3.2	0.6	2.7	3.0	3.0	2.7	3.2	2.1	0.6	-1.9	-0.6	1.4	2.1	1.6	1.3	1.8	2.0
Total of above countries	301 074	0.7	0.3	-0.6	0.7	2.0	1.3	1.4	1.7	1.9	1.8	1.4	0.0	-0.1	0.1	0.9	0.8	0.7	1.3	0.9
Australia	7 708	2.9	2.0	0.1	-1.8	2.9	3.5	3.6	2.2	3.7	4.7	1.5	-2.1	-0.7	0.4	3.1	4.1	1.3	1.9	2.1
Austria	3 446	0.2	0.1	-1.2	-1.2	-0.1	0.2	0.4	0.0	0.6	1.5	1.9	1.9	1.5	-0.3	0.2	-0.4	-0.6	-0.2	0.5
Belgium	3 713	-0.1	-1.9	-1.3	-1.0	-0.2	0.6	0.6	0.4	1.5	1.6	1.4	0.1	-0.4	-1.1	-1.0	0.3	0.1	0.5	0.8
Czech Republic	4 988	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1.2	0.8	0.4	-0.1	-0.3
Denmark	2 486	-0.5	-1.3	0.4	0.3	1.7	2.5	2.6	0.9	-0.6	-0.6	-1.0	-1.5	-0.6	-1.0	-0.2	1.6	1.0	1.3	1.5
Finland	2 041	3.2	1.1	1.0	0.6	1.0	1.0	-0.3	-0.3	0.3	1.6	-0.1	-5.2	-7.1	-6.1	-0.8	2.2	1.4	2.0	1.6
Greece	3 720	1.4	5.2	-0.8	1.1	0.4	1.0	0.4	-0.1	1.6	0.4	1.3	-2.3	1.5	0.9	1.9	0.9	1.4	1.3	1.3
Hungary	3 770	..	..	..	..	..	..	..	..	..	..	..	..	..	..	-2.1	-1.9	-0.8	-0.1	0.5
Iceland	122	3.3	4.8	2.6	0.9	1.5	3.6	3.1	5.8	-2.8	-1.5	-0.9	-0.1	-1.4	-0.8	0.5	1.5	2.4	1.9	1.5
Ireland	1 177	1.0	-0.9	0.2	-2.1	-1.2	-2.5	0.5	0.6	0.1	0.0	4.3	-0.3	0.3	1.5	3.1	4.4	4.0	3.3	3.3
Korea	19 253	0.6	2.5	2.5	0.9	-0.5	3.7	3.6	5.5	3.2	4.1	3.0	2.9	1.9	1.5	3.0	2.7	2.3	1.2	1.2
Luxembourg	203	0.7	0.3	-0.3	-0.3	0.5	0.9	2.6	2.6	3.0	3.5	4.1	4.1	2.5	1.7	2.6	2.5	2.4	2.6	2.5
Mexico ^c	14 354	..	..	..	..	..	..	..	..	4.7	3.6	1.9	5.5	4.7	4.1	0.9	1.9	5.0	3.0	2.4
Netherlands	5 925	1.2	-1.1	-2.1	-1.3	0.5	1.3	2.5	1.6	2.3	1.8	3.0	2.6	1.6	0.7	-0.1	2.4	1.9	2.0	2.1
New Zealand	1 496	-0.1	0.7	0.9	-1.0	2.7	3.5	-0.4	0.8	-3.2	-2.6	0.9	-1.4	0.4	2.0	4.3	4.7	3.4	1.7	1.7
Norway	2 004	0.5	1.4	0.4	0.1	1.2	2.3	3.5	1.9	-0.6	-3.0	-0.9	-1.0	-0.3	0.0	1.5	2.1	2.7	1.6	1.3
Poland	14 894	..	..	..	..	..	..	..	..	..	..	..	..	..	..	-1.6	0.9	0.8	1.3	1.5
Portugal ^d	4 224	2.2	0.5	-0.1	3.9	-0.1	-0.5	0.2	2.6	2.6	2.2	2.2	3.0	-6.4	-2.0	-0.1	-0.6	0.5	0.5	0.5
Spain ^e	11 838	-3.0	-3.0	-1.3	-1.1	-1.8	-0.9	2.2	3.1	2.9	4.1	2.6	0.2	-1.9	-4.3	-0.9	1.8	1.5	1.5	1.9
Sweden	3 963	1.3	-0.2	-0.1	0.1	0.8	-0.3	0.8	1.0	1.4	1.5	1.0	-1.9	-4.3	-5.8	-0.9	1.6	-0.6	-0.4	0.6
Switzerland	3 783	2.3	2.3	0.5	0.0	1.0	2.0	2.3	2.5	2.6	2.7	3.2	1.2	-1.6	-0.6	-0.2	0.2	0.2	0.0	0.4
Turkey ^f	19 181	1.3	0.9	1.1	1.0	1.6	1.7	1.9	2.3	1.5	2.6	1.7	1.7	0.8	0.9	2.5	2.5	3.1	1.9	2.1
Total of smaller countries ^g	134 248	0.6	0.5	0.3	0.1	0.4	1.5	2.0	2.4	2.3	2.7	2.0	1.3	0.2	0.1	0.9	1.8	1.9	1.4	1.5
Total OECD ^g	435 322	0.7	0.3	-0.4	0.6	1.6	1.3	1.6	1.9	2.0	2.1	1.6	0.3	0.0	0.1	0.9	1.1	1.0	1.3	1.1
<i>Memorandum item</i>																				
European Union	146 004	0.3	-1.1	-0.8	-0.4	0.3	0.4	0.9	1.1	1.6	1.7	1.5	0.0	-1.6	-1.8	-0.3	0.5	0.1	0.4	0.8

a) For sources and definitions; see "Sources and Methods".

b) Break in series as of January 1994.

c) Data based on the National Survey of Urban Employment; see "Sources and Methods".

d) Break in series in 1992.

e) Rebased; see "Sources and Methods".

f) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

g) Totals exclude Mexico prior to 1988.

Annex Table 19. Labour force participation rates^a

	Average 1970-79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997	1998
United States	67.5	71.0	71.3	71.6	71.7	72.3	72.8	73.6	74.3	74.9	75.8	76.5	76.2	76.6	76.6	77.0	77.0	77.3	77.9	78.1
Japan	71.3	71.8	72.1	72.3	73.0	72.7	72.5	72.4	72.5	72.7	73.3	74.1	75.2	75.9	76.1	76.4	76.5	77.1	78.1	79.0
Germany	68.5	68.3	68.1	67.8	67.3	67.0	67.4	68.0	68.4	68.7	68.6	69.1	70.7	70.4	69.9	69.7	69.1	68.8	68.6	68.5
France	68.0	68.4	68.0	67.8	66.9	66.6	66.4	66.5	66.5	66.4	66.6	66.5	66.7	66.7	66.6	66.9	66.7	67.1	67.2	67.4
Italy	58.5	60.1	59.8	59.2	59.0	58.7	58.5	59.4	59.4	59.3	59.4	59.2	59.2	58.7	58.7	58.2	58.4	58.8	58.9	59.0
United Kingdom	73.2	74.0	73.4	72.7	72.7	73.8	74.7	74.7	75.3	76.1	76.7	76.7	75.9	75.4	74.9	74.5	74.1	73.7	73.5	73.6
Canada	68.6	73.0	73.9	73.3	73.6	74.2	75.1	75.8	76.5	77.3	77.8	77.9	77.3	76.5	76.3	76.1	75.7	75.9	76.0	76.2
Total of above countries	68.2	70.0	70.1	70.0	70.1	70.3	70.6	71.0	71.5	71.8	72.4	72.9	73.0	73.2	73.1	73.2	73.1	73.4	73.8	74.1
Australia	69.9	70.5	70.4	70.1	69.8	69.9	70.6	71.7	71.9	72.4	73.6	74.3	74.0	73.7	73.5	74.0	74.9	74.9	75.2	75.4
Austria	69.0	68.6	68.1	67.2	66.2	65.6	65.5	65.9	66.1	66.7	67.4	68.1	68.8	68.0	67.8	67.1	66.6	66.2	66.0	66.0
Belgium	61.5	62.3	62.6	62.3	62.1	61.6	61.3	61.1	61.1	61.3	61.9	62.3	62.7	63.1	63.1	63.3	63.1	63.3	63.3	63.5
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	83.3	84.1	83.8	84.1	83.9	83.9
Denmark	76.8	79.2	79.4	79.9	80.3	81.1	81.9	82.6	82.9	82.8	82.8	81.9	81.2	81.1	81.0	80.4	80.0	79.4	79.7	80.2
Finland	72.3	75.5	76.0	76.5	76.5	76.5	76.9	76.8	76.3	76.1	76.5	76.1	75.0	73.9	73.2	72.9	73.2	73.2	73.2	73.3
Greece	56.6	55.9	58.7	58.7	59.9	59.8	59.6	59.1	58.7	59.5	59.2	59.2	57.3	58.1	58.9	59.6	60.0	60.7	61.1	61.6
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	61.8	59.7	58.3	58.0	57.7	57.7
Iceland	71.9	74.3	76.7	77.6	77.3	77.6	79.3	80.8	84.0	80.1	78.7	77.5	76.2	75.5	75.4	75.4	76.4	77.3	78.1	78.7
Ireland	64.1	63.2	63.5	63.9	63.6	63.7	62.7	62.9	62.3	62.0	61.2	61.9	62.1	61.8	62.2	62.7	62.6	63.5	64.3	65.2
Korea	..	..	..	60.4	59.3	57.4	58.3	58.9	60.3	60.5	61.9	62.5	63.3	63.6	64.0	64.7	65.2	65.8	66.0	65.9
Luxembourg	..	61.5	61.4	61.2	60.6	60.7	60.2	60.3	61.0	61.2	61.8	62.1	62.1	61.7	61.3	61.8	62.0	62.2	62.2	62.2
Mexico ^b	..	..	..	..	..	..	..	..	51.0	51.5	51.7	51.8	53.2	54.0	55.1	53.9	54.2	55.0	54.9	55.0
Netherlands	59.6	57.7	57.4	57.3	57.4	56.8	56.0	56.4	56.5	57.2	57.4	58.2	59.1	59.6	60.4	60.8	61.7	62.4	63.0	63.8
New Zealand	65.3	66.0	66.5	66.2	65.3	65.5	66.5	66.2	66.1	64.6	63.5	63.8	63.8	63.3	63.3	64.1	64.8	65.8	65.9	66.1
Norway	71.2	75.3	76.1	76.3	76.5	76.7	77.5	79.2	80.2	80.1	78.7	78.0	77.1	76.9	76.5	77.2	78.1	79.4	80.0	80.4
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	74.2	73.6	72.3	71.5	71.5	71.7
Portugal	66.3	68.6	68.1	67.5	69.9	69.9	69.4	69.2	69.5	70.0	71.7	72.2	73.9	68.4	67.4	67.8	67.4	67.6	67.5	67.4
Spain ^c	59.3	56.3	56.0	56.0	55.7	55.7	56.1	57.0	57.5	57.8	58.1	57.9	57.9	57.7	57.9	58.2	58.2	58.5	58.8	59.2
Sweden	77.3	81.1	81.0	81.1	81.3	81.4	81.0	81.2	81.5	82.0	82.5	82.6	81.8	80.1	77.6	76.3	76.9	76.5	76.0	75.7
Switzerland	75.4	74.4	75.1	74.6	74.4	74.7	75.5	76.5	77.7	79.0	81.7	83.6	84.0	83.1	83.6	83.2	82.5	82.4	82.4	81.7
Turkey ^d	71.7	68.8	66.6	65.0	64.1	63.0	61.7	61.5	61.4	60.6	60.4	59.2	58.6	57.5	56.3	56.5	56.1	55.8	55.6	55.3
Total of smaller countries ^e	66.5	65.6	65.2	64.0	63.8	63.1	63.0	63.2	62.0	62.2	62.6	62.7	62.8	62.4	64.1	64.0	63.9	64.0	64.0	64.1
Total OECD ^e	67.8	69.0	69.0	68.4	68.4	68.4	68.5	68.9	68.6	68.9	69.4	69.8	69.9	69.9	70.0	70.1	69.9	70.1	70.4	70.6
Memorandum item																				
European Union	66.0	66.2	65.9	65.6	65.4	65.3	65.4	65.7	66.0	66.2	66.5	66.6	67.0	66.6	66.4	66.3	66.2	66.2	66.2	66.4

a) For sources and definitions; see "Sources and Methods".

b) Data based on the National Survey of Urban Employment; see "Sources and Methods".

c) Rebased; see "Sources and Methods".

d) The figures incorporate important revisions to Turkish data; see "Sources and Methods".

e) Totals exclude Mexico prior to 1987.

Annex Table 16. Consumer prices^a

Percentage changes from previous period

	Average 1970-77	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
United States	6.6	7.6	11.3	13.5	10.3	6.1	3.2	4.3	3.5	1.9	3.7	4.1	4.8	5.4	4.2	3.0	3.0	2.6	2.8	2.9
Japan	10.6	4.2	3.7	7.8	4.9	2.7	1.9	2.3	2.0	0.6	0.1	0.7	2.3	3.1	3.3	1.7	1.2	0.7	-0.1	0.1
Germany	5.5	2.7	4.0	5.4	6.3	5.2	3.3	2.4	2.1	-0.1	0.2	1.3	2.8	2.7	3.6	5.1	4.5	2.7	1.8	1.5
France	9.0	9.1	10.8	13.6	13.4	11.8	9.6	7.4	5.8	2.7	3.1	2.7	3.6	3.4	3.2	2.4	2.1	1.7	1.7	2.0
Italy ^b	12.6	12.4	15.7	21.2	19.3	16.4	14.9	10.6	8.6	6.1	4.6	5.0	6.6	6.1	6.5	5.3	4.2	3.9	5.4	3.8
United Kingdom	13.9	8.3	13.4	18.0	11.9	8.6	4.6	5.0	6.1	3.4	4.1	4.9	7.8	9.5	5.9	3.7	1.6	2.5	3.4	2.4
Canada	7.5	8.9	9.1	10.2	12.4	10.8	5.8	4.3	4.0	4.2	4.4	4.0	5.0	4.8	5.6	1.5	1.8	0.2	2.2	1.6
Total of above countries	8.3	7.1	9.7	12.5	10.1	6.9	4.5	4.5	3.9	2.0	2.8	3.3	4.4	4.9	4.3	3.1	2.7	2.2	2.4	2.2
Australia	11.0	7.9	9.1	10.2	9.6	11.2	10.1	3.9	6.7	9.1	8.5	7.3	7.5	7.3	3.2	1.0	1.8	1.9	4.6	2.6
Austria	7.0	3.6	3.7	6.3	6.8	5.4	3.3	5.7	3.2	1.7	1.4	1.9	2.6	3.3	3.3	4.0	3.6	3.0	2.2	1.9
Belgium	8.3	4.5	4.5	6.7	7.1	8.7	7.7	6.3	4.9	1.3	1.6	1.2	3.1	3.4	3.2	2.4	2.8	2.4	1.5	2.1
Czech Republic	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	10.0	9.0	8.8
Denmark	9.5	10.0	9.6	12.3	11.7	10.1	6.9	6.3	4.7	3.7	4.0	4.5	4.8	2.6	2.4	2.1	1.3	2.0	2.1	2.1
Finland	12.2	7.8	7.5	11.6	12.0	9.6	8.3	7.1	5.9	2.9	4.1	5.1	6.6	6.1	4.3	2.9	2.2	1.1	1.0	0.6
Greece	12.4	12.6	19.1	24.7	24.5	21.0	20.2	18.5	19.3	23.0	16.4	13.5	13.7	20.4	19.5	15.9	14.4	10.9	8.9	8.2
Hungary	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	21.0	28.2	23.6
Iceland ^c	26.1	43.8	44.4	58.5	51.8	50.2	84.0	30.9	32.0	22.1	18.3	25.7	20.8	15.5	6.8	4.0	4.0	1.6	1.7	2.3
Ireland	14.0	7.7	13.2	18.3	20.4	17.1	10.5	8.6	5.5	3.8	3.1	2.1	4.1	3.3	3.2	3.1	1.4	2.3	2.5	1.7
Korea	...	...	...	...	...	...	...	...	...	...	...	...	...	8.6	9.3	6.2	4.8	6.3	4.5	5.0
Luxembourg	7.5	3.1	4.5	6.3	8.1	9.4	8.7	5.6	4.1	0.3	-0.1	1.4	3.4	3.7	3.1	3.2	3.6	2.2	1.9	1.4
Mexico	14.9	17.5	18.2	26.4	27.9	58.7	102.3	65.3	57.8	86.2	131.8	114.2	20.0	26.7	22.7	15.5	9.8	7.0	35.0	34.4
Netherlands	8.3	4.1	4.2	6.5	6.7	5.9	2.7	3.3	2.3	0.1	-0.7	0.7	1.1	2.5	3.2	3.2	2.6	2.8	1.9	2.1
New Zealand	11.7	11.9	13.8	17.1	15.4	16.1	7.4	6.1	15.4	13.2	15.7	6.4	5.7	6.1	2.6	1.0	1.3	1.8	3.8	2.3
Norway	8.6	8.1	4.8	10.9	13.7	11.3	8.4	6.3	5.7	7.2	8.7	6.7	4.6	4.1	3.4	2.3	2.3	1.4	2.5	1.3
Poland	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	32.2	27.8	19.9
Portugal	17.6	22.5	23.9	16.6	20.0	22.4	25.5	28.8	19.6	11.8	9.4	9.7	12.6	13.4	11.4	8.9	6.5	5.2	4.1	3.1
Spain	14.5	19.8	15.7	15.5	14.6	14.4	12.2	11.3	8.8	8.8	5.2	4.9	6.8	6.7	5.9	5.9	4.6	4.7	4.7	3.6
Sweden	8.8	10.0	7.2	13.7	12.1	8.6	8.9	8.0	7.4	4.2	4.2	6.1	6.6	10.4	9.7	2.6	4.7	2.4	2.9	0.8
Switzerland	5.9	1.0	3.6	4.0	6.5	5.7	2.9	2.9	3.4	0.8	1.4	1.9	3.2	5.4	5.9	4.0	3.3	0.9	1.8	0.8
Turkey ^d	17.4	45.3	58.7	110.2	36.6	32.1	31.4	48.4	45.0	34.6	38.9	73.7	63.3	60.3	66.0	70.1	66.1	105.1	89.1	80.4
Total of smaller countries	12.5	15.6	17.0	25.3	18.0	24.1	32.2	25.1	22.5	26.9	36.6	36.1	15.0	15.8	15.0	12.8	10.9	14.7	18.1	16.4
Total OECD	9.1	8.7	11.0	15.0	11.6	10.2	9.7	8.4	7.4	6.8	9.2	9.5	6.4	7.2	6.5	5.1	4.4	5.0	5.9	5.4
<i>Memorandum items</i>																				
Total OECD less high inflation countries ^e	8.6	7.5	9.6	12.3	10.2	7.5	5.0	4.9	4.2	2.5	3.1	3.4	4.6	5.1	4.5	3.3	2.8	2.4	2.5	2.3
European Union	10.0	8.6	10.3	13.1	12.0	10.3	8.2	6.9	5.9	3.6	3.2	3.5	5.1	5.5	5.0	4.4	3.5	3.0	3.0	2.4

a) Aggregates were computed using weights based on the previous year's consumer expenditure expressed in private consumption purchasing power parities.

b) Index for households of wage and salary earners.

c) Excluding rent, but including imputed rent.

d) Until 1981: Istanbul index (154 items); from 1982, Turkish index.

e) High inflation countries are defined as countries which have had 10 per cent or more inflation in terms of GDP deflator on average during the 1990s on the basis of historical data. Consequently, the Czech Republic, Greece, Hungary, Mexico, Poland and Turkey are excluded from the aggregate.

Annex Table 9. Real exports of goods and services
Percentage changes from previous period

	Average 1970-79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997	1998
United States	7.3	10.8	1.2	-7.1	-2.6	8.3	2.7	7.4	11.0	15.9	11.7	8.5	6.3	6.6	2.9	8.2	8.9	6.5	9.3	6.5
Japan	8.6	17.0	12.5	0.9	4.8	14.8	5.4	-5.7	-0.5	5.9	9.1	6.9	5.2	5.0	1.3	4.6	5.4	2.2	11.0	10.8
Germany	5.2	5.2	7.2	3.9	-0.8	8.2	7.6	-0.6	0.4	5.5	10.2	11.0	12.3	-0.3	-4.9	8.0	5.9	4.9	8.4	7.5
France	7.5	2.7	3.7	-1.7	3.7	7.0	1.9	-1.4	3.1	8.1	10.2	5.4	4.1	4.9	-0.4	6.0	6.3	4.7	7.4	7.3
Italy	7.8	-8.4	6.9	-2.2	3.0	9.0	3.7	2.3	4.6	5.7	8.9	6.8	-0.8	5.9	9.1	10.7	11.6	-0.3	5.3	5.8
United Kingdom	5.0	-0.2	-0.7	0.8	1.8	6.5	6.0	4.5	5.8	0.5	4.7	5.0	-0.7	4.1	3.5	9.2	8.0	6.3	6.0	5.3
Canada	5.7	2.7	4.4	-2.2	6.4	17.7	6.0	4.5	3.5	9.5	0.8	4.1	1.4	7.6	10.4	14.7	12.0	4.5	7.3	6.4
Total of above countries	7.3	8.2	4.5	-3.0	0.5	9.7	4.1	2.8	6.1	10.3	9.8	7.7	5.3	5.3	2.3	7.8	8.0	4.8	8.8	7.3
Australia	4.7	-1.1	-3.4	8.7	-4.5	16.1	10.7	4.7	11.2	3.2	3.2	8.4	13.0	5.0	7.7	9.0	4.4	10.8	6.0	7.0
Austria	7.1	5.2	4.9	2.7	3.2	6.1	6.9	-2.7	2.4	9.4	10.7	7.7	5.8	1.2	-1.6	5.2	5.4	4.0	6.4	7.4
Belgium	5.7	2.9	-0.9	1.9	3.1	5.8	1.1	5.8	5.7	8.5	7.5	3.8	3.1	3.6	1.8	9.2	5.0	4.3	6.5	7.2
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	0.2	7.9	5.3	4.0	3.6
Denmark	4.2	5.2	8.2	2.5	4.9	3.5	5.0	0.0	5.1	7.8	4.2	6.9	7.7	1.4	-1.4	9.0	0.7	2.3	3.0	4.8
Finland	5.4	8.4	4.9	-1.1	2.5	5.4	1.2	1.2	2.7	3.7	1.3	1.4	-6.6	10.0	16.7	13.3	8.2	3.8	5.8	6.8
Greece	11.9	6.9	-5.9	-7.2	8.0	16.9	1.3	14.0	16.0	9.0	4.8	-4.1	3.7	8.7	0.6	7.7	1.8	-0.1	4.0	4.3
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	13.7	13.4	13.0	11.1	11.0
Iceland	6.2	2.7	3.2	-8.9	11.0	2.4	11.0	5.9	3.3	-3.6	2.9	0.0	-5.8	-1.7	6.6	9.8	-2.3	9.9	3.6	5.0
Ireland	7.5	6.4	2.0	5.5	10.5	16.6	6.6	2.9	13.7	9.0	10.3	8.7	5.3	13.5	9.7	13.6	17.0	10.6	9.4	9.7
Korea	21.8	8.0	15.3	4.6	19.4	7.7	4.6	26.5	21.7	12.5	-4.1	4.2	11.8	11.0	11.3	16.5	24.0	14.1	15.1	15.8
Luxembourg	3.6	-1.4	-4.8	-0.3	5.3	18.0	9.5	3.3	4.4	11.7	8.1	3.4	6.7	4.8	2.8	4.4	4.4	4.2	4.7	4.9
Mexico	8.6	6.1	11.6	21.8	13.6	5.7	-4.5	5.6	9.5	5.8	5.7	5.3	5.1	5.0	8.1	17.4	33.0	18.7	16.3	12.0
Netherlands	5.5	2.2	1.9	-0.9	3.2	7.5	5.1	1.8	4.0	9.0	6.7	5.3	4.7	2.9	1.5	6.7	6.9	4.0	5.6	6.8
New Zealand	3.7	3.8	3.7	1.5	8.2	7.4	8.0	-0.4	6.1	4.1	-2.6	4.5	9.5	2.6	6.0	10.4	2.7	4.5	4.0	5.0
Norway	5.8	2.1	1.4	-0.1	7.6	8.2	6.9	1.6	1.2	5.5	11.0	8.6	6.1	5.2	3.2	8.2	3.8	8.2	5.7	5.7
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	13.1	18.4	11.2	12.0	10.4
Portugal	4.5	2.2	-4.4	4.7	13.6	11.6	6.7	6.8	11.2	6.5	13.0	10.1	1.0	4.1	-0.1	11.5	12.1	7.7	8.6	8.4
Spain	7.6	2.3	8.2	5.0	10.0	11.7	2.6	1.9	6.3	5.1	3.0	3.2	7.9	7.4	8.5	16.7	8.2	10.3	9.2	7.4
Sweden	4.3	-0.5	2.1	5.8	9.8	6.8	1.4	3.7	4.3	2.5	3.1	1.6	-2.3	2.3	7.6	14.0	12.6	5.6	6.0	5.8
Switzerland	4.0	5.1	4.8	-2.9	1.1	6.3	8.3	0.4	1.7	5.8	5.0	3.0	-0.7	3.4	1.6	3.4	3.0	2.4	3.7	4.8
Turkey	4.6	-4.5	63.5	34.0	13.1	25.4	-1.9	-5.1	26.4	18.4	-0.3	2.5	3.7	11.0	7.7	15.2	8.0	15.0	12.0	11.0
Total of smaller countries	8.4	3.2	10.4	8.3	8.8	10.3	3.0	5.5	10.3	7.8	3.8	4.6	5.9	6.2	6.3	12.3	12.7	9.9	9.4	8.9
Total OECD	7.5	7.2	5.7	-0.7	2.2	9.8	3.8	3.3	6.9	9.8	8.6	7.0	5.4	5.4	3.1	8.8	9.0	5.9	8.9	7.6
Memorandum item																				
European Union	6.4	1.0	4.2	1.0	3.2	8.1	4.5	1.5	4.0	5.6	7.8	6.4	4.4	3.8	2.1	9.2	7.7	4.6	6.9	6.7

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Annex Table 10. Real imports of goods and services
Percentage changes from previous period

Projections

Annex Table 6. Real gross private non-residential fixed capital formation

Percentage changes from previous period

	Average 1970-79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997	1998
United States	5.6	-0.5	5.3	-4.4	-1.7	17.3	6.2	-3.5	-1.1	4.4	4.0	-0.6	-6.4	1.9	6.4	9.8	9.5	7.4	9.7	5.3
Japan	2.1	7.9	3.8	1.3	1.7	11.7	12.1	4.5	5.9	14.7	14.5	10.9	6.3	-5.6	-10.2	-5.3	3.9	6.5	7.7	8.0
Germany	1.3	2.8	-3.9	-4.7	4.5	-0.4	5.0	4.3	3.8	5.6	7.4	10.1	7.5	0.0	-10.3	0.5	1.9	-0.1	2.7	7.1
France	2.2	4.2	-2.5	0.0	-4.1	-2.1	4.4	6.6	6.0	9.6	8.6	4.7	0.4	-4.0	-8.2	1.5	3.5	-0.4	3.2	4.5
Italy	1.8	9.1	-8.4	-7.6	-5.4	6.4	0.8	4.9	8.5	12.4	5.9	5.3	-0.1	-1.2	-18.6	5.0	12.7	-0.5	1.7	4.1
United Kingdom	2.6	-4.3	-5.8	7.7	-0.6	14.3	13.2	0.5	17.3	17.8	6.2	-3.1	-9.5	-6.2	-1.4	3.2	1.8	6.9	5.8	6.1
Canada	7.4	20.5	15.5	-11.4	-7.0	2.0	8.9	4.5	9.7	15.8	6.2	-2.4	-0.2	-5.5	2.7	7.6	5.2	6.6	8.7	7.7
Total of above countries	3.9	3.0	2.1	-2.7	-1.1	11.4	7.2	0.8	3.6	8.8	7.0	3.1	-1.7	-1.2	-2.0	4.5	6.8	5.2	7.2	6.0
Australia	1.9	5.2	16.5	1.7	-9.6	5.6	13.2	-1.3	5.8	5.2	12.6	-8.0	-13.9	-2.1	-0.1	15.0	7.9	13.5	13.0	8.1
Austria	4.4	4.6	-2.7	-10.2	-0.9	4.1	8.6	3.7	5.8	7.3	8.8	8.3	5.1	-2.0	-6.1	8.6	2.9	1.3	3.9	7.3
Belgium	2.0	9.7	-1.2	2.2	-5.2	7.3	2.8	5.3	10.5	14.8	15.3	11.5	-4.1	-0.6	-9.7	-3.2	5.1	3.5	4.3	5.1
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Denmark	2.2	-9.6	-16.5	19.9	2.7	12.1	18.9	18.8	-5.4	-7.3	5.8	2.6	-4.5	-6.8	-4.7	-2.7	14.3	8.5	5.2	5.2
Finland	0.2	15.5	5.0	2.5	6.8	-1.7	6.3	3.6	5.2	8.5	19.1	-6.4	-24.2	-21.3	-22.6	2.3	18.9	10.6	8.7	4.9
Greece	3.9	7.2	3.0	1.7	-11.0	-1.8	9.1	-17.3	-7.0	15.5	16.5	7.4	15.0	2.6	-1.5	4.3	9.0	11.8	10.3	10.0
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Iceland	..	16.4	3.3	-4.8	-15.4	11.3	7.3	4.4	22.3	-10.2	-14.5	6.4	3.7	-17.5	-24.6	0.5	7.3	45.9	38.2	3.5
Ireland	6.8	-4.8	17.6	-3.7	-11.4	-3.0	-14.9	-3.2	7.9	12.0	13.7	14.3	-12.3	-7.3	-4.0	3.6	10.8	12.8	8.5	11.9
Korea	18.7	-12.3	-2.6	7.6	14.7	15.0	4.5	12.9	19.9	13.0	15.8	18.3	11.3	-0.1	4.8	15.8	12.9	8.2	0.1	2.0
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	..	..	13.0	-22.8	-31.8	10.4	15.9	-17.0	8.7	20.4	7.1	19.6	22.6	22.8	-5.6	12.7	-42.0	25.0	28.8	24.0
Netherlands	1.1	-3.8	-11.8	-2.9	7.0	5.6	13.9	11.4	0.3	1.6	7.8	2.3	2.0	-3.0	-4.2	-0.7	10.1	8.6	4.0	3.1
New Zealand	0.2	12.1	13.4	7.4	-5.5	27.4	2.1	-3.8	11.3	-3.5	6.6	-6.6	-17.9	8.6	21.8	17.5	15.4	4.1	5.3	5.2
Norway	4.0	-2.0	28.4	-16.0	7.5	16.0	-20.0	30.1	-5.7	2.0	-7.5	-10.4	1.8	-3.7	9.8	3.9	4.1	2.1	7.4	3.1
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Portugal	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Spain	3.4	1.7	-5.5	-2.0	-0.6	-10.8	-0.1	14.5	21.2	14.4	13.8	4.5	2.9	-2.0	-15.1	3.0	12.9	4.7	5.6	7.8
Sweden	2.0	11.2	-7.1	1.3	2.7	7.2	12.7	2.3	9.3	5.8	15.0	-1.1	-15.2	-15.5	-13.0	18.6	25.1	5.9	5.0	5.0
Switzerland	1.3	10.8	2.4	-3.6	3.4	4.1	10.6	13.3	10.8	8.9	5.2	3.3	-3.6	-8.5	-7.8	3.4	9.9	5.1	1.9	3.2
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Total of smaller countries	4.5	1.1	1.9	-3.2	-3.9	5.2	7.7	4.3	10.0	10.8	11.1	7.0	3.0	0.8	-5.4	7.9	2.6	10.1	9.2	8.6
Total OECD	4.1	2.7	2.1	-2.8	-1.6	10.2	7.3	1.4	4.8	9.2	7.8	3.9	-0.8	-0.8	-2.7	5.2	6.0	6.1	7.6	6.5
Memorandum item																				
European Union	2.3	3.1	-4.9	-1.2	-0.8	2.8	5.8	5.2	8.6	10.4	8.5	4.7	-0.1	-3.0	-9.9	2.6	6.6	2.5	3.9	5.8

Annex Table 1. Real GDP
Percentage changes from previous period

	Average 1970-79	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Projections 1997 1998	
United States	3.5	-0.3	2.5	-2.1	4.0	6.8	3.7	3.0	2.9	3.8	3.4	1.3	-1.0	2.7	2.3	3.5	2.0	2.4	3.6	2.0
Japan	4.6	2.8	3.2	3.1	2.3	3.9	4.4	2.9	4.2	6.2	4.8	5.1	3.8	1.0	0.3	0.6	1.4	3.6	2.3	2.9
Germany	2.9	1.0	0.1	-0.9	1.8	2.8	2.0	2.3	1.5	3.7	3.6	5.7	5.0	2.2	-1.1	2.9	1.9	1.4	2.2	2.8
France	3.5	1.6	1.2	2.5	0.7	1.3	1.9	2.5	2.3	4.5	4.3	2.5	0.8	1.2	-1.3	2.8	2.1	1.5	2.5	2.8
Italy	3.6	3.5	0.5	0.5	1.2	2.6	2.8	2.8	3.1	3.9	2.9	2.2	1.1	0.6	-1.2	2.2	2.9	0.7	1.0	1.8
United Kingdom	2.4	-2.2	-1.3	1.7	3.7	2.4	3.5	4.4	4.8	5.0	2.2	0.4	-2.0	-0.5	2.1	3.8	2.5	2.1	3.0	2.7
Canada	4.9	1.5	3.7	-3.2	3.2	6.3	4.8	3.3	4.2	5.0	2.4	-0.2	-1.8	0.8	2.2	4.1	2.3	1.5	3.5	3.3
Total of above countries	3.6	0.8	1.9	-0.3	3.0	4.8	3.5	3.0	3.1	4.4	3.6	2.5	0.7	1.8	1.0	2.8	2.0	2.3	2.9	2.4
Australia	3.5	2.3	3.6	-0.6	1.0	7.5	4.4	2.1	4.8	4.1	4.1	1.2	-1.4	2.6	3.9	5.3	3.7	4.0	3.5	3.5
Austria	3.7	2.9	-0.3	1.1	2.0	1.4	2.5	1.2	1.7	4.1	3.8	4.2	2.8	2.0	0.4	3.0	1.8	1.1	1.5	2.4
Belgium	3.2	4.4	-2.3	1.5	0.2	2.3	0.9	1.9	2.0	4.9	3.4	3.7	1.6	1.7	-1.4	2.3	1.9	1.4	2.2	2.6
Czech Republic	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2.6	4.8	4.4	2.6	2.0
Denmark	2.5	-0.4	-0.9	3.0	2.5	4.4	4.3	3.6	0.3	1.2	0.6	1.4	1.3	0.2	1.5	4.2	2.7	2.5	2.5	2.9
Finland	3.3	5.3	1.6	3.6	3.0	3.1	3.3	2.4	4.1	4.9	5.7	0.0	-7.1	-3.6	-1.2	4.5	4.5	3.3	4.6	3.6
Greece	5.0	1.8	0.1	0.4	0.4	2.8	3.1	1.6	-0.5	4.5	3.8	0.0	3.1	0.4	-1.0	1.5	2.0	2.6	3.0	3.1
Hungary	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	2.9	1.5	0.8	2.4	3.5
Iceland	6.4	5.7	4.3	2.2	-2.2	4.1	3.3	6.3	8.5	-0.1	0.3	1.2	1.3	-3.3	0.9	3.5	1.2	5.7	4.5	3.3
Ireland	4.9	3.1	3.3	2.3	-0.2	4.4	3.1	-0.4	4.7	4.4	7.0	8.4	2.1	4.0	3.1	6.5	10.3	7.3	6.7	7.0
Korea	8.8	-2.7	6.2	7.6	11.5	8.7	6.5	11.6	11.5	11.3	6.4	9.5	9.1	5.1	5.8	8.6	8.9	7.1	5.3	6.5
Luxembourg	2.8	0.8	-0.6	1.1	3.0	6.2	2.9	7.8	2.3	10.4	9.8	2.2	6.1	4.5	8.7	4.2	3.2	3.9	4.1	4.0
Mexico	6.4	8.3	8.8	-0.7	-4.3	3.6	2.8	-3.8	1.9	1.2	4.2	5.1	4.2	3.6	2.0	4.4	-6.2	5.1	5.4	4.7
Netherlands	3.1	1.2	-0.5	-1.2	1.7	3.3	3.1	2.8	1.4	2.6	4.7	4.1	2.3	2.0	0.8	3.4	2.1	2.7	3.0	3.2
New Zealand	1.7	0.4	4.7	3.3	2.5	8.5	1.6	0.6	0.7	2.3	-0.6	0.3	-2.3	0.6	5.1	5.5	2.7	2.1	2.8	3.2
Norway	4.8	4.2	0.9	0.3	4.6	5.7	5.3	4.2	2.0	-0.5	0.9	1.9	3.1	3.3	2.8	5.0	3.3	4.8	3.8	3.4
Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	5.2	7.0	6.0	5.0	4.9
Portugal	4.8	4.6	1.6	2.1	-0.2	-1.9	2.8	4.1	6.4	4.9	4.9	4.6	2.5	1.8	0.3	0.7	1.9	3.0	3.3	3.4
Spain	3.8	1.3	-0.2	1.6	2.2	1.5	2.6	3.2	5.6	5.2	4.7	3.7	2.3	0.7	-1.2	2.1	2.8	2.2	2.8	3.0
Sweden	2.0	1.7	0.0	1.0	1.8	4.0	1.9	2.3	3.1	2.3	2.4	1.4	-1.1	-1.4	-2.2	3.3	3.6	1.1	2.0	2.3
Switzerland	1.1	4.4	1.4	-0.9	1.0	1.8	3.7	2.9	2.0	2.9	3.9	2.3	0.0	-0.3	-0.8	1.0	0.1	-0.7	0.8	1.8
Turkey	4.8	-2.4	4.9	3.6	5.0	6.7	4.2	7.0	9.5	2.1	0.3	9.3	0.9	6.0	8.0	-5.5	7.0	7.2	5.2	4.7
Total of smaller countries	4.6	2.2	2.8	1.6	2.2	4.2	3.5	3.1	4.6	4.2	3.9	4.5	2.4	2.3	1.8	3.3	2.8	3.8	3.7	3.8
Total OECD	3.8	1.1	2.1	0.1	2.8	4.7	3.5	3.0	3.4	4.4	3.6	2.9	1.0	1.9	1.2	2.9	2.2	2.6	3.0	2.7
Memorandum item																				
European Union	3.2	1.4	0.1	0.9	1.7	2.3	2.5	2.9	2.9	4.2	3.5	3.0	1.5	1.0	-0.5	2.9	2.4	1.6	2.3	2.7

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W

Divider Title: _____

Fast Track: In the National Interest of the United States

FAST TRACK MEANS: IMPROVING OUR STANDARD OF LIVING

- Keeping the Economy on the Fast Track. By breaking down trade barriers and creating new jobs, the President will use fast track authority to keep America's economic expansion on the global fast track.
- The Economy Is Strong. The President's three-part economic strategy of cutting the deficit, investing in education and training, and opening markets abroad is working. America has enjoyed the longest period of sustained growth in a generation—one-third of which was produced by exports since 1993. The result: 12 million new jobs, unemployment at 5%, inflation the lowest in a generation.
- Our Future Prosperity Depends on Trade. 96% of the world's consumers live outside the United States. The global economy will grow at three times the rate of the US economy. America needs fast track to seize opportunities to negotiate fair new trade agreements that will keep us competitive, expand our exports, create more jobs, and raise our standard of living.

FAST TRACK MEANS: CREATING MORE JOBS

- Breaking Down Barriers. The President will keep breaking down barriers to American products and services because that strategy is producing positive results for companies and workers. America is once again the world's largest total exporter, the largest producer of semiconductors, and the largest producer of automobiles. Exports support 11 million American jobs, including one in five manufacturing jobs and over the last four years have created 1.4 million new jobs.
- Sectoral Agreements. The President needs the flexibility to negotiate agreements in sectors where the United States is most competitive: such as agriculture, medical equipment, telecommunications, and environmental technology.
- Regional Free Trade Agreements. With this authority, the President is determined to continue opening markets in Asia, Latin America, and Africa to US goods and services.
- Free and Fair Trade. The President supports raising labor standards, protecting the environment and expanding worker retraining and educational opportunities to ensure that no American is left out of the global economy.

FAST TRACK MEANS: MAINTAINING AMERICA'S GLOBAL LEADERSHIP

- Compete or Retreat. As the American people prepare to meet the challenges of the 21st century, we face a critical choice: Embrace the global economy and continue to shape it to America's advantage, or turn back and fail to compete for new business, new contracts, and new jobs.
- Credibility. Fast track gives the US the credibility to negotiate tough trade deals because our partners know any agreement will not be reopened provision-by-provision by the Congress. Fast track also preserves for the Congress the ultimate decision of whether any potential agreement is good or bad for America. That assurance puts American in the best position to negotiate major trade agreements and maintains a balance that has worked for over 20 years.
- Continued Bipartisanship. Every President since 1974—Republican and Democratic—has had fast track authority. Congress has consistently recognized that the President must have the authority to break down foreign trade barriers, and a bipartisan majority of the United States Congress has consistently supported American leadership in opening markets and creating jobs.

STAYING ON THE FAST TRACK

- Fast track authority is in the overriding national interest of the United States. America's economic strength and standard of living are linked to breaking down trade barriers, exporting our goods and services, and creating more high-skilled jobs.
- This debate is also about American leadership. As the American people prepare for the challenges of the 21st century, we face a critical choice: We can embrace the global economy, write the trade rules, and continue America's economic expansion, or we can turn our back on the world and fail to compete for new markets, new contracts, new business and new job opportunities.
- The President must have the authority to break down foreign trade barriers. Every President since 1974-- Republican and Democratic--has had fast track authority. A bipartisan majority of Congress has consistently supported initiatives to open markets and create jobs. At stake in this debate is both Presidential leadership and a bipartisan consensus on US trade policy.
- Fast track gives the US the credibility to negotiate tough trade deals because our partners know any agreement will not be reopened provision-by-provision by the Congress. Fast track also preserves for the Congress the ultimate decision of whether any potential agreement is good or bad for America. That assurance puts American in the best position to negotiate major trade agreements and maintains a balance that has worked for over 20 years.
- As we increase our trade, the President is committed to raising labor standards and protecting the environment around the world and ensuring through aggressive worker retraining and increased educational opportunities that no American is left out of the global economy

MAINTAINING OUR STANDARD OF LIVING

- Opening markets to US goods and services has been critical to our economic expansion.
- President Clinton's economic strategy of deficit reduction, investing in our people through education and training, and opening markets to our goods and services has created the largest economic expansion in a generation.
- The American people have enjoyed the longest period of sustained growth of all our G-7 partners--seven years as of last March. The US economy has created 12 million new jobs, the unemployment rate is 5%, core inflation is at a 30-year low.
- The United States is once again the world's largest exporter, the largest producer of semiconductors, and the largest producer of automobiles. Independent studies have found America to be the most competitive economy in the world for the past five years.

- The United States exports more products and services than any country in the world and trade provided more than one-fourth of our economic growth over the past four years.
- Over the last four years, American manufacturing exports rose by 42%, high technology exports jumped 46%, service exports climbed 26% and farm exports rose 43%.
- No country is better positioned to compete than the United States. We have every reason to have confidence in our economy, in our companies and workers and in our capacity to compete and win. Fast track is a test of that confidence—and a prerequisite for seizing the trade opportunities before us around the world.

CREATING MORE AMERICAN JOBS

- Over the past four years, more than 25% of our economic growth has come from overseas trade and US exports have created 1.4 million new American jobs. Fast track will give us the chance to continue this trend.
- In addition, 11 million total American jobs are supported by exports, including one in five manufacturing jobs--paying an average of 13-16% more for non-management workers than non-trade related jobs.
- Over the next decade, the global economy is expected to grow at triple the rate of the US economy. Growth will be particularly strong in the world's emerging markets, where demand for American goods and services are taking off.
- In a world where over 96% of the world's consumers live outside of the United States, we must export our goods and services to sustain our standard of living at home. To stay on the global fast track, the President needs fast track authority.

BREAKING DOWN TRADE BARRIERS

The expanding global economy presents enormous potential for American companies and workers:

- Sectoral Agreements: The President would use fast track authority to negotiate agreements in sectors where the US is most competitive. From medical equipment and services, environmental technology and services, telecommunications to high tech computers, the President will tear down more barriers to American exports. For example, the recent Information Technology Agreement eliminated tariffs and unshackled \$500 billion of trade in semiconductors, computers, telecommunications equipment and software, and according to industry estimates, amounts to a \$5 billion tax cut in tariffs on American exports.
- Agriculture: The President would use fast track authority for negotiations to reduce barriers in the \$536 billion global agriculture market that will attack such practices as export subsidies.
- Services: The service sector represent a \$1.2 trillion global market—where US firms exported more than \$220 billion in 1996 with a surplus of \$73 billion. We have the opportunity to open

a wide range of service sectors, including health care, education, entertainment, tourism and business consulting and advertising.

Regional Free Trade Agreements

- Asia: Asia has one of the fastest growing economies in the world, with nearly 3 billion consumers. Forecasters expect real growth of 6-7% annually for the next 15 years. With our APEC partners, the President is working to reach agreement in key sectors that could open these dynamic markets to America's goods and services and keep the free trade process going.
- Latin America/Caribbean: The Latin American market including Mexico is the fastest growing area for US exports. If this trend continues, Latin America and the Caribbean will exceed the European Union as a market by 2000 and exceed Japan and the EU combined by 2010. The President is committed to moving forward toward a Free Trade Area of the Americas by 2005. Negotiating a free trade agreement with Chile is the next critical step in this process.
- Africa: Working with Congress, the President recently launched an African trade initiative to foster stronger economic prosperity in Africa and create new markets to American products. Africa's nations are joining the march toward freedom and open markets--Sub-Saharan Africa alone has 700 million potential consumers. Yet the United States currently supplies only 7% of Africa's imports.

AMERICAN LEADERSHIP IN THE WORLD

- Half a century of determined American leadership has led to a 90-fold increase in global trade and helped bring down global barriers to America's products--falling from an average 40% at the end of World War II to about 5% today. Our leadership of the global economy has served America's interest—and the world's.
- As the sole remaining superpower, the United States has a fundamental national interest in contributing to stability and security around the world. A more prosperous world will be a more peaceful world—a world more hospitable to American interests and ideals. By opening markets, fast track authority will contribute to global as well as American prosperity—it will reinforce the common interest that diverse countries and regions share in sustaining that prosperity.
- America's failure to participate in shaping the global trading system will allow our competitors to negotiate preferential trade arrangements, form strategic relationships excluding the United States, and create new exclusive trade alliances. The United States cannot abdicate its global leadership to the detriment of the American economy.
- This debate must not be about the past but about the opportunities for the future. Fast track authority will allow the President to knock down trade barriers and negotiate a broad array of trade agreements--from sectoral agreements on medical equipment and telecommunications to regional agreements in Asia, Africa and Latin American to eliminating global barriers in the

WTO. The debate over fast track is about embracing the opportunities of the global economy to create jobs, expand exports, and maintain America's standard of living.

- Opening foreign markets does not mean retreating from our commitment to labor and the environment. The President is committed to promoting worker rights and ensuring that economic growth does not come at the expense of a clean and healthy environment. Walking away from the world's markets will not improve worker rights or protect the environment—but through dialogue and engagement these issues can be addressed.

THE PRICE OF INACTION

- Other countries are breaking down trade barriers and moving forward in creating competitive trading relationships to the disadvantage of US companies and workers. It is in the national interest of the American people to stay engaged in the global economy.
- Since 1992, in Latin America and Asia alone, our competitors have negotiated 20 free trade agreements that exclude the United States.
- Today every major economy in this hemisphere has a preferential trade deal with Chile except the United States. This gives our competitors an 11% across-the-board tariff advantage for their products, which means American companies must sell to Chile with an immediate 11% cost disadvantage.
- For example, Canada's Northern Telecom recently won a \$180 million telecommunications contract in Chile over three US companies in part to avoid paying \$20 million worth of tariffs.
- Similarly, US corn producers are at a competitive disadvantage in Chile compared to Argentinean corn producers because of a preferential agreement which gives Argentina a 3.3% tariff preference which will soon increase to 11%.
- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) wants to expand its agreements to include all of South America a move which would disadvantage American businesses.
- China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities" to expand bilateral trade in Latin America
- The EU has begun a process to reach a free trade agreement with Brazil, Argentina and other MERCOSUR countries. President Chirac recently declared "Latin America's essential economic interests...lie not with the United States but with Europe."

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Divider Title: _____

FAST TRACK Q&A'S

Q: Some say fast track is just about expanding NAFTA to include Chile. Are they correct? What will the President do with fast track?

- Fast track is about giving the United States the ability to open markets, create jobs and improve the standard of living of American companies and workers. The President's fast track authority will be used to negotiate sectoral agreements in key industries where the US is most competitive, like agriculture, medical equipment and services and environmental technologies and services. It will be used to continue opening markets in Latin America and Asia, the fastest growing markets in the world, and it will be used to reach global agreements in the World Trade Organization to reduce barriers in key areas. The Administration is asking for authority simply to negotiate these agreements: Congress would then have the right to approve or disapprove any fast track agreement once it is negotiated.
- These agreements can provide enormous benefits for American companies and workers. For example, last year's Information Technology Agreement eliminated tariffs and unshackled \$500 billion of trade in semiconductors, computers, telecommunications equipment and software, amounting to a \$5 billion tax cut in tariffs on American exports. With fast track authority, we can tear down more barriers to America's exports and create more high-skilled jobs
- More fundamentally, fast track is about maintaining America's competitive position and global leadership. If America does not break down foreign trade barriers, our competitors will--to their advantage, not ours. Since 1992, in Latin America and Asia alone, other countries reached more than 20 preferential trade agreements excluding the United States. These countries are busy leveling the playing field for their exports. Without fast track, America will lose its global leadership and risk being relegated to the sidelines.

Q: Why is it so important to provide fast track authority? What happens if the United States doesn't have it?

- America's future prosperity is increasingly tied to the expansion of the global economy. In a world where over 96% of the world's consumers live outside the U.S. and the global economy is expected to grow at three times the rate of the U.S. economy, we must continue to export to be able to create more high-skilled American jobs. Without fast track, America's hands will be tied in its ability to negotiate these critical agreements and drastically slow down our job creating potential.
- Over the past four years, one-quarter of our economic growth came from trade. To take advantage of these opportunities, we must continue to open export markets for America's companies and workers. If we don't move forward, US workers and companies from telecommunications firms to agricultural producers will lose out in foreign markets. Fast track authority gives the President the tools to move America ahead to the 21st century.

Q: Some say U.S. workers can't compete against workers from low wage countries. What are the facts?

- The fact is the U.S. economy is the strongest in the world and American workers are the best trained, most highly educated and productive work force in the world—they can certainly compete with workers from low wage countries.
- In the last 10 years, U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140%. Exports to low-wage countries now account for 42% of total U.S. exports. And these are high-skilled, high paying jobs. Wages for export-related jobs pay 13-16% more for non-management jobs than the national average.
- Competition from low-wage countries does create competitive pressures in industries where skills and productivity are lower, but most such jobs don't compete with imports. In fact, imports from non-oil developing countries account for only 4% of U.S. spending and have grown only 1.5% during the past decade. For those workers who are affected, we need to maintain our commitment to education and worker retraining. That's why the President is committed to making sure no American is left out of the global economy. Trade expansion must be part of a complete strategy to prepare the U.S. for global competition.

Q: What evidence is there that the Administration is concerned about labor and environment issues?

- We believe labor and environmental issues are an important part of the Administration's agenda and we are committed to progress in these areas. The Administration's record demonstrates that we have negotiated agreements related to labor and the environment at every opportunity. Our strategy maximizes our ability to open markets for US workers and companies and improve international environmental and labor standards. In fact, the Administration has made unprecedented progress in defining and advancing core labor standards—the right to organize and bargain collectively, freedom of association, a prohibition on exploitative child labor, a prohibition on forced labor, and a commitment to non-discrimination in employment—in such international arenas as the World Trade Organization, the International Labor Organization, and in the Organization of Economic Cooperation and Development.
- The recent "sweatshop" initiative is an example of the Administration's efforts to improve working conditions by establishing an industry-wide partnership with labor organizations and consumer interests on wage and workplace conditions for apparel industry manufacturers. The NAFTA side agreements can help address labor and environmental issues, particularly along our 2,000 mile border with Mexico. And, in the Free Trade Area of the Americas, the United States is pushing for a commitment across the Hemisphere to sustainable development practices.

Q: Has NAFTA been a success? What's the record?

- The record is good. NAFTA has provided many benefits, including expanded exports, creation of high-wage jobs and protection of those exports and jobs during Mexico's recession and peso crisis. With the phasing in of NAFTA, U.S. goods exports have risen to historic levels in the last three years (1993 to 1996), up 33% to Canada, up 37% to Mexico. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. Such export related jobs by exports pay 13% to 16% more for non-management jobs than the U.S. national average.
- The best information available indicates that NAFTA has had a positive effect on jobs, creating 90,000 to 160,000 jobs in trade with Mexico alone. A study by DRI estimates that NAFTA boosted real exports to Mexico by \$12 billion in 1996, compared to a smaller increase in imports of \$5 billion, which contributed to controlling Mexico's financial crisis. The agreement has also leveled our playing field with Mexico. Mexico's tariff cuts have been 5 times greater than our own. The agreement has helped American suppliers in key industries capture additional shares of Mexico's import markets. Since NAFTA went into effect, our share of Mexico's import market has grown from 69.3% to 75.5%.

Q: Did NAFTA cause the peso crisis and the resulting recession?

- No. In fact, the effects of the peso crisis would have been worse for the United States if it were not for NAFTA. When Mexico had its last financial crisis in 1981-82, it imposed 100% duties on American products, U.S. exports fell by half, and it took 7 years for US exports to recover to 1981 levels. This time, Mexico continued to reduce its tariffs as required by NAFTA (even though it raised tariffs on our competitors). U.S. exports recovered to pre-recession levels in 18 months, protecting the 750,000 jobs dependent on those exports. A Federal Reserve of Dallas study concluded U.S. export growth was 7% higher than it would have been absent NAFTA.

Q: What is the record on NAFTA labor and environmental conditions along the U.S.-Mexican border?

- NAFTA has given us better progress and cooperation with Mexico on labor and environmental concerns than we would have had without it. The problems along the border are longstanding and will not be solved overnight. But there are clear signs of improvement:
 - From 1993 to 1996, Mexico's Secretariat of Labor and Social Welfare enforcement budget increased in real terms by nearly 250%.
 - The overall rate of occupational injuries and illnesses fell from 47 per thousand in 1994 to 33 per thousand in 1996.
 - Mexico has seen the number of environmental violations dropping; with a 72% reduction in serious violations in the maquiladora industry from 1993 to 1996; and a 43% increase in the number of maquiladora facilities in complete compliance.
 - The NAFTA institutions financing border cleanup projects have certified 16 projects, including infrastructure projects costing nearly \$230 million.

① red crisp ~~on~~

~~②~~

②

① Specific limit on low wage

② unfair Trade

Allow a vote
for low-wage

① NAFTA Banks

② Trade

④ Legal Constraints

- We need to continue labor and environmental efforts with Mexico. But it's important to remember that the agreements to be reached under new fast track authority will not raise the kind of border concerns presented by Mexico, a country sharing a 2000-mile border with the United States.

Q: Some say U.S. companies use the threat of relocation to Mexico to jawbone down the wages of America's workers - and they fear that will happen over and over again if we reach more free trade agreements. Why aren't they right?

- A: The fact is that NAFTA makes it more attractive to stay in the United States. Before NAFTA, U.S. exports faced an average 10% tariff when sending U.S.-made goods to Mexico. Mexico also had restrictions that basically forced US companies to locate car production in Mexico in order to sell to Mexicans. NAFTA eliminates these barriers on the Mexican side- and will eliminate only a 2% average tariff on products coming here.
- If we let other countries reach trade agreements, while we sit on the sidelines, it will make it even more attractive for companies to locate outside the United States. If other countries eliminate the barriers their exports face, while U.S. exports still face high barriers, there is that much more incentive to produce elsewhere. If we want to keep jobs in the U.S., we should eliminate trade barriers for U.S.-made products. To do that, the President needs fast track authority.

Q: Some say NAFTA has diverted a considerable investment from the U.S. to Mexico. Is that true?

- No. U.S. foreign direct investment in Mexico averaged \$3.1 billion in 1994-96, little changed from the average \$2.8 billion the three years before NAFTA took effect. The \$3.1 billion was less than 0.3% of gross private fixed investment in the U.S. in 1996. The Big Three automobile manufactures invested \$39 billion in the U.S. economy in the last three years, only \$3 billion in Mexico.

① \$111 b.lh trade deficit

② Tools: L (Sp 301)
(highly regul)

③ Why? Why Trade Good

Upwants
③ hope
③

② May need open
country

① Insights: more trade

② open

① How wages
not fall behind
Protect your
own econ

→ Australia
→ 50%

② Stronger econ: (trade deficit)

③ Education + try

position Chile

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CHC Concerns

Divider Title: _____

REFORMS LISTED IN SEPTEMBER 21 LETTER TO CONGRESSIONAL HISPANIC CAUCUS

NAFTA-TAA

Secretary Herman is strongly committed to addressing the challenges faced by low-skilled workers in the global economy. Her discussions with members of the Hispanic Caucus and her recent visit to El Paso have provided important insights into needed improvements to the NAFTA-TAA:

- **Reducing Certification Times:** The Department of Labor will cut by one-third the amount of time required for a determination on a Trade Adjustment Assistance petition.
- **Early Response:** The Department of Labor will strengthen outreach and early intervention services provided to workers even before an assessment of the trade impact has been made.
- **Outreach to Secondary Workers:** It is important to increase awareness among workers experiencing secondary trade impacts that they are eligible for the full range of benefits and services available to primary workers under NAFTA-TAA. The Department of Labor is strengthening efforts to reach secondary workers by calling attention to the explicit secondary worker provisions on NAFTA-TAA petitions and utilizing information from primary certifications to identify secondary workers. They will provide technical assistance to the states to help identify secondary workers.
- **Involving Workers and Local Communities:** The Department of Labor will work with the states to encourage the establishment of worker transition committees in planning the delivery of comprehensive services and collaboration with local elected officials, economic development agencies, and community-based organizations to address the needs of trade-impacted workers, including secondary workers.
- **Measuring Outcomes:** In order to ensure that the effectiveness of NAFTA-TAA improves as it develops, the Department of Labor will begin to collect outcome-based performance data for workers who receive adjustment assistance.

Community Adjustment

Secretary Rubin and Administrator Alvarez are confident that the recent designation of 35 eligible areas and approval of three loans under the NADBank Community Adjustment and Investment Plan (CAIP) are only the first steps in developing an innovative program to address the needs of local communities challenged by trade and production shifts. Future plans include:

- **El Paso Meeting of the Presidential Advisory Committee:** The CAIP will hold a public meeting of the Presidential Advisory Committee in El Paso, Texas to hear first-hand from members of a trade-impacted community.

- **Additional Areas:** This month, the CAIP Finance Committee expect to announce approximately twelve additional communities that will be eligible for assistance.
- **Coordination with NAFTA-TAA:** The Departments of Labor and Treasury will establish formal links in the administration of NAFTA-TAA and CAIP, including on marketing and outreach, in order to magnify the effectiveness of both programs in assisting individual workers and communities affected by trade.
- **Full-time Staffing:** Both the Department of Agriculture and the Small Business Administration are currently in the process of selecting staff that will be dedicated full-time to administering the CAIP program.
- **Significant New Lending from the Small Business Administration (SBA):** SBA estimates that the new CAIP/SBA program could increase SBA's loan volume by about \$146 million over the duration of the program. With this increased funding capacity, SBA could guarantee loans to over 1,000 small firms. CAIP/SBA will afford greater access to capital, and eligible small firms will not be charged a guaranty fee.
- **Increased Outreach and Marketing by SBA:** SBA will significantly increase marketing and outreach efforts this fall. This will include extensive briefings of SBA resource partners such as SCORE and the SBDCs to help them provide management assistance to CAIP borrowers.

Environmental Protection along the Border

Secretary Rubin and Environmental Protection Agency (EPA) Administrator Carol Browner have worked hard to make sure that the NADBank and its sister organization, the Border Environment Cooperation Commission (BECC), are effectively addressing border environmental problems. They will concentrate future efforts on making infrastructure financing affordable for poor communities, expanding technical assistance, and accelerating the pace of project development.

- **Making Environmental Infrastructure Affordable:** To address the needs of poor border communities, the NADBank is establishing cofinancing arrangements with U.S. and Mexican grant programs. NADBank has recently entered into a cooperative agreement with EPA for a Border Environment Infrastructure Fund that will provide access to up to \$170 million in EPA grants. NADBank is working on a proposal that would help smaller U.S. communities to access the tax exempt bond market by working with the State Revolving Funds in the U.S. border states to establish reserve funds for debt servicing.
- **Assisting Communities in Project Development:** In cooperation with the EPA, the BECC is establishing a Project Development Assistance Program (PDAP) that will begin committing and disbursing up to \$10 million in funds to communities by the end of the year.

- **Upgrading Management Capabilities:** NADBank has established an Institutional Development Program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage and solid waste management services. So far, NADBank has approved \$1.8 million in technical assistance for 12 projects under this program, and it now plans to double total IDP resources to \$4 million.
- **Accelerating Project Development:** The NADBank and BECC have developed a work plan for accelerating project development. They have identified more than 30 projects and potential projects with a total cost of more than \$500 million as the core of their 1997-99 work plan.

POTENTIAL NEW REFORMS

NADBank Community Adjustment and Investment Plan (CAIP)

Expand Finance Committee to Include the Department of Labor (DOL) and Economic Development Administration (EDA): To ensure high-level coordination with NAFTA-TAA and EDA, the membership of the NADBank CAIP Finance Committee will be expanded to include representatives from the Departments of Labor and Commerce. This group will meet as frequently as once a week for the next six months to provide oversight to the CAIP, including determinations of community eligibility and loan approvals.

El Paso Meeting of the Presidential Advisory Committee: The CAIP will hold a public meeting of the Presidential Advisory Committee in El Paso, Texas on November 21 to learn first-hand the needs of this trade-impacted community.

Full-time Staffing: Both the Department of Agriculture and the Small Business Administration are currently in the process of selecting staff that will be dedicated full-time to administering the CAIP program.

Significant New Lending from the Small Business Administration (SBA): SBA estimates that the new CAIP/SBA program could increase SBA's loan volume by about \$146 million over the duration of the program. With this increased funding capacity, SBA could guarantee loans to over 1,000 small firms. CAIP/SBA will afford greater access to capital, and eligible small firms will not be charged a guaranty fee.

Increased Outreach and Marketing by SBA: SBA will significantly increase marketing and outreach efforts this fall. This will include extensive briefings of SBA resource partners such as SCORE and the SBDCs to help them provide management assistance to CAIP borrowers.

Outreach Roundtables: In eligible communities, CAIP will hold roundtables with community groups, bankers, elected officials, and community leaders to market the program.

Technical Assistance to Identify Eligibility: The CAIP will provide technical assistance both directly and through outside contractors to help communities determine whether they are eligible for CAIP assistance.

Quarterly Evaluations: The Department of Treasury is required to report to Congress on the operation of the CAIP on an annual basis. In order to accelerate identification and correction of problems with the program in the first year of its operation, Treasury proposes increasing the frequency of evaluations to a quarterly basis.

Expand CAIP Staffing: At a cost of \$1 million over four years, the number of professional staff could be doubled, greatly expanding the capacity for outreach, technical assistance and loan assessments.

Provide Technical Assistance: Trade-impacted communities are in need of significant technical assistance to develop strategic plans to help identify opportunities and attract investment. For a cost of \$10 million over four years, CAIP could provide such assistance to eligible communities, working closely with EDA.

Expand Direct Lending: The direct lending program allows the CAIP to assist a wide range of commercial and nonprofit borrowers who would otherwise lack access to commercial lending institutions. This program allows loans to be extended directly or used for innovative credit enhancements through intermediaries such as establishing loan loss reserves or taking a "first loss" position on a participated loan. The direct lending program, which is currently funded at \$7 million, could benefit from an expansion of \$25 million over four years.

~~**Modify Credit Terms to Serve Trade-Impacted Communities More Effectively:** Under existing law, the CAIP is subject to the restrictions and limitations of existing federal credit programs. In order to ensure these programs are tailored to meet the special needs of trade-impacted communities, the loan and guarantee levels, community and borrower eligibility and credit terms of existing programs could be modified, expanding lending by roughly \$32 million over 4 years. (Similar flexibility was provided under the defense conversion program).~~

~~**Expand CAIP to Include Grant Programs:** Under existing law, CAIP is limited to programs that use loans and loan guarantees. CAIP funds could serve trade-impacted communities more effectively if it had the flexibility to provide funds through federal programs that use a mixture of grants and loans. The estimated cost would be \$10 million over four years.~~

~~**Expand CAIP to Cover All Trade-Impacted Communities:** Eligibility for CAIP is currently limited to communities affected by NAFTA. The program could be expanded to cover communities that are severely impacted by trade shifts from any country at a cost of roughly \$40 million over 4 years.~~

75% SBA + Ag

25% Direct Con

\$1 for \$1

Environmental Protection along the Border

Making Environmental Infrastructure Affordable: To address the needs of poor border communities, the NADBank is establishing cofinancing arrangements with U.S. and Mexican grant programs. NADBank has recently entered into a cooperative agreement with EPA for a Border Environment Infrastructure Fund that will provide access to up to \$170 million in EPA grants. In addition, the Administration is seeking additional appropriations of \$100 million per year over FY 1998-2001 to provide additional affordable financing packages for border environmental infrastructure.

Helping Small Communities Access Tax-Exempt Financing: NADBank is working on a proposal that would help smaller U.S. communities access the tax exempt bond market by working with the State Revolving Funds in the U.S. border states to establish reserve funds for debt servicing. This would leverage \$4 million per year in NADBank financing to make available an additional \$16 million per year for smaller communities in the border states.

Assisting Communities in Project Development: In cooperation with the EPA, the BECC is establishing a Project Development Assistance Program (PDAP) that will begin committing and disbursing up to \$10 million in funds to communities by the end of the year.

Upgrading Management Capabilities: NADBank has established an Institutional Development Program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage and solid waste management services. So far, NADBank has approved \$1.8 million in technical assistance for 12 projects under this program, and it now plans to double total IDP resources to \$4 million.

Accelerating Project Development: The NADBank and BECC have developed a work plan for accelerating project development. They have identified more than 30 projects and potential projects with a total cost of more than \$500 million as the core of their 1997-99 work plan.

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**Community Adjustment and Investment Program
Talking Points**

A. New Loans. On September 4, the finance committee endorsed the first three loans of the Community Adjustment and Investment Program.

- The direct financing application for Watsonville, CA was approved. An intermediary will have access to a line of credit up to \$500,000 for loans to borrowers in the community. The intermediary will leverage up to \$5 million in new loans through this facility. This direct loan must be processed by the LA Office of the NADBank and should be closed within the next month.
- The SBA guarantee was approved for a private sector loan to a wholesale distributor of corn and flour tortillas in El Paso, Texas. The borrower will use the proceeds of the loan \$45,000 for the purchase of two delivery trucks and provide working capital. Because of the loan, the borrower expects to hire an additional two full time workers (currently has four employees).
- The USDA guarantee was approved for a private sector loan to a farmer cooperative for the expansion of a storage facility for agricultural produce (the loan is in the amount of \$229,000). The facility is located in Mt. Vernon, GA. Because of the loan, the borrower expects to hire an additional 25 seasonal jobs.

B. Public Meeting of the Advisory Committee. On November 21, the Presidential Advisory Committee will hold a public meeting in El Paso, Texas to discuss the Community Adjustment and Investment Program. Members of the community are expected to provide Advisory Committee and finance committee members with testimony on the impacts of NAFTA.

C. Stage I Sites. On August 1, the finance committee announced 35 sites across the nation that are eligible for the first stage of the program.

- We expect the finance committee to announce an addition dozen or so sites that will be included in the first stage. (These areas are identified through further analysis of data we've received from Labor and from the states.)
- The experience through Stage I will be reviewed after six months (in March 1998) to consider modifications to the program.

D. Finance Committee Efforts. The four members of the finance committee (Treasury, HUD, SBA and USDA) have worked closely in implementing the program.

- All actions require majority vote by committee (each member has one vote).
- All members have actively participated in the development of the program.

DRAFT**Questions and Answers**

Question: What is the Community Adjustment and Investment Program?

Answer: The program provides credit to new or expanded businesses in communities with significant job losses due to changes in trade patterns with Canada and Mexico. The program involves the coordinated efforts of the United States Government and the North American Development Bank (NADBank), an international public financial institution. NADBank established an office in Los Angeles, California for the purpose of assisting the United States Government with the development and implementation of the program. The program operates as a "development catalyst" -- assisting where shortfalls exist in capital availability in commercial lending markets for start-up or expansion efforts. The program combines the efforts of the NADBank with certain Federal agencies, local financial institutions and financial intermediaries to meet financing needs for business opportunities.

Question: What is Treasury's role in the program?

Answer: Treasury serves as the chair of the interagency group, the "finance committee," that provides policy guidance and oversight of the program. Other members of the finance committee are the Departments of Agriculture and Housing and Urban Development and the Small Business Administration.

Question: Why not rotate the chair of the finance committee among the four agencies?

Answer: The executive order establishing the finance committee appointed Treasury to the role and Treasury has worked closely with all members, each of which has one vote for all decisions undertaken by the committee. Treasury is committed to implementing the program quickly and effectively and has dedicated staff resources for this goal.

Question: What has the finance committee learned from the process that would suggest changes in the program?

Answer: The Stage I process, where the finance committee applied data from the Department of Labor to identify communities impacted, is intended to serve as a pilot, allowing the finance committee to focus resources into areas of significant impacts. We expect to review the process carefully over the next six months and modify the program where needed.

Question: Why has it taken so long for loans to be made through the program?

Answer: It has taken longer than expected to get the lending program up and running. In the last several months, however, there has been significant progress with implementation. In June, agreements were entered into among the Treasury and

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the Department of Agriculture and the Small Business Administration regarding their involvement in the program. On August 1, the finance committee announced 35 areas throughout the country as eligible for adjustment assistance through the program. On September 4, the finance committee approved the first three loans in the program. Since December 1996, the NADBank has been conducting outreach and receiving applications for community adjustment

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Sweat Shops

Divider Title: _____

PRESIDENT CLINTON ANNOUNCES APPAREL INDUSTRY PARTNERSHIP AGREEMENT

April 14, 1997

TODAY, PRESIDENT CLINTON WELCOMES TO THE WHITE HOUSE THE MEMBERS OF THE APPAREL INDUSTRY PARTNERSHIP TO ANNOUNCE A NEW AGREEMENT. Leaders from the footwear and apparel industry, labor, nongovernmental organizations (NGOs), and consumer groups have found common ground, agreeing to a Code of Conduct and independent monitoring systems that will assure Americans that the clothes and shoes they buy are made under decent and humane working conditions. The Partnership also agreed to recruit others in the industry and to develop an independent association to assure compliance and inform consumers about the Code and which companies comply.

THIS AGREEMENT FOLLOWS FROM WHITE HOUSE MEETING LAST YEAR. On August 2, 1996, the President and Vice President met with these parties to discuss the problem of sweatshops, consumer concerns, and the need to join together to address these issues. The parties formed a voluntary, industry-driven partnership that proposed to report back to the President its recommendations for action.

- **Participants in the Partnership** include: Liz Claiborne; Nike; Phillips-Van Heusen; Reebok; L.L. Bean; Patagonia; Tweeds; Nicole Miller; Karen Kane; UNITE; the Retail, Wholesale, Department Store Union; Business for Social Responsibility; the Interfaith Center on Corporate Responsibility; the International Labor Rights Fund; Lawyers Committee for Human Rights; the National Consumers League; and the RFK Memorial Center for Human Rights.

THE PARTNERSHIP'S AGREEMENT IS THE FIRST OF ITS KIND. The agreement contains the following components:

- ✓ **A Strong Workplace Code of Conduct** that companies will voluntarily adopt and require their contractors to adopt, which, among other things, includes:
 - Prohibitions against child labor, worker abuse or harassment, and discrimination;
 - The recognition of workers' rights of freedom of association and collective bargaining;
 - A minimum or prevailing industry wage, a maximum 60-hour workweek, and a cap on mandatory overtime; and
 - A safe and healthy working environment.
- ✓ **Independent External Monitors** to conduct reviews of company policies and practices and to verify that the company is in compliance with its obligations and commitments under the Code of Conduct. Companies will also maintain an internal monitoring system that outlines the obligations each company will undertake to ensure that the Code is enforced in its facilities and its contractors' facilities both domestically and internationally.
- ✓ **Commitment to Form an Association Over the Next Six Months** that will (1) recruit new member companies which also will abide by the Code and implement independent monitoring; (2) develop a reliable, independent means to provide for public confidence that the above obligations are being met; and (3) develop a mechanism or seal of approval informing consumers about which companies abide by the Code and monitoring.

DETAILS ON THE APPAREL INDUSTRY PARTNERSHIP AGREEMENT

The Apparel Industry Partnership agreement contains the following:

- ✓ **A Strong Workplace Code of Conduct** that individual companies will voluntarily adopt and require their contractors to adopt, which includes:
 - The prohibition of employing any persons under the age of 15 (unless permitted by the country of manufacture to be 14);
 - Prohibitions against any worker abuse or harassment and discrimination;
 - The recognition and respect for workers' rights of freedom of association and collective bargaining;
 - The requirement that employers pay at least the minimum or prevailing industry wage, whichever is higher, and provide mandated benefits;
 - The requirement that workers be provided with a safe and healthy working environment;
 - A cap on mandatory overtime to 12 hours per week and the regular work week of the country (or 48 hours, whichever is less); and requiring a day off in every seven day period; and
 - The requirement that overtime be compensated for at the premium rate required in the country or at least equal to their regular hourly compensation.
- ✓ **Independent External Monitors** who will conduct independent reviews of participating company policies and practices; provide company employees and contractors' employees with secure communication channels to report concerns of noncompliance; audit production records and practices to ensure compliance; conduct employee interviews and site visits; and verify that the company is in compliance with its obligations and commitments under the Code of Conduct.
- ✓ **An Internal Monitoring System** that outlines the obligations each company will undertake to ensure that the Code of Conduct is enforced in its facilities and its contractors' facilities both domestically and internationally.
- ✓ **A Commitment to Form an Association** over the next six months that will:
 - Recruit new member companies which also will abide by the Code and implement independent monitoring;
 - Develop a reliable, independent means to provide for public confidence that the above obligations are being met; and
 - Develop a mechanism or seal of approval informing consumers about which companies abide by the Code and monitoring.

CHRONOLOGY ON CLINTON ADMINISTRATION'S "NO SWEAT" INITIATIVE

Summer 1993	Secretary Reich launches initiative to fight sweatshops.
Spring 1994	National Conference on Garment Workers in NYC.
Fall 1994	Labor Department hosts Retailer Roundtable in Washington, DC.
August 2, 1995	El Monte, CA sweatshop busted for "slavery." Sec. Reich steps up fight against sweatshops.
September 1995	Retailer Summit in NYC on how to improve industry compliance with workplace standards.
December 1995	Secretary Reich announces Trendsetter List -- retailers and manufacturers working to end sweatshops in the US.
May 1996	First Quarterly Enforcement Report Released by the Labor Department.
May 1996	DOL investigation reveals that Kathy Lee Gifford's clothing line being made in sweatshops. Gifford and Sec. Reich join forces to fight abuse.
July 1996	Sec. Reich hosts Fashion Industry Forum. Kathy Lee Gifford, Cheryl Tiegs and 300 fashion industry representatives -- including retailers, manufacturers, designers, workers, labor and consumer advocates -- participate.
Summer 1996	Legislation introduced on Capitol Hill to hold manufacturers and retailers liable for the conditions under which their contractors operate.

August 2, 1996

President Clinton brings a diverse group of industry, labor, and human rights leaders to the White House to discuss industry conditions. The Apparel Industry Partnership is formed, and challenged by the President to take steps to assure that company products are made in compliance with acceptable labor standards, and to inform consumers that the products they buy are not made under exploitative conditions. The group agrees to report back in six months.

Fall 1996

Monitoring Workshops for manufacturers and retailers in New York, Chicago, and Los Angeles.

Sept 1996-April 1997

The Apparel Industry Partnership meets regularly with technical assistance from the Administration.

October 1996

Release of Volume 3 of the international child labor report, "By the Sweat and Toil of Children" on the impact of Codes of Conduct on child labor conditions in the apparel industry.

December 1996

Department of Labor's "No Sweat" Initiative receives Innovations in American Government Award from the Ford Foundation and John F. Kennedy School of Government.

January 1997

Clinton Administration has collected more than \$10.4 million in back wages for minimum wage and overtime violations for more than 34,000 garment workers across the country.

February 1997

Labor Department pledges funding to International Labor Organizations' initiative against child labor in the Pakistani soccer ball industry.

March 25, 1997

Three companies added to the Trendsetter List, bringing the total to 34 companies representing over 125 apparel lines and tens of thousands of retail stores.

April 14, 1997

Apparel Industry Partnership presents its agreement and plan of action to end sweatshops to President Clinton at the White House.

MEMBERS OF THE APPAREL INDUSTRY PARTNERSHIP

Liz Claiborne, Inc.

Paul Charron, Chairman and CEO
[co-chair]

Reebok International, Ltd.

Paul Fireman, CEO

National Consumers League

Linda Golodner, President
[co-chair]

Retail Wholesale Department Store Union, AFL-CIO

Lenore Miller, President

Interfaith Center on Corporate Responsibility

David Schilling, Director

Robert F. Kennedy Memorial Center for Human Rights

Sandra Cuneo, Executive Director

International Labor Rights Fund

Pharis Harvey, Executive Director

Tweeds, Inc.

Martin Brill, President

Kathie Lee Gifford

Union of Needletrades, Industrial and Textile Employees (UNITE)

Jay Mazur

Lawyers Committee for Human Rights

Michael Posner, Executive Director

Unable to Attend

LL Bean, Inc.

Tom Harden, Senior Vice President

Business for Social Responsibility

Robert Dunn, President and CEO

NIKE, Inc.

Philip Knight, Chairman of the Board and CEO

Karen Kane, Inc.

Lonnie Kane, CEO and President

Patagonia

David Olsen, CEO

Nicole Miller, Inc.

Bud Konheim, CEO

Phillips-Van Heusen

Bruce Klatsky, CEO

Talking Points on Initiative to Ensure the Safety of Imported Fruits and Vegetables

- The President will announce next week a major initiative to ensure the safety of fruits and vegetables consumed by the American public, especially those coming from foreign countries. Today, 38% of the fruit -- and 22% of the vegetables -- consumed in the United States is imported.
- First, the President will direct the FDA and USDA to issue guidance on good agricultural practices and good manufacturing practices for fruits and vegetables. The guidance will deal with matters such as sanitation, workers health and water use. By providing the first-ever specific safety standards for fruits and vegetables, the guidance will improve the agricultural and manufacturing practices of all those, foreign and domestic, seeking to sell produce in the U.S. market.
- Second, the President will propose legislation to give the FDA authority to bar food imports from any country that does not protect food safety at least as well as the United States does. The USDA already has this authority for meat and poultry products and uses it to refuse meat imports from many countries. The legislation will give the FDA the same power over fruits, vegetables, and other food products, so that the FDA can prevent countries that do not protect food safety as well as the United States from importing their products.
- Third, the President will call for an increase in FDA funding in FY 99 to allow the FDA to expand dramatically its international inspection force. The budget request will enable the FDA to deploy inspectors in all foreign countries seeking to import fruits and vegetables into the U.S. Based largely on their inspections, the FDA will decide whether to allow imports from foreign countries.
- This initiative builds on the President's prior actions on food safety -- including a new early warning system to detect outbreaks of foodborne illness as quickly as possible; advanced safety standards for meat, poultry, and seafood; and a recent legislative proposal to increase the FDA's and USDA's recall authority. It is not a response to recent attacks on fast track, but a continuation of the President's longstanding commitment in this area.

THE WHITE HOUSE
WASHINGTON

September 24, 1997

MEMORANDUM FOR ERSKINE BOWLES

FROM: Bruce Reed
Elena Kagan

SUBJECT: Food Safety Initiative

This memorandum sets out a proposal for a new food safety initiative focusing on imported produce. HHS/FDA, USDA, USTR, and OMB have participated in developing this proposal. The memorandum also raises an issue of timing that has arisen in our policy discussions.

The Proposal

The initiative has four elements -- one administrative and three legislative.

1. A Presidential directive to the FDA to issue guidance on good agricultural practices and good manufacturing practices for fruits and vegetables. This guidance would deal with such matters as sanitation, worker health, and water use. The guidance would not itself have the force of law (the domestic farmers' groups would object if it did), but would indicate what kinds of practices the FDA believes violate the Food and Drug Act. In so doing, the guidance (we may be able to use the term "enforcement standards") would improve the agricultural and manufacturing practices of all those, foreign and domestic, seeking to sell produce in the U.S. market. As part of this directive, the President would instruct USDA to provide assistance to the FDA through various research activities and educational programs.

2. Proposed legislation giving the FDA authority to bar food imports from any foreign country or establishment that does not provide safety protections that are at least equivalent to those provided by the U.S. food safety system. This legislation would give to the FDA the power now held by USDA (regarding meat and poultry products) to hold foreign countries and establishments to an "equivalency standard." We expect that Jeff Gerth will highlight this difference between USDA and FDA authority, noting that the FDA now relies on essentially unenforceable bilateral agreements to hold other countries to equivalent food safety standards. The legislation would include the authority to bar imports if a foreign country or establishment refused to permit the FDA to carry out inspections.

3. Proposed legislation and budget request to improve and expand the FDA's inspection system, particularly in relation to foreign producers. OMB is still reviewing the numbers, but the FDA has requested \$20-25 million for FY 99. This appropriation would allow vastly increased

inspections abroad and at the dock (though still permitting the inspection of only a minuscule percentage of total imports), as well as some supportive research activities. Some fairly significant funding commitment to hire additional inspectors is critical to the credibility of this initiative.

~~4. Proposed legislation to require "country of origin" labeling on produce, meat, and certain other food products. This legislation would not itself do much to improve food safety (at least in the short term), but it would provide consumers with more complete information than they currently have about food products. It also may be the part of this package that the public finds most attractive. The agricultural groups are divided on the desirability of such legislation. The Farmers Union and Farmers Bureau like it, as do the cattlemen and most fruit and vegetable growers. Pork producers do not like it (we don't know why), and food processors and retailers think the legislation would place onerous burdens on them.~~

Timing

Some believe we should not announce this initiative immediately. OMB (OIRA) urges that we take more time to vet the proposal, noting that it is complex and politically sensitive -- and that we have put it together from scratch in 48 hours. OMB also has asked whether we should use these proposals during negotiations over fast track (to buy the support of reluctant legislators), rather than announce them now. Finally, USTR has expressed some uncertainty about whether the "country of origin" proposal in particular could undermine, rather than aid, our position on fast track. (USTR stresses that this is a question only of political strategy; USTR has no objections to any part of this package as a matter of trade policy.)

PC CLINTON FOOD

White House to unveil new food safety initiative

By Andrea Shalal-Esa

WASHINGTON5 (Reuter) - The White House will soon announce a tough new initiative to improve the safety of imported fruits and vegetables and tighten food inspections abroad, an administration official said early Thursday.

The initiative comes after 179 school children in Michigan contracted hepatitis last March after eating tainted strawberries imported from Mexico, and is timed to coincide with President Clinton's campaign to win ``fast-track'' authority from Congress to negotiate new trade agreements.

Food safety is in the spotlight again after unrelated problems with tainted hamburgers and a microbe that has killed thousands of fish in Maryland and Virginia.

More than 80 House lawmakers wrote Clinton a letter Wednesday urging him to renegotiate the North American Free Trade Agreement (NAFTA) to improve border protections against potentially unsafe food imports.

Under the new proposal, Clinton will ask Congress to pass a law giving the Food and Drug Administration the authority to bar imports from any country whose food safety standards are not on a par with those of the United States.

``Basically, this would give the FDA the power to hold foreign countries to an equivalency standard,'' said the official, who asked not to be identified.

The White House will also propose boosting the agency's budget by \$20-\$25 million to expand and improve food safety inspections, especially of foreign producers, the official said.

The extra funds would ``allow vastly increased inspections aboard and at the dock,'' the official said.

In addition, Clinton would issue a directive ordering the agency to issue guidance on ``good agricultural and manufacturing practices'' and ``good manufacturing practices'' for fruits and vegetables, including guidelines for sanitation, worker health and water use.

``The guidance would not have the force of law, but would indicate what kinds of practices the FDA believes violate the Food and Drug Act,'' the official said.

The inter-agency proposal was drawn up by the Department of Health and Human Services, the FDA, the Agriculture Department, the U.S. Trade Representative and the Office of Management and Budget, the official said.

It would include provisions to expand research conducted by the Agriculture Department to support the FDA's efforts.

It was not immediately clear when the White House would announce the new initiative, or whether Clinton would announce the proposals himself. The president is in Little Rock, Arkansas, where he is due to deliver a speech on the 40th anniversary of high school desegregation Thursday.

The proposal is aimed at answering food safety concerns among lawmakers and paving the way for Capitol Hill to grant Clinton ``fast-track'' authority to negotiate new trade agreements.

Rep. Sherrod Brown, an Ohio Democrat, and other lawmakers told reporters Wednesday that NAFTA led to ``lax inspection practices'' and sharply boosted food imports from Mexico.

They also cited a recent General Accounting Office report which estimated that 99 percent of Mexican trucks entering the United States were not inspected.

Under the proposed fast-track authority lawmakers give up their right to amend any trade pact the administration negotiates and instead can only vote yes or no on the overall agreement.

Other countries already have to meet strict U.S. food safety requirements before any product can enter the United States, industry officials say, but

consumer groups have argued that those laws are poorly enforced.

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**** printed by:WHPR(JMAS) on 09/25/97 at 11:21EDT ****

FAST TRACK AND AGRICULTURE**Trade Agreements and Food Safety**

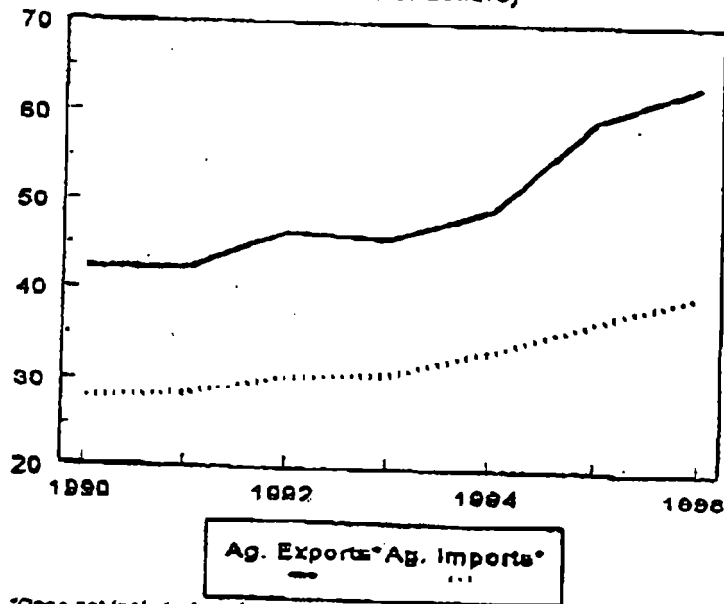
The United States has the world's highest safety standards and is the undisputed leader internationally in assuring its consumers of a safe, diversified and abundant food supply. Trade agreements such as the NAFTA and Uruguay Round Agreement did not strip U.S. regulatory bodies of their authority to protect U.S. consumers. Imports may only gain access to the U.S. market if the exporting country as a whole or specified individual products demonstrate equivalent high standards for public health, as well as animal and plant health.

Our regulatory agencies have a strong track record in assuring that imported foods are held to the same high food safety standards applied to domestic product. In negotiating both the NAFTA and the Uruguay Round Agreements, the United States made certain that provisions were included to guarantee the our sovereign right to protect human, animal and plant health. These same provisions can and will be included in any future trade agreements.

WHY TRADE MATTERS

Globalization of production and increased trade is a fact in both food and non-food sectors. Agriculture is one of the few U.S. industries that consistently shows a trade surplus, and has done so since 1960. Modern technology is enabling even greater latitude for trade in agricultural products due to better product preparation and handling and more efficient, affordable transportation. As a result, U.S. strength in the agricultural sector supports over 1 million jobs. Furthermore, agricultural imports augment consumer choice and make it possible for Americans to include healthy fruits and vegetables in their diets throughout the year.

U.S. Agricultural Exports Outpace Imports
(Billions of dollars)



*Does not include forest products
Source: USDA/FAS/ITP/FSTC

THE FACTS

- The United States regulatory network assures U.S. consumers of a safe food supply through a systems approach involving pre-market approval of products, implementation of Hazard Analysis and Critical Control Point principles, and statistical-based sampling and inspection programs for both domestically produced and imported product.
- Food safety standards that apply to domestically produced foods also apply to imported foods. For example, the U.S. standards, or "tolerances," for permissible levels of pesticide residues in domestic foods also apply to imported foods.
- The President's Food Safety Initiative announced earlier this year includes many activities to strengthen the programs already in place to help ensure the safety of both domestic and imported foods.
- As announced last summer by President Clinton, surveillance and sentinel site activities designed to detect foodborne illness at its earliest stages are being enhanced as part of the Administration's Food Safety Initiative.
- The further development of an early warning system by Federal, State and local governments to help provide earlier detection of foodborne illness will allow the U.S. regulatory network to respond more effectively to identify and contain future incidents, whether they involve domestic or imported food products.

ENSURING FOOD SAFETY: HOW IT IS ACHIEVED

The U.S. applies a broad system-based approach to ensure that the highest standards of human, animal and plant health are achieved. Safety means assuring that U.S. farmers and ranchers are protected from the threat of debilitating animal and plant diseases and pests so that abundant supplies of safe raw agricultural goods can be provided to domestic industries. It also means assuring that the final retail products are safe via a system that includes -- (1) pre-market assessment and approval, (2) production monitoring and adoption of HACCP systems, and (3) statistical sampling and inspection of raw and processed food products.

- Pre-Market Approval and Assessment: The most effective way to avoid introducing unsafe food products into the domestic market is to evaluate the potential for risk and prohibit the entry into the U.S. of those products which present a significant risk to human, animal or plant health. Several U.S. regulatory agencies play a role in monitoring every link in the food chain, including the movement of diseased plants and animals; the use of feed supplements and pesticides; and the safety of food additives and packaging. U.S. agricultural production capacity is further safeguarded by the use of programs to ensure that genetic materials (foundation seed, male animal health, semen and embryos) do not pass along harmful diseases or pests.

Imported products face the same scrutiny as domestic products. U.S. authorities review an export country's regulatory and production infrastructure to determine its ability to meet U.S.

standards. Depending on such reviews, U.S. authorities may then disqualify a country completely, approve only selected production facilities, or require specific products to be subjected to strict sampling protocols (100% sampling rates) to assure that the imported product is safe.

- **Production Monitoring and Auxiliary Measures:** If a product is allowed to enter the U.S. market, numerous checks are established to ensure compliance with the overall food and agricultural production safety objectives. For example, with respect to pesticides, veterinary drugs, feed and food additives, safeguards are in place to ensure only limited uses within specified tolerances. Crop protection pesticides and fungicides may only be used on specific crops during precise growth stages. Animal health drug use must observe not only dosage but also abstention requirements sufficiently prior to slaughter.

Safety rules also apply to material, equipment and processes utilized in gathering, storing and processing agricultural food and fiber products. Traditionally, methods in the food sector relied on basic hygiene principles and time-honored processing advancements, such as cooking times and temperatures, low-acid canning methods or vacuum packing. The implementation of Hazard Analysis Critical Control Point (HACCP) systems will significantly increase food safety guarantees.

■ **Statistical Sampling and Inspection:**

FDA, FSIS, and APHIS each maintain a comprehensive import inspection system which involves the tracking and monitoring of each trading partner's compliance history. One-hundred percent of imports are subject to reviews prior to entry into the country. The screening determines if the product, manufacturer, shipper and country of origin have consistently met U.S. standards. The assistance of tracking systems allows sampling and reinspection to be targeted at products which pose a significant risk. In order to ensure U.S. food safety is protected as imports continue to grow, FDA and USDA have devoted increased resources for inspection.

TRADE AGREEMENTS FOSTER TRANSPARENCY AND PROMOTE HIGHER FOOD SAFETY STANDARDS INTERNATIONALLY

United States representatives hold leadership positions in every major international organization charged with ensuring the safety of food produced and consumed around the world and they use these leadership positions to promote the adoption of international food safety measures that maintain high levels of protection for human, animal and plant health.

- The United States is an active participant in the Sanitary and Phytosanitary Committee of the World Trade Organization (WTO), which addresses a variety of food safety issues. U.S. participation ensures that our food standards are promoted and not compromised in the interest of facilitating trade.
- The United States is active in all committees of the Codex Alimentarius Commission (CAC), the international food standard-setting forum established in 1962, under the auspices of the World Health Organization (WHO). U.S. involvement in CAC activities ensures that our

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views on critical food safety issues will be reflected in the development of all international food standards. The U.S. currently holds the chairmanships of both the CAC committees on Food Hygiene and Residues of Veterinary Drugs in Foods. The Food Hygiene Committee is now developing strong new food safety guidelines based on systems of preventive measures, including our own HACCP system.

- In addition, U.S. food safety officials frequently meet with their foreign counterparts to evaluate and discuss emerging food safety issues. These bilateral meetings, which often occur independent of any specific trade agreement or commission, are effective in developing programs to control microbiological contaminants in food.

STRONGER COUNTRY OF ORIGIN FOOD LABELING CAN NOT GUARANTEE SAFE FOOD SUPPLIES

Federal, state and local governments cooperate together to ensure that all food offered to U.S. consumers is wholesome and safe, and that consumers are fairly and adequately informed about the product. Product labeling is a critical link for assuring individual consumer safety, particularly for reasons of allergenicity or other dietary concerns.

Contrary to the opinion of those who support it, country of origin labeling does not address the issue of food safety. If a food product is not safe, it should be prohibited from entering this country. Country of origin labels will not help consumers determine on their own if a product is safe.

TALKING POINTS ON WSJ FAST-TRACK ARTICLE:

1. First, as a threshold matter, no "deal" has been reached with the Senate Finance Committee. We are consulting with them and working with them on legislative language that could come to a vote in Committee as early as tomorrow.

2. Second, the current Committee draft preserves everything we want to achieve in our fast-track legislation -- it maintains the complete range of options that the President put forward in his bill:
a) The draft bill explicitly recognizes that certain labor, environmental and health and safety practices are the proper subject of a trade agreement negotiation subject to fast track; b) The draft in no way limits the Executive Authority of the President to reach separate agreements on a range of issues, including labor and the environment; and c) The draft recognizes that the President will also pursue labor and environmental issues in the multilateral fora.

3. Third, and more specifically, the article is clearly wrong in stating that "labor and environmental issues won't be main objectives of trade deals in a compromise. . . ." The draft language for negotiating objective 15 (attached) deals expressly and directly with foreign governments' "lowering of, or failing to enforce, existing labor (including child labor), health and safety, or environmental standards, as a means of attracting investment or otherwise diminishing or distorting market access opportunities available to United States goods, services, or investment." (This is a direct quote from the legislative language.)

4. These labor and environmental issues addressed in negotiating objective 15 as drafted are plainly eligible for fast track consideration.

(NOTE: One word of caution from Charlene [who reviewed these talking points] -- You can safely quote the current draft language of negotiating objective 15; but we expect a fight over keeping in the phrase "failing to enforce")

Bill Jewell

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1 which may be necessary for national secu-
2 rity purposes to control the export of criti-
3 cal military technology); and

4 (iv) otherwise denying equitable access
5 by United States persons to foreign-devel-
6 oped technology or contributing to the in-
7 equitable flow of technology between the
8 United States and its trading partners.

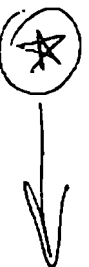
9 (B) In pursuing the negotiating objective
10 described in subparagraph (A), the United
11 States negotiators shall take into account Unit-
12 ed States Government policies in licensing or
13 otherwise making available to foreign persons
14 technology and other information developed by
15 United States laboratories.

16 (14) BORDER TAXES.—The principal negotiat-
17 ing objective of the United States regarding border
18 taxes is, within the WTO, to obtain a revision of the
19 treatment of border adjustments for internal taxes
20 in order to redress the disadvantage to countries
21 that rely primarily on direct taxes rather than indi-
22 rect taxes for revenue.

23 (15) REGULATORY COMPETITION.—The prin-
24 cipal trade negotiating objectives of the United
25 States regarding the use of government regulation or

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Objectives



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1 other practices by foreign governments to provide a
2 competitive advantage to their domestic producers
3 and thereby reduce market access of United States
4 goods, services, and investment are—

5 (A) to ensure that government regulation
6 and other government practices do not unfairly
7 discriminate against United States goods, serv-
8 ices, or investment; and

9 (B) to prevent the use of government regu-
10 lation and other government practices, includ-
11 ing the lowering of, or failing to enforce, exist-
12 ing labor (including child labor), health and
13 safety, or environmental standards, as a means
14 of attracting investment or otherwise diminish-
15 ing or distorting market access opportunities
16 available to United States goods, services, or in-
17 vestment.

18 (c) INTERNATIONAL ECONOMIC POLICY OBJECTIVES
19 DESIGNED TO REINFORCE THE TRADE AGREEMENTS
20 PROCESS.—

21 (1) IN GENERAL.—It is the policy of the United
22 States to reinforce the trade agreements process
23 by—

24 (A) fostering stability in international cur-
25 rency markets and developing mechanisms to



DISCUSSION DRAFT

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1 assure greater coordination, consistency, and
2 cooperation between international trade and
3 monetary systems and institutions;

4 (B) supplementing and strengthening
5 standards for protection of intellectual property
6 under conventions administered by international
7 organizations other than the WTO, expanding
8 the conventions to cover new and emerging
9 technologies, and eliminating discrimination and
10 unreasonable exceptions or preconditions to
11 such protection;

12 (C) promoting respect for workers' rights,
13 by—

14 (i) reviewing the relationship between
15 workers' rights and the operation of inter-
16 national trading systems and specific trade
17 arrangements; and

18 (ii) seeking to establish in the Inter-
19 national Labor Organization (referred to in
20 this Act as the "ILO") a mechanism for
21 the systematic examination of and report-
22 ing on the extent to which ILO members
23 promote and enforce the freedom of asso-
24 ciation, the right to organize and bargain
25 collectively, a prohibition on the use of

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1 forced labor, a prohibition on exploitative
2 child labor, and a prohibition on discrimi-
3 nation in employment; and

4 (D) expanding the production of goods and
5 trade in goods in services to ensure the optimal
6 use of the world's resources, while seeking to
7 protect and preserve the environment and to en-
8 hance the international means for doing so.

9 (2) APPLICATION OF PROCEDURES.—Nothing
10 in this subsection shall be construed to authorize the
11 use of the trade authorities procedures described in
12 section 3 to modify United States law.

13 SEC. 3. TRADE AGREEMENT NEGOTIATING AUTHORITY.

14 (a) AGREEMENTS REGARDING TARIFF BARRIERS.—

15 (1) IN GENERAL.—Whenever the President de-
16 termines that 1 or more existing duties or other im-
17 port restrictions of any foreign country or the Unit-
18 ed States are unduly burdening and restricting the
19 foreign trade of the United States and that the pur-
20 poses, policies, and objectives of this Act will be pro-
21 moted thereby, the President—

22 (A) before October 1, 2001 (or, if the au-
23 thority provided by this Act is extended under
24 subsection (c) before October 1, 2005), may

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NADBank Community Adjustment and Investment Plan (CAIP)

Expand Finance Committee to Include the Department of Labor (DOL) and Economic Development Administration (EDA): To ensure high-level coordination with NAFTA-TAA and EDA, the membership of the NADBank CAIP Finance Committee will be expanded to include representatives from the Departments of Labor and Commerce. This group will meet as frequently as once a week for the next six months to provide oversight to the CAIP, including determinations of community eligibility and loan approvals.

El Paso Meeting of the Presidential Advisory Committee: The CAIP will hold a public meeting of the Presidential Advisory Committee in El Paso, Texas on November 21 to learn first-hand the needs of this trade-impacted community.

Full-time Staffing: Both the Department of Agriculture and the Small Business Administration are currently in the process of selecting staff that will be dedicated full-time to administering the CAIP program.

Significant New Lending from the Small Business Administration (SBA): SBA estimates that the new CAIP/SBA program could increase SBA's loan volume by about \$146 million over the duration of the program. With this increased funding capacity, SBA could guarantee loans to over 1,000 small firms. CAIP/SBA will afford greater access to capital, and eligible small firms will not be charged a guaranty fee.

Increased Outreach and Marketing by SBA: SBA will significantly increase marketing and outreach efforts this fall. This will include extensive briefings of SBA resource partners such as SCORE and the SBDCs to help them provide management assistance to CAIP borrowers.

Outreach Roundtables: In eligible communities, CAIP will hold roundtables with community groups, bankers, elected officials, and community leaders to market the program.

Technical Assistance to Identify Eligibility: The CAIP will provide technical assistance both directly and through outside contractors to help communities determine whether they are eligible for CAIP assistance.

Quarterly Evaluations: The Department of Treasury is required to report to Congress on the operation of the CAIP on an annual basis. In order to accelerate identification and correction of problems with the program in the first year of its operation, Treasury proposes increasing the frequency of evaluations to a quarterly basis.

Expand CAIP Staffing: At a cost of \$1 million over four years, the number of professional staff could be doubled, greatly expanding the capacity for outreach, technical assistance and loan assessments.

Provide Technical Assistance: Trade-impacted communities are in need of significant technical assistance to develop strategic plans to help identify opportunities and attract investment. For

a cost of \$10 million over four years, CAIP could provide such assistance to eligible communities, working closely with EDA.

Expand Direct Lending: The direct lending program allows the CAIP to assist a wide range of commercial and nonprofit borrowers who would otherwise lack access to commercial lending institutions. This program allows loans to be extended directly or used for innovative credit enhancements through intermediaries such as establishing loan loss reserves or taking a "first loss" position on a participated loan. The direct lending program, which is currently funded at \$7 million, could benefit from an expansion of \$25 million over four years.

Modify Credit Terms to Serve Trade-Impacted Communities More Effectively: Under existing law, the CAIP is subject to the restrictions and limitations of existing federal credit programs. In order to ensure these programs are tailored to meet the special needs of trade-impacted communities, the loan and guarantee levels, community and borrower eligibility and credit terms of existing programs could be modified, expanding lending by roughly \$32 million over 4 years. (Similar flexibility was provided under the defense conversion program).

Expand CAIP to Include Grant Programs: Under existing law, CAIP is limited to programs that use loans and loan guarantees. CAIP funds could serve trade-impacted communities more effectively if it had the flexibility to provide funds through federal programs that use a mixture of grants and loans. The estimated cost would be \$10 million over four years.

Expand CAIP to Cover All Trade-Impacted Communities: Eligibility for CAIP is currently limited to communities affected by NAFTA. The program could be expanded to cover communities that are severely impacted by trade shifts from any country at a cost of roughly \$40 million over 4 years.

Environmental Protection along the Border

Making Environmental Infrastructure Affordable: To address the needs of poor border communities, the NADBank is establishing cofinancing arrangements with U.S. and Mexican grant programs. NADBank has recently entered into a cooperative agreement with EPA for a Border Environment Infrastructure Fund that will provide access to up to \$170 million in EPA grants. In addition, the Administration is seeking additional appropriations of \$100 million per year over FY 1998-2001 to provide additional affordable financing packages for border environmental infrastructure.

Helping Small Communities Access Tax-Exempt Financing: NADBank is working on a proposal that would help smaller U.S. communities access the tax exempt bond market by working with the State Revolving Funds in the U.S. border states to establish reserve funds for debt servicing. This would leverage \$4 million per year in NADBank financing to make available an additional \$16 million per year for smaller communities in the border states.

Assisting Communities in Project Development: In cooperation with the EPA, the BECC is establishing a Project Development Assistance Program (PDAP) that will begin committing and disbursing up to \$10 million in funds to communities by the end of the year.

Upgrading Management Capabilities: NADBank has established an Institutional Development Program (IDP) to help communities on both sides of the border achieve effective and efficient operation of their water, sewage and solid waste management services. So far, NADBank has approved \$1.8 million in technical assistance for 12 projects under this program, and it now plans to double total IDP resources to \$4 million.

Accelerating Project Development: The NADBank and BECC have developed a work plan for accelerating project development. They have identified more than 30 projects and potential projects with a total cost of more than \$500 million as the core of their 1997-99 work plan.

October 10, 1997

INFORMATION

MEMORANDUM FOR GENE SPERLING ✓
DAN TARULLO

FROM: BOB KYLE *RK for all*
LINDA EDDLEMAN
ERIC BIEL *l*

SUBJECT: Labor/Environment Commitments to Sen. Daschle

Attached is a draft summary of the labor/environment commitments we made to Senator Daschle as part of our discussions in early September. Daschle's staff has asked to meet with us next Wednesday to discuss these and presumably review a draft. Could you please review these before then and give me any thoughts.

We have not discussed how and when this might be rolled out. Therefore, I have not attached a cover letter or other transmittal document. We should discuss these issues soon as well.

ATTACHMENT: ADMINISTRATION INITIATIVES ON ENVIRONMENTAL AND LABOR ISSUES

Environmental Issues

A. World Trade Organization (WTO): Transparency and Openness

This Administration has long been committed to improving the transparency of WTO activities and the openness of WTO proceedings and we will be continuing our active pursuit of these goals in the coming year. First, to demonstrate the significance we attach to this issue, the Administration's fast track bill included a principal negotiating objective of achieving the observance of open and equitable procedures by U.S. trading partners and WTO members. The Ways and Means and Senate Finance bills both contain a similar provision. Second, we will present our transparency objectives at a meeting of the WTO General Council (the WTO's governing body) before the end of the year. Third, we will adopt increased transparency, openness and public participation as priority objectives for the mandated review of the WTO dispute settlement rules and procedures that must be completed by WTO Members by the end of 1998.

The specific objectives that we will pursue in support of greater openness and transparency include:

- Advocating consideration by WTO panels and the Appellate Body of *amicus curiae* submissions from non-governmental interested parties in dispute settlement proceedings that involve environmental and conservation issues.
- Seeking to open WTO dispute settlement panel and Appellate Body proceedings to the public.
- Providing for more timely public access to dispute settlement documents, including through electronic means, to enhance the ability of non-governmental representatives to provide their input and expertise.

In addition, we will work to ensure that similar transparency and openness provisions are included in future trade agreements -- whether multilateral, regional, or bilateral -- that contain dispute settlement provisions.

B. WTO: Eminent Persons Group

We strongly support efforts to improve the understanding of how environmental considerations relate to GATT/WTO rules and principles. We believe that establishment of an "eminent persons group" can advance that process significantly and help establish the groundwork for further initiatives in this area. To that end:

- We will propose that the WTO Director General convene a group of eminent persons, to include independent experts in the fields of trade and the environment, to formulate options for the WTO Committee on Trade and Environment to consider with respect to the issues on its agenda.
- We anticipate that the issues this group could focus on would include: the interpretation of GATT Articles III and XX with respect to environmental matters; the relationship between trade measures in international environmental agreements and WTO rules; and the relationship between trade disciplines and "ecolabeling" provisions and proposals.

C. Improving the Operation of the NADBank and BECC

We are committed to improving the effectiveness of the North American Development Bank (NADBank) and the Border Environmental Cooperation Commission (BECC), established in 1993 to develop and finance environmental infrastructure projects. We are encouraged by plans to approve financing by the end of this year for important wastewater treatment projects for the major border cities of Tijuana and Juarez. We intend to work closely with the BECC and NADBank to ensure implementation of the work plan they have developed to accelerate project development -- under which they have identified more than 30 projects with a total cost exceeding \$500 million.

Secretary of the Treasury Rubin and EPA Administrator Browner are determined to ensure that these institutions effectively address border environmental problems; toward this end they will concentrate on making infrastructure financing affordable to poor communities and on speeding the pace of project development. For example:

- The NADBank is establishing co-financing arrangements with U.S. and Mexican grant programs to address the needs of poor communities along the border, and recently entered into a cooperative agreement with the EPA establishing a Border Environmental Infrastructure Fund to provide access to up to \$170 million in EPA grants.
- The NADBank also is developing a plan, in conjunction with the State Revolving Funds in states along the border, to help smaller communities access the tax-exempt bond market through the establishment of reserve funds for debt servicing.
- In cooperation with the EPA, the BECC is preparing to commit and disburse up to \$10 million to communities by the end of this year under its Project Development Assistance Program. Once existing resources are committed, the BECC and EPA are prepared to infuse additional funding into this program.

- We will pursue additional resources for the NADBank's Institutional Development Program -- which already has approved \$1.8 million and plans to double in size -- to help border communities operate their water, sewage, and solid waste management services more efficiently.
- We will seek additional appropriations of \$100 million annually for the EPA border grant program in FY 1998-2001, with these resources to be combined with NADBank loans to provide affordable financing packages for border environment infrastructure projects.

In addition to the above measures, in an effort to expedite the process of approving small projects proposed by smaller border communities, the following steps will be taken:

- Small projects (typically those costing \$100,000 or less) will be eligible for expedited processing, provided they are sponsored by an appropriate Federal or state agency (e.g., the Texas Water Development Board).
- Similar projects that meet the BECC/NADBank requirements for project quality and review will be considered for certification as a group and financed through a NADBank line of credit with an appropriate Federal or state agency.
- BECC/NADBank will establish a new program to assist residents in poor communities finance residential hook-ups of water and wastewater services by providing lines of credit (through a public utility or other intermediary) to fund the costs of such services.

D. International Financial Institutions (IFIs)

We intend to build upon and expand our efforts to promote incorporation by the IFIs of the full range of environmental issues into their operations and promote a greater flow of resources to environmental projects. In an effort to achieve these goals, the following specific steps will be taken:

- Secretary Rubin will propose that the Inter-American Development Bank (IDB) create an independent advisory committee comprised of senior IDB officials, representatives of non-governmental organizations, and others to examine environmental issues arising from prospective operations and to make specific recommendations to the IDB.
- We will press for significant increases in direct lending for environment and natural resources management projects (in the IDB such funding rose to \$815 million in 1996 due in large part to our advocacy) and for a higher share of lending to be dedicated to these projects.

- We will continue to scrutinize closely the effectiveness of public information disclosure for environmentally sensitive projects to ensure compliance with the Pelosi Amendment, focusing on the required advance consultation with affected and interested persons.
- We will examine closely the practices of the independent inspection panels established to examine alleged non-compliance with established policies and propose improvements to this process, as required.
- We will pursue vigorously international support for our proposal to create a \$250 million fund that would provide below market rate loans to finance environmental initiatives.
- We will continue to urge the IMF, in its program design and annual consultations with members, to consider the link between the environment and economic policy choices.

Labor Issues

In the labor area, the Administration supports a range of initiatives designed to strengthen the respect for internationally-recognized labor standards. We already have taken a number of important steps to broaden international respect for the right to organize and bargain collectively; freedom of association, and prohibitions on forced labor; exploitative child labor; and discrimination in employment. The list of measures that follows illustrates our commitment to address worker rights issues aggressively in a variety of different ways.

A. Benchmark Review of Future Free Trade Agreement (FTA) Partners

The Administration has set out a series of commitments to ensure that we consult closely with the Congress on any plans to initiate future free trade negotiations. One important element of this plan is our commitment to make certain that Members of Congress and the public are informed of the laws, practices, and economic conditions of each prospective FTA partner. To advance this effort:

- We will undertake a "benchmark" review of the laws and policies of each such country when an agreement is brought back for congressional approval. This review will include an evaluation of the country's legal system, trade laws and practices, labor laws and practices, environmental laws and practices, macroeconomic policies and conditions, and other relevant conditions. We will provide the report to the Congress, and also will make it publicly available.

B. Labor Department Review of the North American Labor Agreement

We believe that a greater understanding of the labor conditions in our NAFTA partners will both build on the work already being done under the North American Agreement on Labor Cooperation (NAALC) and, at the same time, strengthen the NAALC's own effectiveness on addressing relevant labor issues. To aid in this objective:

- The Department of Labor will produce an annual report reviewing the operation of the NAALC, including a survey of major issues arising under the Agreement, the proceedings and actions brought by the parties, and the steps being taken by our NAFTA partners to conform to the findings in any cases brought under the Agreement.

C. International Financial Institutions (IFIs)

The Administration will undertake a series of measures designed to enhance the U.S. leadership role in pressing for incorporation of worker rights issues into the planning and programs of the IFIs. Our goal in this regard is to ensure that program countries take all steps possible to guarantee worker rights and adopt fair labor practices and standards. The following measures will help enhance attention to these issues within the U.S. Government, secure a greater international focus on worker rights issues, and heighten the priority given to worker rights issues by the IFIs:

Ensuring International Focus on Worker Rights Issues

- The Administration believes the U.S. should continue to heighten attention to this issue. To that end, Secretary Rubin highlighted [the need to place greater emphasis on core labor standards] in his recent speech at the World Bank/IMF Annual Meeting in September. He will continue to do so in appropriate fora.
- We will propose a summit meeting of the presidents of the IFIs and the Director General of the ILO to reinforce the commitment of the institutions to working closely together.

Enhanced Focus Within the Administration

- In consultation with Secretary of Labor Herman, Secretary of the Treasury Rubin will propose formation of an interagency team -- including the Departments of Labor, State, and Commerce -- to explore international worker rights issues more broadly and examine ways to incorporate these issues more systematically into the work of the IFIs.

Heightening the Priority given by the IFIs to Worker Rights Issues

- We will actively promote our proposed joint World Bank-IMF conference on worker rights issues to pursue explicit commitments to make tangible progress in the IFIs on these issues. The conference could bring together senior IFI and ILO officials, as well as academics and representatives of non-governmental organizations.
- We will continue to promote vigorously our proposal to develop a screening mechanism -- now under discussion with the multilateral development banks -- to ensure that worker rights issues are taken systematically into account in the institutions' operational planning and programming. We also will explore the best means for ensuring that IFI budgets contain resources sufficient to conduct screening operations and similar analytical functions.
- We will call for the World Bank to establish an office that is dedicated to analysis of labor issues and has direct input into the Bank's program and lending activities, and will encourage regular direct contacts between ILO staff and this office.
- We will urge the multilateral development banks to increase both technical assistance and direct lending to promote the adoption of worker rights and fair labor standards.
- We will urge the IMF to further emphasize the importance of labor issues in its annual reviews of member countries and by examining the link between promotion of core labor standards and long-term macroeconomic performance (for possible inclusion in its new governance policies).
- We will follow up vigorously on the paper completed, at our urging, by the World Bank on child labor issues, including its specific proposals for more active Bank engagement on these issues.
- We will continue to implement the statutory requirement (Frank Amendment) directing the Secretary of the Treasury to urge the IFIs to adopt policies encouraging borrowing countries to protect worker rights and requiring an annual report to Congress on how the IFIs are performing.

D. Export Processing Zones

The U.S. Government has been concerned over the past several years with programs through which certain countries apply lower labor standards and permit less adequate worker protections in special tariff-free export processing zones (EPZs). We are committed to developing a clearer understanding of such programs and, in so doing, exploring the best means for addressing the concerns that already have been identified and any others that may be highlighted through additional study of EPZs. To accomplish this:

- The Department of Labor will update its 1990 study finding that some countries applied different rules in such zones with the intent of restricting certain important labor standards, including the freedom of association and the right to bargain collectively.
- We will continue to encourage work within the ILO to analyze the extent to which differential standards exist in such zones, and will review whether to recommend increased coordination on this issue between the ILO and the WTO.

September 18, 1997

Dear [House Member]:

On Tuesday, the Clinton Administration transmitted to the Congress the Export Expansion and Reciprocal Trade Agreements Act of 1997. This proposed legislation renews the partnership between the Executive Branch and the Congress, first enshrined in law more than 60 years ago, under which the United States has led in the development of a fairer and more open world trading system. It grants the same negotiating authority made available to President Ford and every President since, while ensuring that the Congress is actively involved at all stages of the process -- before, during, and after any trade negotiations. This renewal of the President's traditional negotiating authority is critical to our efforts to expand economic opportunities for American workers, farmers, and companies.

Notwithstanding the significant benefits that will result from this proposed legislation, critics have made a number of assertions that are not accurate. To set the record straight, I have attached responses to these charges. I believe that a clear discussion of the facts will help enable us to work together in the coming weeks in support of the critically important trade, labor, and environmental objectives we share.

Sincerely,

Charlene Barshefsky

[name and address]

Attachment

Claim #1: This request for fast track authority is a “step backwards” from previous grants of fast track authority and is actually worse than the authority President Bush received.

Response: Wrong. This proposed legislation permits President Clinton to do everything that past Presidents have done with fast track authority.

At the same time, this proposal does contain new provisions never before included in any fast track legislation. These include:

- A principal negotiating objective on worker rights to ensure that we continue to press this cause aggressively with other countries.
- An explicit reference, for the first time in any fast track bill, to the importance of addressing child labor abuses.
- Also for the first time in any fast track bill, a principal negotiating objective to promote greater environmental protection in other countries.

The critics wrongly claim that an earlier Congressional Research Service analysis somehow addresses this legislation. That is simply untrue. The CRS statement was not based on the language of this bill, and it is not appropriate to cite it as a relevant analysis here.

The Administration’s legislation is a step forward, not backward. It helps us to compete effectively in the global economy, to advance confidently into the 21st Century. We face a critical choice. We can either shape the global economy to America’s advantage or turn back and fail to compete for new business, new contracts, new jobs. This legislation moves us in the right direction.

Claim #2: The proposal moves the consideration of labor and environmental issues to the World Trade Organization.

Response: Wrong. The United States remains free to address these issues in every way we want -- whether through bilateral, regional, or multilateral talks -- and we will continue to do so.

The legislation does contain a principal negotiating objective urging continued and expanded efforts on labor and environmental issues in the World Trade Organization -- while also pressing for stronger International Labor Organization action on core labor standards.

For years, those advocating more attention to labor and the environment have demanded that these issues *should* be addressed in the WTO. And this Administration has fought hard, in the face of strong opposition, to try to accomplish just that. So it is surprising that the proposed legislation now is being criticized for advocating a stronger WTO role.

Claim #3: This request would preclude the NAFTA side agreements from being included in future trade agreements and from receiving fast track consideration.

Response: The President retains full authority to negotiate tough labor and environmental side agreements. The critics' charge reflects a fundamental misunderstanding of fast track. Fast track authority is needed only where a trade agreement requires changes to U.S. law. Neither the NAFTA side agreements, nor any such agreements envisioned with other countries, require any changes to our own labor or environmental laws.

The President already has stated his intent to negotiate strong labor and environmental agreements with Chile, which has agreed to enter into such agreements with us. We will consult closely with the Congress as these negotiations proceed. But these agreements will not need fast track approval -- because our laws will not change.

Claim #4: The request fails to deal with certain important trade issues; food safety, drugs, and worker retraining are not mentioned as principal negotiating objectives.

Response: The proposed legislation explicitly instructs U.S. negotiators to address the protection of our own health and safety measures as they pursue the listed negotiating objectives. We are committed to continue applying our own strong standards to protect the health and safety of our citizens.

This Administration is committed to a strong, well-funded program to combat the flow of drugs and improve interdiction and enforcement. Expanded trade has not meant any relaxation of our commitment here; just the opposite, as border inspections have increased. Engaging other countries on trade enhances our ability to work closely with them on other important issues as well, including through joint efforts to counter narcotics trafficking.

Worker retraining and assistance has been and remains a top priority of this Administration. We have doubled funding for dislocated workers, helping an additional 300,000 workers per year get training or job search assistance. But these are initiatives we can take on our own. We do not -- and should not -- negotiate our domestic assistance programs with other countries, and therefore no negotiating objective is necessary.

The list of negotiating objectives is not intended to be exhaustive; it simply reflects some of the key issues we need to address in future trade negotiations.

Claim #5: The request no longer includes the objective of addressing unfair trade practices.

Response: Nothing could be further from the truth. In fact, the very first principal negotiating objective describes at length the plan to address "trade barriers and other trade distortions" and a wide range of unfair foreign government policies and practices. This is echoed in nearly every other negotiating objective -- from agriculture to services -- spelled out in the proposal.

Moreover, to ensure this is clearly understood, the legislation also requires our negotiators to make certain that the United States retains the ability to "enforce rigorously" our own laws addressing unfair foreign trade practices.

This charge appears to refer to the fact that this proposed legislation does not repeat a 1988 Trade Act provision on GATT rules covering unfair foreign trade practices, such as dumping and subsidies. This Administration already has made good on that front by successfully concluding tough agreements on dumping and subsidies in the Uruguay Round. Our clear commitment to address unfair trade practices does not depend on our reiterating language from a statute enacted nine years ago.

September 18, 1997

Dear [House Member]:

On Tuesday, the Clinton Administration transmitted to the Congress the Export Expansion and Reciprocal Trade Agreements Act of 1997. This proposed legislation renews the partnership between the Executive Branch and the Congress, first enshrined in law more than 60 years ago, under which the United States has led in the development of a fairer and more open world trading system. It grants the same negotiating authority made available to President Ford and every President since, while ensuring that the Congress is actively involved at all stages of the process -- before, during, and after any trade negotiations. This renewal of the President's traditional negotiating authority is critical to our efforts to expand economic opportunities for American workers, farmers, and companies.

Notwithstanding the significant benefits that will result from this proposed legislation, critics have made a number of assertions that are not accurate. To set the record straight, I have attached responses to these charges. I believe that a clear discussion of the facts will help enable us to work together in the coming weeks in support of the critically important trade, labor, and environmental objectives we share.

Sincerely,

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[name and address]

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Response: Wrong. This proposed legislation permits President Clinton to do everything that past Presidents have done with fast track authority.

At the same time, this proposal does contain new provisions never before included in any fast track legislation. These include:

- A principal negotiating objective on worker rights to ensure that we continue to press this cause aggressively with other countries.
- An explicit reference, for the first time in any fast track bill, to the importance of addressing child labor abuses.
- Also for the first time in any fast track bill, a principal negotiating objective to promote greater environmental protection in other countries.

The critics wrongly claim that an earlier Congressional Research Service analysis somehow addresses this legislation. That is simply untrue. The CRS statement was not based on the language of this bill, and it is not appropriate to cite it as a relevant analysis here.

The Administration’s legislation is a step forward, not backward. It helps us to compete effectively in the global economy, to advance confidently into the 21st Century. We face a critical choice. We can either shape the global economy to America’s advantage or turn back and fail to compete for new business, new contracts, new jobs. This legislation moves us in the right direction.

Claim #2: The proposal moves the consideration of labor and environmental issues to the World Trade Organization.

Response: Wrong. The United States remains free to address these issues in every way we want -- whether through bilateral, regional, or multilateral talks -- and we will continue to do so.

The legislation does contain a principal negotiating objective urging continued and expanded efforts on labor and environmental issues in the World Trade Organization -- while also pressing for stronger International Labor Organization action on core labor standards.

For years, those advocating more attention to labor and the environment have demanded that these issues *should* be addressed in the WTO. And this Administration has fought hard, in the face of strong opposition, to try to accomplish just that. So it is surprising that the proposed legislation now is being criticized for advocating a stronger WTO role.

Claim #3: This request would preclude the NAFTA side agreements from being included in future trade agreements and from receiving fast track consideration.

Response: The President retains full authority to negotiate tough labor and environmental side agreements. The critics' charge reflects a fundamental misunderstanding of fast track. Fast track authority is needed only where a trade agreement requires changes to U.S. law. Neither the NAFTA side agreements, nor any such agreements envisioned with other countries, require any changes to our own labor or environmental laws.

The President already has stated his intent to negotiate strong labor and environmental agreements with Chile, which has agreed to enter into such agreements with us. We will consult closely with the Congress as these negotiations proceed. But these agreements will not need fast track approval -- because our laws will not change.

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Worker retraining and assistance has been and remains a top priority of this Administration. We have doubled funding for dislocated workers, helping an additional 300,000 workers per year get training or job search assistance. But these are initiatives we can take on our own. We do not -- and should not -- negotiate our domestic assistance programs with other countries, and therefore no negotiating objective is necessary.

The list of negotiating objectives is not intended to be exhaustive; it simply reflects some of the key issues we need to address in future trade negotiations.

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Moreover, to ensure this is clearly understood, the legislation also requires our negotiators to make certain that the United States retains the ability to "enforce rigorously" our own laws addressing unfair foreign trade practices.

This charge appears to refer to the fact that this proposed legislation does not repeat a 1988 Trade Act provision on GATT rules covering unfair foreign trade practices, such as dumping and subsidies. This Administration already has made good on that front by successfully concluding tough agreements on dumping and subsidies in the Uruguay Round. Our clear commitment to address unfair trade practices does not depend on our reiterating language from a statute enacted nine years ago.

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Worker retraining and assistance has been and remains a top priority of this Administration. We have doubled funding for dislocated workers, helping an additional 300,000 workers per year get training or job search assistance. But these are initiatives we can take on our own. We do not -- and should not -- negotiate our domestic assistance programs with other countries, and therefore no negotiating objective is necessary.

The list of negotiating objectives is not intended to be exhaustive; it simply reflects some of the key issues we need to address in future trade negotiations.

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Response: Nothing could be further from the truth. In fact, the very first principal negotiating objective describes at length the plan to address "trade barriers and other trade distortions" and a wide range of unfair foreign government policies and practices. This is echoed in nearly every other negotiating objective -- from agriculture to services -- spelled out in the proposal.

Moreover, to ensure this is clearly understood, the legislation also requires our negotiators to make certain that the United States retains the ability to "enforce rigorously" our own laws addressing unfair foreign trade practices.

This charge appears to refer to the fact that this proposed legislation does not repeat a 1988 Trade Act provision on GATT rules covering unfair foreign trade practices, such as dumping and subsidies. This Administration already has made good on that front by successfully concluding tough agreements on dumping and subsidies in the Uruguay Round. Our clear commitment to address unfair trade practices does not depend on our reiterating language from a statute enacted nine years ago.

Dear [House Member]:

Yesterday, the Clinton Administration transmitted to the Congress the Export Expansion and Reciprocal Trade Agreements Act of 1997. This legislation renews the partnership between the Executive Branch and the Congress, first enshrined in law more than 60 years ago, under which the United States has led in the development of a fairer and more open world trading system. It grants the same negotiating authority made available to President Ford and every President since, while ensuring that the Congress is actively involved at all stages of the process -- before, during, and after any trade negotiations. This renewal of the President's traditional negotiating authority is critical to our efforts to expand economic opportunities for American workers, farmers, and companies.

Notwithstanding the significant benefits that will result from this legislation, some critics have asserted that it represents a "step backwards" and does not address certain important issues. On behalf of the President and my colleagues in the Administration, I am providing you with the attached set of responses to these charges. I believe that, by setting the record straight concerning the legislation transmitted by the President, these responses will help enable us to work together in the coming weeks in support of the critically important trade, labor, and environmental objectives that we share.

Sincerely,

Charlene Barshefsky

[name and address]

Attachment

Bob and Vicki -
a first cut at a response
to O'Connell.
Let's discuss a.m.
ERB

(1) Make sure
Gene, Heller review
(2) Republicans - who
effect a new
effort will be used
September, 1997
what if we don't
newly discussed
discussed
1st draft
ERB draft - 9/16/97 p.m.
Should I
sign - Gene
to agent

What will Rs 57

Claim #1: This request for fast track authority is a "step backwards."

Response: This request is for the same negotiating authority that the Congress has provided to every President, Democratic and Republican, since 1974 -- nothing more, nothing less.

At the same time, this improves on previous grants of negotiating authority by including environmental protection as a principal negotiating objective for the first time and ensuring that special attention is given to addressing child labor practices. For those concerned about these issues, it is a clear step forward.

Nothing in the proposal limits the ability of the President or Congress to include in a future fast track bill those provisions deemed "necessary or appropriate" to implement a trade agreement. In fact, the legislation expressly preserves this discretion and flexibility. *and directly related to trade*

Nor is there any restriction on the President's ability to negotiate agreements addressing labor or environmental concerns -- as long as the Congress is notified of and consulted on those agreements.

Claim #2: The proposal moves the consideration of labor and environmental issues to the World Trade Organization.

Response: All the proposed legislation does is specify that the five listed "principal negotiating objectives" regarding worker rights and environmental protection should be addressed through the World Trade Organization -- while also pressing for stronger International Labor Organization action on core labor standards.

For years, those advocating more attention to labor and the environment have demanded that these issues *should* be addressed in the WTO. So it is surprising that the proposed legislation now is being criticized for advocating just that.

At the same time, this does nothing to restrict the President's ability to also address labor and environmental issues bilaterally -- those "directly related to trade" in a free trade agreement and any others in strong side agreements. Progress on labor and the environment requires that we use all of the available fora -- and will stall if the President does not receive new negotiating authority.

Claim #3: This request would preclude the NAFTA side agreements from being included in future trade agreements and from receiving fast track consideration.

Response: This charge reflects a fundamental misunderstanding of what fast track is needed for. Fast track is essential only where a trade agreement requires changes to U.S. law. Neither the NAFTA labor and environmental agreements, nor any such agreements envisioned with other countries, require any changes to our laws.

In fact, the last thing we would want is to open our own labor or environmental laws to change as a result of negotiations with foreign countries.

The President already has stated his intent to negotiate strong labor and environmental agreements with Chile, and he will consult closely with the Congress as these negotiations proceed. Whether or not these are part of a fast track trade bill is irrelevant.

Claim #4: The request fails to deal with certain important trade issues.

Response: In fact, the proposed legislation explicitly instructs U.S. negotiators to ensure that the protection of health and safety is addressed as they pursue the listed negotiating objectives.

Worker retraining has been and remains a top priority of this Administration. But it would make no sense to include it among our principal negotiating objectives -- which address only what we want to achieve with our trading partners, not those initiatives that we can take on our own at home.

The list of negotiating objectives is not intended to be exhaustive; it simply reflects what we consider the main issues we must address in future trade negotiations.

Claim #5: The request no longer includes the objective of addressing unfair trade practices.

Response: Nothing could be further from the truth. In fact, the very first principal negotiating objective describes at length the plan to address "trade barriers and other trade distortions" and a wide range of unfair foreign government policies and

practices. This is echoed in nearly every other negotiating objective -- from agriculture to services -- spelled out in the proposal.

Moreover, to make certain that this is clearly understood, the legislation also requires our negotiators to make certain that the United States retains the ability to "enforce rigorously" our own laws addressing unfair foreign trade practices.

What this charge appears based on is that the 1988 Trade Act included a negotiating objective concerning GATT rules covering unfair trade practices such as dumping and subsidization. This Administration already has made good on that objective by successfully concluding tough agreements on dumping and subsidies in the Uruguay Round. Our commitment to address unfair trade practices should not depend on merely reiterating language from a statute enacted nine years ago.