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# MFN ISSUE FACT SHEETS

Normal Trade Status - Overview One-Pager

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China and Nonproliferation
China and Regional Security
China's Military Modernization
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Trade Aspects of Most-Favored Nation Treatment
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**WHY CONTINUATION OF NORMAL TRADE STATUS IS IN THE NATIONAL INTEREST OF THE UNITED STATES:**

- **ENGAGEMENT**: President Clinton's strategy is clear: U.S. interests are best served by a secure, stable and open China. The manner in which we engage China will help determine whether it becomes integrated into international norms and institutions or whether it becomes more isolated and unpredictable. This vote must be about how best to promote U.S. interests--not an endorsement of all of China's policies. Extending to China the same normal trade treatment we give to virtually every nation on earth will help further integrate China -- and promote the interests of the American people.

- **INTERNATIONAL COOPERATION**: China's adherence to international norms is fundamental to advancing the interests of the American people. On nonproliferation, China has joined us in the NPT, CTBT. and CWC regimes. China is a contributor to maintaining stability on the Korean peninsula and bringing North Korea into peace talks. We have a strong bilateral program to combat alien smuggling, narcotics trafficking and terrorism. Negotiations on China's adherence to WTO norms and standards are moving forward, building on past progress such as last year's intellectual property accord. MFN extension supports our efforts to subject China to the same international disciplines as other major powers and builds on cooperation in important areas.

- **HONG KONG**: Hong Kong is the gateway of trade between the US and China. Revocation of MFN would seriously weaken the people of Hong Kong just when they need to assert their strength and autonomy. The Hong Kong Government estimates that revocation would: slash its trade by \$20-\$30 billion, eliminate 60,000-85,000 jobs, cut economic growth by well over 50 percent and reduce income by \$4 billion. That's why Hong Kong leaders across the political spectrum, including Hong Kong Democratic Party leader Martin Lee and Governor Patten favor renewal of MFN.

- **JOBS**: Today an estimated 170,000 U.S. job depend on exports to China. U.S. exports to China have more than tripled over the past decade and China is now our fifth largest trading partner, accounting for \$12 billion of U.S. exports. Revocation would derail the talks on China's entry into the World Trade Organization, under which China would reduce its trade barriers substantially, creating new export opportunities for U.S. companies and workers. Revocation would invite retaliation against U.S. exporters and investors. Revocation would also hurt U.S. consumers, who could pay upwards of half a billion dollars more in a single year because of higher tariffs on such products as shoes and clothing.

- **HUMAN RIGHTS**: Engagement does not mean endorsement. The Administration has consistently pressed its human rights concerns with China, including most recently in Geneva at the UN Human Rights Committee. Moreover, our support for the establishment and operation of Radio Free Asia demonstrates our commitment to ensuring improved access to accurate information in China and the Asia Pacific region. Over time normal trade and continued economic engagement opens up Chinese society. Every year, thousands of Chinese employees of U.S. companies visit this country, gaining exposure to our politics, economy and personal freedoms. Revoking normal trade status will diminish these growing ties and play into the hands of those in China who want less openness.

- **RELIGIOUS FREEDOM**: Revocation would also set back the cause of expanding religious freedom in China. This is the view of the China Service Coordinating Office, an organization serving more than one hundred Christian organizations in China. They fear the following effects: doors will be closed for service through educational, cultural and other exchanges; revocation would undermine Hong Kong and Taiwan, hurting their Christian outreach to the mainland

- **TAIWAN**: Revocation would damage Taiwan's economy, with \$20-30 billion invested in the mainland. Taiwan's economic viability is in the interest of the American people.

# HONG KONG AND NORMAL TRADING STATUS FOR CHINA

**MFN revocation, or a short-term renewal, would seriously undermine Hong Kong at a critical time.** Hong Kong will revert to Chinese sovereignty on July 1. MFN revocation would hurt Hong Kong's economy and shake confidence precisely when it most needs to assert its strength and autonomy.

- Hong Kong's economy is based on trade and services and 50 percent of China's trade goes through Hong Kong. MFN revocation would halve GDP growth, double unemployment by causing the loss of 60,000 to 85,000 jobs, and reduce Hong Kong's trade by up to $32 billion (8 percent of total trade). Any Chinese retaliation for revocation against U.S. exports would amplify the damage.

- As a bridge between East and West, Hong Kong is acutely sensitive to disruptions in U.S.-China relations. MFN revocation would severely damage those relations, lead to uncertainty among the Hong Kong people and lessen the international business community's confidence in Hong Kong as a trade and finance center.

- Blows to Hong Kong's economy and confidence would undermine its ability to maintain its open economy, civil liberties, and way of life during the transition.

**The full spectrum of people in Hong Kong support MFN.** Even those most critical of Beijing strongly support unconditional MFN status for China because it promotes Hong Kong's interests.

Hong Kong Governor Chris Patten, who has championed Hong Kong's civil liberties, has said, "If China loses her MFN status, Hong Kong suffers...MFN is of very, very great importance to the people of Hong Kong, to the well-being of Hong Kong, to the future prosperity and stability of Hong Kong."

Leading Hong Kong democracy figure, Martin Lee, stated, "If the United States is concerned about the handover, then the best thing is to assure the community by making sure nothing dramatic happens to Hong Kong... The Democratic Party has always strongly supported renewal of MFN for China unconditionally."

The American Chamber of Commerce in Hong Kong, the largest Chamber in the world outside the United States, states, "Revocation of MFN would seriously damage Hong Kong, undermining confidence during a critical transition period...undercut economic reform in China...and seriously jeopardize U.S. economic interests."

**The United States has strongly supported Hong Kong's autonomy and way of life.** The Administration emphatically supports the 1984 Sino-British Joint Declaration and the preservation of Hong Kong's open economy, distinct legal system, and civil liberties. The United States repeatedly has stated this position publicly and in meetings with high-level Chinese officials.

- The Administration has negotiated a framework of bilateral agreements directly with the Hong Kong authorities on extradition, mutual legal assistance, and air services which support Hong Kong's autonomy. It has negotiated agreements with China which provide for continued operation of our Consulate General and U.S. Navy port calls.

**The Administration believes that anything less than a full year extension of MFN will send the wrong signal to the people of Hong Kong and to the international community.** Linking Hong Kong to China MFN weakens, not strengthens, the efforts of the U.S. Government to support Hong Kong autonomy.

# CHINA'S COMMITMENTS ON HONG KONG

**China and the United Kingdom negotiated the reversion of Hong Kong to China.** In 1982, China indicated that it would not renew the 99-year lease, signed in 1898, under which the United Kingdom had acquired most of the territory that comprises current-day Hong Kong. After negotiations, the two sides signed the 1984 Sino-British Joint Declaration, which sets forth the terms for the reversion of Hong Kong, and the end of the United Kingdom's long colonial rule.

**China has made specific pledges about Hong Kong's future.** The Joint Declaration and the Basic Law promulgated by China in 1990 established the concept of "one country, two systems." They provide that Hong Kong will exercise a high degree of autonomy after the transition. The social and economic systems, lifestyles, and rights and freedoms enjoyed by the Hong Kong people are to remain unchanged for at least fifty years, and the PRC's economic system and policies will not be extended to Hong Kong. China repeatedly has reaffirmed these pledges. The Joint Declaration and Basic Law specifically provide that:

- Hong Kong will have independent courts, with ultimate judicial authority resting in a local Court of Final Appeal. Hong Kong laws will apply.
- Hong Kong will retain its separate currency, monetary system, and finances. Hong Kong will have independent taxing authority, and no tax revenues will be collected for or sent to Beijing.
- Hong Kong people will elect their legislature, and Hong Kong police will maintain public order; Hong Kong residents, not non-Hong Kong PRC officials, will occupy all important government and civil service positions, including Chief Executive.
- Hong Kong will be able to enter into international agreements in a wide range of areas.

**The United States is watching the reversion closely and actively supports open, accountable, and democratic institutions in Hong Kong.**

**There have been some welcomed developments.**

- Chief Secretary Anson Chan -- a highly respected pro democracy civil servant -- has announced that she will remain in her position. In February, Hong Kong's Chief Executive-designate C.H. Tung announced that all other eligible senior civil servants will stay in their positions after reversion.
- Senior Chinese officials have reaffirmed that Hong Kong will maintain its own currency, which is linked to the U.S. dollar, and permit Hong Kong to control its substantial foreign exchange reserves.
- China has approved Hong Kong's continued participation in international organizations and extension of most major multilateral agreements currently applied to Hong Kong through the United Kingdom.

**We have expressed our concern about certain steps China has taken.**

- The United States is concerned about China's decision not to recognize the 1995 Legislative Council elections and to organize a provisional legislature to take office on July 1. Beijing says the provisional legislature will serve no more than a year and a broad spectrum of candidates will be allowed to participate in 1998 elections for a new Legislative Council.
- Recent Beijing decisions to restrict the Bill of Rights Ordinance, the right to demonstrate and the activities of political parties have fueled concern in Hong Kong, which the U.S. shares, that Hong Kong's civil liberties and individual freedoms will be restricted after reversion
- The United States believes that civil liberties and basic freedoms are critical components of Hong Kong's way of life and vital to maintaining confidence in Hong Kong. The United States has expressed clearly to senior Chinese leaders its deep concern about any actions that would weaken those rights and freedoms.

# CHINA AND NON-PROLIFERATION

**Engagement is vital to halting proliferation.** It is in our vital national interest that China embrace international norms, and abide by them. China's record is clearly mixed. Engagement is necessary to sustain progress made, and to address areas of continuing concern.

**Engagement has produced some positive developments in strengthening China's non-proliferation policy.**

- China adhered to the Non-Proliferation Treaty (NPT) in 1992 and supported its indefinite and unconditional extension in 1995.
- China recently ratified the Chemical Weapons Convention in time to become an original party.
- China agreed to a moratorium on nuclear testing effective September, 1996, and signed the Comprehensive Test Ban Treaty (CTBT).
- Last year China announced stronger national nuclear export controls and is seriously studying joining the Zangger Committee.

**We have continuing concerns.** China is a major producer of nuclear, chemical, and missile-related equipment, materials and technology. We have strong concerns about Chinese transfers of advanced conventional weapons and nuclear cooperation with Iran. China's cooperation with Iran's nuclear power program has been safeguarded under international inspection, but we are concerned that any nuclear cooperation will be exploited by Iran for weapons development. We also have strong concerns about reports of transfer of missile equipment and technology to Iran and Pakistan, and transfers of dual-use items that could be used in by Iran in its chemical weapons program

**We will use the tools at our disposal to stem the flow of dangerous weapons.** These include our strong nonproliferation laws. Revoking normal trade status is the wrong tool.

- The Administration used diplomatic pressure and the prospect of economic sanctions in the ring magnets case last year to secure a significant new commitment by China not to provide assistance to unsafeguarded nuclear facilities. We have monitored this issue closely, and have no basis to conclude hat China is not abiding by its commitment.
- In August 1993, the U.S. imposed sanctions on Chinese entities for shipment of missile-related equipment to Pakistan Following negotiations. China agreed to a global ban on sales of MTCR-class ground-to ground missiles, a stricter commitment than the MTCR requires.
- In May 1997, the U.S. imposed sanctions on seven Chinese entities for assisting Iran's chemical weapons program. We have no evidence that the Chinese government was involved in these exports. We are encouraging the Chinese government to strengthen its export control system to prevent such transfers in the future.

We remain concerned about reports of missile proliferation-related activities between China and Iran and Pakistan. If we determine that activity sanctionable under U.S. law has occurred, we will implement the sanctions law fully.

**We must continue to watch China's activities closely. We must also engage.** We need to work with China toward a common understanding on effective export control policies and to strengthen existing national export control systems. This will be a vital contribution to our goal of preventing the spread of all weapons of mass destruction and their delivery systems MFN revocation would seriously undermine these efforts.

# CHINA AND REGIONAL SECURITY

**China's role in Asian security will grow and will be positive or negative. Engagement will help shape the outcome.** Revoking normal trade status would isolate us from China and undermine our capacity to shape its direction. During China's last period of isolation in the 1960s, it supported insurgencies in the region and was a key ally of North Korea.

**Engagement with China on regional issues has yielded tangible benefits.** Beijing helped to obtain North Korea's compliance with the U.S.-DPRK Agreed Framework, which halted Pyongyang's nuclear weapons program and helped to promote peace and stability in Cambodia. China has constructively participated in confidence building dialogues on regional security in Northeast Asia and Southeast Asia. The PRC has expressed interest in cooperation with the United States on policy toward a nuclear weapons free zone in Southeast Asia.

**China's growing regional integration has increased China's willingness to settle long-standing disputes with its neighbors.** It has resolved persistent Mao-era boundary disputes, which occasioned hostilities, along its extensive border with Russia. In 1996, China negotiated a five-party agreement with Russia, Kazakstan, Kyrgyzstan and Tajikistan on confidence-building measures along common borders. China has normalized relations with Indonesia and South Korea. The PRC has worked to settle similar disagreements with its southern neighbors. China and India have undertaken parallel troop withdrawals in contested areas. PRC-Vietnam working groups have made some progress on disputed areas along their land border.

**Where security is threatened, the United States will take appropriate action.** PRC missile exercises near Taiwan last year illustrate the tensions still evident in the region. The President responded in a forceful and effective manner by dispatching two carrier battle groups. At the same time, we reaffirmed the three communiqués and our support for peaceful resolution of the Taiwan question. This action reassured Asia and the world of our commitment to the peaceful resolution of the Taiwan question. Tensions in the Strait have remained low since our action, and for the first time, some direct commercial shipping has recently been opened between Taiwan and the mainland. Cross-Strait trade and investment stimulate direct exchanges and greater openness between the PRC and Taiwan.

**Where conflicts remain, engagement with other countries can moderate China's actions.** The PRC claims sovereignty over the Spratly and Paracel Islands in the South China Sea. China's occupation of Mischief Reef provoked sharp reactions from ASEAN Neighbors. China subsequently participated in multilateral and bilateral discussions with ASEAN on the South China Sea territories. Beijing publicly declared its intention to apply international law to such disputes and affirmed its desire to pursue joint commercial development pending resolution of competing territorial claims. China's drilling for oil in disputed waters near Vietnam in March led to China's withdrawal and bilateral talks after Vietnam's strong protest, supported by other ASEAN states.

**Revocation of normal trading status is opposed by our allies in Asia, precisely because it would undermine regional security and cooperative efforts.** Renewal of normal trade status is widely supported throughout Asia, including by Japan, Korea and the ASEAN nations. They know that revocation would be a serious blow to Asian security and stability, the cause of democracy and the long-term interests of Asia and the United States.

# CHINA'S MILITARY MODERNIZATION

**China's growing importance poses a critical choice for U.S. policy.** We can engage China to help integrate it into international systems and to channel its growing power in constructive directions. Or we can try to contain and isolate it, and ensure development of a destabilizing nation hostile to the United States. Our choice will affect China's choice.

**China is modernizing its forces, but they do not pose a serious threat to the superior U.S. forces available in the region, nor will they for the foreseeable future.** The Chinese military is trying to transform itself from a land based power, centered on a vast ground force, to a smaller, mobile, high-tech military, but has a long way to go. Since 1985, China has reduced military personnel by 1 million, to a total of 3 million today. Another reduction of 500,000 is underway. Official defense budget increases in the 1990s offset inflation that averaged about 15% and low spending during the 1980s, and were largely devoted to improving the quality of life for personnel. However, the official budget figure does not include off-budget funding, notably for purchases of foreign technology, and profits from PLA-owned enterprises. Some analysts estimate total spending at $40-50 billion. Most of China's weapons technologies are 30-40 years behind the United States. China's power-projection capability is rudimentary, and sustained power-projection ability virtually non-existent. China has recently acquired some advanced weapons systems, including SU-27s and Kilo-class diesel submarines, from Russia. Despite these acquisitions, the mainstay of the air force continues to be the 1960s-vintage F-7, and naval forces still consist mainly of 1950s- and 1960s-era technology.

**Engagement, including military-to-military contacts, is important to understanding Chinese military acquisitions and perceptions, and avoiding miscalculations.** Military-to-military contacts help us understand China's intentions and ensure they are clear about ours. These contacts have produced concrete benefits, including agreement on procedures which would allow continued U.S. Navy port calls to Hong Kong after reversion; discussions toward a military maritime cooperation agreement, designed to reduce miscalculations and accidents between operational forces; and exchanges of naval ship visits, which serve as confidence-building measures between operational forces.

**Engagement is key to avoiding future confrontation.** A China which feels isolated and threatened is more likely to emphasize increased military power. Engagement gives China incentives to play a positive role in regional and global issues. Twenty-five years ago China was isolated and played an unhelpful role in virtually all regional and global issues. This included support for groups seeking to subvert U.S. friends and allies in the region. In contrast, China's recent involvement in a range of security issues, including halting North Korea's nuclear weapons program and bringing peace to Cambodia, has been constructive. China has declared its intention to apply international law to disputes over South China Sea territories and affirmed its desire to pursue joint commercial development pending resolution of competing territorial claims. Our friends and allies understand the strategic importance of engaging China. Japan, Taiwan, the ASEAN countries, South Korea, the European Union, Australia, among others, are themselves pursuing engagement with China. They believe that such a U.S. policy is important to regional security and stability.

# CHINA'S HUMAN RIGHTS RECORD

The United States remains concerned about China's human rights practices. China denies or curtails basic freedoms to its citizens, including freedom of speech, association and religion. The government maintains an autocratic one-party state that tolerates no organized opposition. Authorities continue to engage in extrajudicial arrest and detention of political and religious activists, and to restrict the free practice of religion. We also are concerned about exploitation of prison labor and coercive family planning policies.

Engagement with China has resulted in meaningful improvements in the lives of hundreds of millions of Chinese. Exposure to the outside world, exchange of goods, ideas and people, has brought increased openness, social mobility and personal liberties, including greater freedom of movement, greater choice of employment, schooling, and housing opportunities, and improved access to information. Over time, citizen-to-citizen contacts through the media, internet and travel expose Chinese people to international standards and values and will continue to loosen rigid, authoritarian structures. Already, despite repression of religious groups not sanctioned by the government, membership in churches is growing at a rapid pace, with perhaps 50 million practicing Christians. China estimates there are 100 million Buddhists and 17 million Muslims. Village elections have given millions of rural citizens access to a more democratic process for choosing local officials. In recent years, exposure to international norms and legal systems has played a role in China's legal reform effort which should broaden citizens' rights. Reforms include the 1997 amendments to the Criminal Procedure law which impose limits on police detention of suspected criminals, and the 1994 State Compensation Law which allows Chinese citizens to sue government officials and collect damages. Absent engagement, it is unlikely <u>any</u> of these changes would have occurred — indeed, the most repressive periods in recent Chinese history occurred in times of international isolation.

Administration Continues to Press for Human Rights. The Administration's support for retaining MFN is coupled with active efforts to promote respect for human rights and the rule of law, including respect for the human rights of Tibetans and their unique religious, linguistic and cultural tradition. We will keep faith with those who are fighting for a more pluralistic society.

- The United States raises human rights issues directly with China at every opportunity.
- The United States maintains Tiananmen-era sanctions against China.
- The United States enforces U.S. laws banning prison labor imports, including sanctions against prison-made goods.
- Again this year, over China's strong objections, we co-sponsored a resolution at the UN Human Rights Commission in Geneva calling attention to human rights violations in China and argued vigorously for its passage.
- The United States strongly supports broadcasts of Radio Free Asia in China and the Asia Pacific region to promote the free flow of information and foster more open and prosperous societies.

Our policy of engagement and pressure has produced results. Against the backdrop of intensive dialogue with the United States and continued public U.S. criticism, China recently has taken some positive steps. These include the decision to sign the International Convention on Economic and Social Rights. China has invited the International Committee of the Red Cross to Beijing to discuss issues regarding Chinese prisoners. Only by actively promoting the entire range of U.S. interests, by familiarizing China with international standards, and communicating by word and example American ideas and values, can the process of change be sustained in China.

## TRADE ASPECTS OF MOST-FAVORED NATION (MFN) TREATMENT

**MFN tariff status is normal trading status.** MFN is a misnomer. It is not a privileged status accorded only to close friends. It is the ordinary tariff treatment that we extend to virtually all nations. MFN has been supported by every President (both Republican and Democrat) who has confronted the issue.

**MFN revocation would harm Hong Kong.** Hong Kong's economic strength is one of its chief assets in ensuring its autonomy and viability. Hong Kong handles over 50 percent of US-China trade, making it highly dependent on continued normal trade relations between the United States and China. Hong Kong authorities estimate that MFN revocation would slash its trade by $20 to $30 billion with a resulting loss of 60,000-85,000 jobs. Hong Kong leaders, including Democratic Party leader Martin Lee, British Governor Patten and Anson Chan have spoken out strongly in favor of renewal of MFN. Every major political party in Hong Kong favors renewal.

**MFN revocation would increase the price U.S. consumers pay for basic goods and cost U.S. jobs.** MFN revocation would increase tariffs on imports from China from a trade-weighted average of about 6 percent to an estimated 44 percent. This could provoke retaliation against U.S. exports and open the door to the China market for our foreign competitors.

- MFN revocation, even accounting for changes in trade flows, will require U.S. consumers to pay upwards of half a billion dollars more each year for goods such as shoes, clothing and small appliances subject to increased tariffs. In addition, the cost of goods manufactured in the United States with Chinese components could increase, reducing the competitiveness of the finished goods.

- U.S. exports to China have almost quadrupled over the past decade. Those exports support an estimated 170,000 jobs in the United States that, on average, pay 13 to 16 percent more than non-export related jobs. We need to increase market access and ensure a level playing field for U.S. goods and services, not provoke retaliation.

**MFN revocation would derail multilateral and bilateral trade negotiations to increase our access to China's market and China's observance of international trade rules. Revocation is too blunt a tool.**

- China's accession to the World Trade Organization must be based on a commercially meaningful agreement that will improve market access for U.S. goods and services. We are making progress in those negotiations and insisting that China agree to comply with international trade rules on transparency, national treatment, availability of judicial review and other areas as well as to eliminate major trade barriers that face US firms, including high tariffs, quotas and bans on providing services. Revoking MFN would likely stop any progress in WTO negotiations.

- MFN revocation would jeopardize gains achieved in bilateral negotiations on intellectual property rights (IPR) enforcement and market access for textiles and apparel as well as ongoing progress in other areas, such as the most recent agreement on grapes in the agriculture sector. The Administration will continue to use targeted trade law provisions to protect U.S. trade interests.

**The best way to address our trade problems is to use our trade laws, and the threat of targeted sanctions where necessary, to eliminate Chinese barriers and to help U.S. exporters compete in the Chinese market-not revoke MFN.** The Clinton Administration secured strong actions from China protecting American intellectual property after threatening sanctions on $2 billion of Chinese imports. China's elimination of over 1,000 quotas and licensing requirements on imports of key high tech U.S. products has contributed to a rise of nearly 200 percent in U.S. exports of telecommunications equipment to China since 1992.

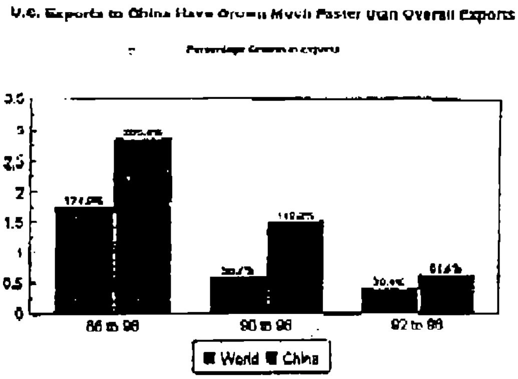
# THE TRADE DEFICIT WITH CHINA

**Revoking China's normal trading status will hurt U.S. exporters--not close the trade deficit.**

- Building a wall of protection around the United States by revoking MFN could provoke Chinese retaliation that would put at risk the 170,000 high-paying American jobs supported by exports to China.

- China is one of the fastest growing markets for U.S. exports.

- China is already a major customer for key U.S. products. In 1996, China purchased 30 percent of all U.S. fertilizer exports, 26 percent of U.S. cotton textile fiber exports, and 18 percent of U.S. steam boiler exports. China also purchased $1.7 billion of civilian aircraft and $640 million of telecommunications equipment.




- Since every other major trading partner extends MFN status to China, revoking MFN would give Japanese and European competitors a competitive edge in developing Chinese markets from the ground up, jeopardizing billions of dollars in future U.S. exports.

- Even if China did not retaliate, revoking MFN would put at risk the huge volumes of U.S. exports that are purchased by Chinese exporters as inputs--such as cotton, and plastics--and the many U.S. exports that depend on inexpensive parts imported from China--such as pumps and electric circuits.

**The best way to address our trade problems is to use our trade laws to attack Chinese barriers and to help U.S. exporters compete in the Chinese market--not to revoke MFN.**

- Although serious trade problems remain, our continued engagement with China has opened up discussion on a range of issues China refused to discuss just a few years ago.

- The Clinton Administration secured strong actions from China protecting American intellectual property, after threatening sanctions on $2 billion of Chinese imports. In the past year, Chinese authorities have closed over 39 pirate CD factories and seized more than 10 million pirated disks. In addition, China has followed through on its commitment to expand access for America's creative products, licensing over 1000 foreign sound recording titles this year -- up from 100 the previous year.

- China's elimination of over 1,000 quotas and licensing requirements on imports of key high-tech U.S. products has contributed to a rise of nearly 200 percent in U.S. exports of telecommunications equipment to China since 1992.

- We are standing firm in insisting that China commit to meet the same standard of openness applied to all other countries seeking to enter the WTO: China must substantially improve market access in goods, services and agriculture.

**The rapid growth in imports from China has displaced imports from other developing countries--not U.S. domestic production.**

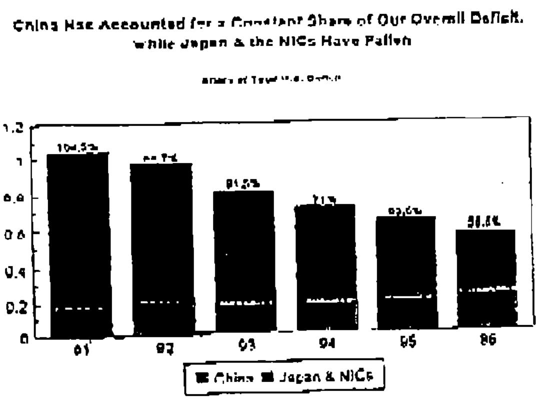
- The deficit reflects China's specialization in inexpensive, mass-market consumer goods. Low value-added goods such as toys, sporting goods, plastic tableware, apparel, footwear and low-end consumer electronics account for 70 percent of U.S. imports from China. China runs bilateral surpluses with Japan and Europe for the same reason.

- A recent study concludes that most of the growth in imports from China has displaced imports from other economies where wages have been rising--not production by U.S. workers. Increases in the deficit with China reflect the relocation of low value-added industries from Newly Industrialized Economies (NIEs) such as Korea, Singapore, Hong Kong and Taiwan to China to take advantage of lower wages. Between 1989 and 1996, China's increased share of U.S. imports of key products was largely offset by declines in imports from Japan and the NIEs:

  - **Footwear:** China's share of U.S. imports rose from 9 percent to 50 percent, while Japan and the Newly Industrialized Economics fell from 51 percent to 5 percent.
  - **Toys & Sporting Goods:** China's share rose from 22 percent to 54 percent, while Japan and the NIEs declined from 58 percent to 23 percent.
  - **Plastic Tableware:** China's share rose from 11 percent to 44 percent, while Japan and the NIEs fell from 61 percent to 25 percent.

- Raising tariffs on Chinese imports is like squeezing a balloon: it would cause a surge in similar imports from other developing countries and a corresponding deterioration in our trade balances with them.

**China has accounted for a roughly constant share of the United States' overall trade deficit since 1991.**




- Although the bilateral deficit has increased substantially in absolute terms, it has been largely offset by a reduction in the deficit with Japan and the NIEs.

- As China grows, the deficit should narrow. As their incomes have risen, importers in the NIE markets have increasingly demanded high-quality U.S. products. As production has become more capital intensive, investors have imported more high quality U.S. capital equipment. Last year the United States ran large trade surpluses with both Hong Kong and Korea. Our trade with China should follow a similar path -- but only if we stay the course.

# CHINA AND WTO

**It is in the interest of the United States to see China join the WTO on commercially meaningful terms.** China's emergence as a trade power is of major significance to the US and to the world. The manner in which we engage China will help determine whether it becomes integrated into international norms and institutions like the WTO, or whether it becomes more isolated and unpredictable.

**Joining the WTO means bringing China into a rules-based trading system.** WTO accession represents an important opportunity for China to create and implement a rules-based trade regime. To meet WTO requirements, China must make laws public, require judicial review of all trade actions, apply all trade laws uniformly, and submit to WTO dispute settlement to ensure compliance with WTO rules. All of these measures will enhance the rule of law and the application of international norms in China's trade regime, to the benefit of China and the United States. The rule of law in trade has spillover benefits to the rule of law elsewhere.

**China's commitments must be commercially meaningful.** All WTO members agree that China's accession to the WTO must provide commercially meaningful market access for goods and services. Lowered tariffs, the elimination of quotas and other market access barriers, the right to export directly, and access to consumers in a full range of sectors must be part of any viable accession package for China.

**WTO accession will mean greater access for a wide range of U.S. goods and services into one of the world's fastest growing economies.**

- The semiconductor industry estimates that if market access barriers were eliminated, exports of U.S. semiconductor products would increase well in excess of $500 million per year.

- Eliminating licensing and other barriers to China's insurance sector would open a market estimated by industry to top $24 billion in premium income by the year 2000.

- Currently, China has no bound tariff rates. This means they can raise their rates as high as they want. In the WTO talks, we have the opportunity to have China reduce its base tariff rates from over 20 percent on wood, paper, construction equipment, medical equipment, recreational equipment, telecommunications equipment, aluminum plates and power generation equipment. Some tariffs are even higher and should also be reduced.

**MFN revocation would derail WTO negotiations to open China's market.** Negotiations are moving forward on fundamental WTO principles such as the right of entities to engage directly in trade and appeal the decisions of government agencies to independent tribunals, and the right to fair and nondiscriminatory treatment of foreign businesses. We are also making progress in eliminating major trade barriers that face U.S. firms, including high tariffs, quotas and bans on providing services. Revoking MFN would likely stop any progress in WTO negotiations.

**MFN revocation would jeopardize gains achieved in bilateral negotiations.** Recent bilateral negotiations have produced important advances in intellectual property rights enforcement and market access for textiles and apparel, as well as the elimination of market access barriers in other sectors, such as agriculture. The Administration has used, and will continue to use targeted trade law provisions to protect US trade interests. MFN revocation is too blunt a tool.

## U.S. AGRICULTURAL TRADE WITH CHINA

**MFN for China is critical to U.S. agriculture.** The U.S. has a large agricultural trade surplus with China. Revoking China's MFN status would threaten access for U.S. farm goods to a key market. In 1996, our agricultural exports to China topped $2 billion, while imports were $590 million. As China's economy expands and reforms, consumer demand increases, and import barriers come down, future sales prospects are excellent for U.S. bulk and processed commodities, as well as for consumer foods and beverages. About 75 percent of recent growth in U.S. farm sector sales to China has been in bulk goods.

- China is among the largest importers of U.S. wheat and bought roughly $426 million from the United States last year. While sales dropped in 1996, we sold China a record $638 million of coarse grains in 1995.

- China's U.S. cotton imports jumped dramatically beginning in 1994 due to low stocks and production problems, with 1996 purchases from the US worth $730 million.

- Other important 1996 exports to the China market were soybeans (a record $414 million); soybean meal ($117 million); hides and skins ($106 million); soybean oil ($104 million); and poultry (a record $60 million).

**MFN status will keep China in the market for U.S. goods.** China now looks to world markets to meet some of its agricultural needs. If MFN were revoked, China may redouble its efforts to achieve food self-sufficiency and rely on non-US sources to meet shortfalls.

**The United States is aggressively pressing China to make more progress on its agricultural commitments under the 1992 U.S.-PRC Memorandum of Understanding.** Under the MOU, China agreed to improve access by removing scientifically unjustifiable sanitary and phytosanitary import restrictions. MFN revocation would undermine hard-fought progress in this area.

- China has thus far opened up to U.S. live cattle, bovine embryos; cherries from Washington, apples from Washington, and most recently grapes from California.

- However, China continues to block U.S. exports of wheat from the Pacific Northwest, citrus from California, Texas and Florida, plums and tobacco on questionable scientific grounds. We are pressing to eliminate these barriers.

**China must commit to WTO-consistent policies and practices.** China's access to the WTO, based on a commercially viable package, would improve market access for U.S. agriculture. MFN revocation would jeopardize ongoing negotiations where we are pressing China to make progress in a number of areas:

- bringing its import/export regime in line with WTO rules, particularly its state trading enterprises which now control imports of wheat, corn, rice, vegetable oil, tobacco and cotton

- reducing tariffs and committing to limits on trade-distorting domestic and export subsidies; and

- ensuring that China does business in an open and fair manner, and conforms to WTO standards.

** 1993 **CQ HOUSE VOTE 575** ** **HR3450. NAFTA Implementation -** Passage. Passage of the bill to approve the North American Free Trade Agreement and make the necessary changes to U.S. statutory law to implement it. Passed 234-200: R 132-43; D 102-156 (ND 49-124, SD 53-32); I 0-1, Nov. 17, 1993. A "yea" was a vote in support of the president's position. (Story, 1993 Weekly Report p. 3174)
Item Key: 8945

*** YEAS(234) *******************************************************
DEMOCRATS (102)

| | | |
|---|---|---|
| Andrews M (TX) | Glickman D (KS) | Ortiz S (TX) |
| Bacchus J (FL) | Gordon B (TN) | Parker M (MS) |
| Baesler S (KY) | Hamilton L (IN) | Pastor E (AZ) |
| Becerra X (CA) | Hastings A (FL) | Payne L (VA) |
| Beilenson A (CA) | Hayes J (LA) | Pelosi N (CA) |
| Berman H (CA) | Hefner W (NC) | Penny T (MN) |
| Brewster B (OK) | Hoagland P (NE) | Pickett O (VA) |
| Brown G (CA) | Hoyer S (MD) | Pickle J (TX) |
| Bryant J (TX) | Hutto E (FL) | Price D (NC) |
| Cantwell M (WA) | Inslee J (WA) | Reynolds M (IL) |
| Cardin B (MD) | Jefferson W (LA) | Richardson B (NM) |
| Chapman J (TX) | Johnson D (GA) | Rose C (NC) |
| Clement B (TN) | Johnson E (TX) | Rostenkowski D (IL) |
| Coleman R (TX) | Johnston H (FL) | Rowland J (GA) |
| Cooper J (TN) | Kennedy J (MA) | Roybal-Allard L (CA) |
| Coppersmith S (AZ) | Kopetski M (OR) | Sarpalius B (TX) |
| Darden G (GA) | Kreidler M (WA) | Sawyer T (OH) |
| de la Garza E (TX) | Lambert B (AR) | Schroeder P (CO) |
| Deal N (GA) | Laughlin G (TX) | Shepherd K (UT) |
| Dicks N (WA) | Lehman R (CA) | Skaggs D (CO) |
| Dooley C (CA) | Lloyd M (TN) | Skelton I (MO) |
| Durbin R (IL) | Lowey N (NY) | Smith N (IA) |
| Edwards C (TX) | Mann D (OH) | Spratt J (SC) |
| English G (OK) | Markey E (MA) | Stenholm C (TX) |
| English K (AZ) | Matsui R (CA) | Studds G (MA) |
| Eshoo A (CA) | Mazzoli R (KY) | Swift A (WA) |
| Farr S (CA) | McCurdy D (OK) | Synar M (OK) |
| Fazio V (CA) | McDermott J (WA) | Tanner J (TN) |
| Flake F (NY) | Meehan M (MA) | Tejeda F (TX) |
| Foley T (WA) | Meek C (FL) | Thornton R (AR) |
| Ford H (TN) | Mineta N (CA) | Torres E (CA) |
| Frost M (TX) | Montgomery G (MS) | Valentine T (NC) |

| | | |
|---|---|---|
| Geren P (TX) | Moran J (VA) | Whitten J (MS) |
| Gibbons S (FL) | Neal S (NC) | Wyden R (OR) |

INDEPENDENTS (0)

REPUBLICANS (132)

| | | |
|---|---|---|
| Allard W (CO) | Gingrich N (GA) | McInnis S (CO) |
| Archer B (TX) | Goodlatte R (VA) | McKeon H (CA) |
| Armey D (TX) | Goodling B (PA) | McMillan A (NC) |
| Bachus S (AL) | Goss P (FL) | Meyers J (KS) |
| Baker B (CA) | Grams R (MN) | Michel R (IL) |
| Baker R (LA) | Grandy F (IA) | Miller D (FL) |
| Ballenger C (NC) | Greenwood J (PA) | Molinari S (NY) |
| Barrett B (NE) | Gunderson S (WI) | Moorhead C (CA) |
| Barton J (TX) | Hancock M (MO) | Morella C (MD) |
| Bateman H (VA) | Hansen J (UT) | Nussle J (IA) |
| Bereuter D (NE) | Hastert D (IL) | Oxley M (OH) |
| Bliley T (VA) | Hefley J (CO) | Packard R (CA) |
| Boehlert S (NY) | Herger W (CA) | Paxon B (NY) |
| Boehner J (OH) | Hobson D (OH) | Petri T (WI) |
| Bonilla H (TX) | Hoekstra P (MI) | Porter J (IL) |
| Buyer S (IN) | Horn S (CA) | Portman R (OH) |
| Callahan S (AL) | Houghton A (NY) | Pryce D (OH) |
| Calvert K (CA) | Huffington M (CA) | Quillen J (TN) |
| Camp D (MI) | Hutchinson T (AR) | Ramstad J (MN) |
| Castle M (DE) | Hyde H (IL) | Ridge T (PA) |
| Clinger W (PA) | Istook E (OK) | Roberts P (KS) |
| Coble H (NC) | Johnson N (CT) | Rohrabacher D (CA) |
| Combest L (TX) | Johnson S (TX) | Roth T (WI) |
| Cox C (CA) | Kasich J (OH) | Roukema M (NJ) |
| Crane P (IL) | Kim J (CA) | Schaefer D (CO) |
| Cunningham R (CA) | King P (NY) | Schiff S (NM) |
| DeLay T (TX) | Klug S (WI) | Sensenbrenner F (WI) |
| Dickey J (AR) | Knollenberg J (MI) | Shaw E (FL) |
| Dornan R (CA) | Kolbe J (AZ) | Shays C (CT) |
| Dreier D (CA) | Kyl J (AZ) | Skeen J (NM) |
| Duncan J (TN) | Lazio R (NY) | Smith B (OR) |
| Dunn J (WA) | Leach J (IA) | Smith L (TX) |
| Emerson B (MO) | Levy D (NY) | Smith N (MI) |
| Ewing T (IL) | Lewis J (CA) | Stump B (AZ) |
| Fawell H (IL) | Lewis T (FL) | Sundquist D (TN) |
| Fields J (TX) | Lightfoot J (IA) | Thomas B (CA) |
| Fish H (NY) | Linder J (GA) | Thomas C (WY) |

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|---|---|---|
| Fowler T (FL) | Livingston R (LA) | Torkildsen P (MA) |
| Franks B (NJ) | Machtley R (RI) | Upton F (MI) |
| Franks G (CT) | Manzullo D (IL) | Walker R (PA) |
| Gallo D (NJ) | McCandless A (CA) | Wolf F (VA) |
| Gekas G (PA) | McCollum B (FL) | Young C (FL) |
| Gilchrest W (MD) | McCrery J (LA) | Zeliff B (NH) |
| Gillmor P (OH) | McDade J (PA) | Zimmer D (NJ) |

*** NAYS (200) ************************************************************

DEMOCRATS (156)

| | | |
|---|---|---|
| Abercrombie N (HI) | Gonzalez H (TX) | Orton B (UT) |
| Ackerman G (NY) | Green G (TX) | Owens M (NY) |
| Andrews R (NJ) | Gutierrez L (IL) | Pallone F (NJ) |
| Andrews T (ME) | Hall R (TX) | Payne D (NJ) |
| Applegate D (OH) | Hall T (OH) | Peterson C (MN) |
| Barca P (WI) | Hamburg D (CA) | Peterson P (FL) |
| Barcia J (MI) | Harman J (CA) | Pomeroy E (ND) |
| Barlow T (KY) | Hilliard E (AL) | Poshard G (IL) |
| Barrett T (WI) | Hinchey M (NY) | Rahall N (WV) |
| Bevill T (AL) | Hochbrueckner G (NY) | Rangel C (NY) |
| Bilbray J (NV) | Holden T (PA) | Reed J (RI) |
| Bishop S (GA) | Hughes W (NJ) | Roemer T (IN) |
| Blackwell L (PA) | Jacobs A (IN) | Rush B (IL) |
| Bonior D (MI) | Johnson T (SD) | Sabo M (MN) |
| Borski R (PA) | Kanjorski P (PA) | Sangmeister G (IL) |
| Boucher R (VA) | Kaptur M (OH) | Schenk L (CA) |
| Brooks J (TX) | Kennelly B (CT) | Schumer C (NY) |
| Browder G (AL) | Kildee D (MI) | Scott R (VA) |
| Brown C (FL) | Kleczka G (WI) | Serrano J (NY) |
| Brown S (OH) | Klein H (NJ) | Sharp P (IN) |
| Byrne L (VA) | Klink R (PA) | Sisisky N (VA) |
| Carr B (MI) | LaFalce J (NY) | Slattery J (KS) |
| Clay W (MO) | Lancaster H (NC) | Slaughter L (NY) |
| Clayton E (NC) | Lantos T (CA) | Stark P (CA) |
| Clyburn J (SC) | LaRocco L (ID) | Stokes L (OH) |
| Collins B (MI) | Levin S (MI) | Strickland T (OH) |
| Collins C (IL) | Lewis J (GA) | Stupak B (MI) |
| Condit G (CA) | Lipinski W (IL) | Swett D (NH) |
| Conyers J (MI) | Long J (IN) | Tauzin W (LA) |
| Costello J (IL) | Maloney C (NY) | Taylor G (MS) |
| Coyne W (PA) | Manton T (NY) | Thompson B (MS) |
| Cramer R (AL) | Margolies-Mezv M (PA) | Thurman K (FL) |

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|---|---|---|
| Danner P (MO) | Martinez M (CA) | Torricelli R (NJ) |
| DeFazio P (OR) | McCloskey F (IN) | Towns E (NY) |
| DeLauro R (CT) | McHale P (PA) | Traficant J (OH) |
| Dellums R (CA) | McKinney C (GA) | Tucker W (CA) |
| Derrick B (SC) | McNulty M (NY) | Unsoeld J (WA) |
| Deutsch P (FL) | Menendez R (NJ) | Velazquez N (NY) |
| Dingell J (MI) | Mfume K (MD) | Vento B (MN) |
| Dixon J (CA) | Miller G (CA) | Visclosky P (IN) |
| Edwards D (CA) | Minge D (MN) | Volkmer H (MO) |
| Engel E (NY) | Mink P (HI) | Washington C (TX) |
| Evans L (IL) | Moakley J (MA) | Waters M (CA) |
| Fields C (LA) | Mollohan A (WV) | Watt M (NC) |
| Filner B (CA) | Murphy A (PA) | Waxman H (CA) |
| Fingerhut E (OH) | Murtha J (PA) | Wheat A (MO) |
| Foglietta T (PA) | Nadler J (NY) | Williams P (MT) |
| Ford W (MI) | Natcher W (KY) | Wilson C (TX) |
| Frank B (MA) | Neal R (MA) | Wise B (WV) |
| Furse E (OR) | Oberstar J (MN) | Woolsey L (CA) |
| Gejdenson S (CT) | Obey D (WI) | Wynn A (MD) |
| Gephardt R (MO) | Olver J (MA) | Yates S (IL) |

INDEPENDENTS (1)

Sanders B (VT)

REPUBLICANS (43)

| | | |
|---|---|---|
| Bartlett R (MD) | Hunter D (CA) | Santorum R (PA) |
| Bentley H (MD) | Inglis B (SC) | Saxton H (NJ) |
| Bilirakis M (FL) | Inhofe J (OK) | Shuster B (PA) |
| Blute P (MA) | Kingston J (GA) | Smith C (NJ) |
| Bunning J (KY) | McHugh J (NY) | Snowe O (ME) |
| Burton D (IN) | Mica J (FL) | Solomon G (NY) |
| Canady C (FL) | Myers J (IN) | Spence F (SC) |
| Collins M (GA) | Pombo R (CA) | Stearns C (FL) |
| Crapo M (ID) | Quinn J (NY) | Talent J (MO) |
| Diaz-Balart L (FL) | Ravenel A (SC) | Taylor C (NC) |
| Doolittle J (CA) | Regula R (OH) | Vucanovich B (NV) |
| Everett T (AL) | Rogers H (KY) | Walsh J (NY) |
| Gallegly E (CA) | Ros-Lehtinen I (FL) | Weldon C (PA) |
| Gilman B (NY) | Royce E (CA) | Young D (AK) |
| Hoke M (OH) | | |

*** NOT VOTING (0) ********************************************************

KEY -- Special Categories of Not Voting
# Paired For X Paired Against
+ Announced For - Announced Against
P Voted Present C Voted Present to avoid possible conflict of interest.
S Speaker exercised discretion not to vote
? Did not vote or make position known

** 1993 CQ **SENATE VOTE 395** ** **HR3450. NAFTA Implementation** - Passage. Passage of the bill to approve the North American Free Trade Agreement and make the necessary changes to U.S. statutory law to implement the trade agreement. Passed 61-38: R 34-10; D 27-28 (ND 18-23, SD 9-5), Nov. 20, 1993. A "yea" was a vote in support of the president's position. (Story, 1993 Weekly Report p. 3257)
Item Key: 8973

*** YEAS(61) *********************************************************

DEMOCRATS (27)

| | | |
|---|---|---|
| Baucus M (MT) | Dodd C (CT) | Mathews H (TN) |
| Biden J (DE) | Graham B (FL) | Mitchell G (ME) |
| Bingaman J (NM) | Harkin T (IA) | Moseley-Braun C (IL) |
| Boren D (OK) | Johnston J (LA) | Murray P (WA) |
| Bradley B (NJ) | Kennedy E (MA) | Nunn S (GA) |
| Breaux J (LA) | Kerrey B (NE) | Pell C (RI) |
| Bumpers D (AR) | Kerry J (MA) | Pryor D (AR) |
| Daschle T (SD) | Leahy P (VT) | Robb C (VA) |
| DeConcini D (AZ) | Lieberman J (CT) | Simon P (IL) |

INDEPENDENTS (0)

REPUBLICANS (34)

| | | |
|---|---|---|
| Bennett R (UT) | Gramm P (TX) | McCain J (AZ) |
| Bond C (MO) | Grassley C (IA) | McConnell M (KY) |

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|---|---|---|
| Brown H (CO) | Gregg J (NH) | Murkowski F (AK) |
| Chafee J (RI) | Hatch O (UT) | Nickles D (OK) |
| Coats D (IN) | Hatfield M (OR) | Packwood B (OR) |
| Cochran T (MS) | Hutchison K (TX) | Pressler L (SD) |
| Coverdell P (GA) | Jeffords J (VT) | Roth W (DE) |
| Danforth J (MO) | Kassebaum N (KS) | Simpson A (WY) |
| Dole B (KS) | Lott T (MS) | Specter A (PA) |
| Domenici P (NM) | Lugar R (IN) | Wallop M (WY) |
| Durenberger D (MN) | Mack C (FL) | Warner J (VA) |
| Gorton S (WA) | | |

*** NAYS (38) ******************************************************

DEMOCRATS (27)

| | | |
|---|---|---|
| Akaka D (HI) | Ford W (KY) | Mikulski B (MD) |
| Boxer B (CA) | Glenn J (OH) | Moynihan D (NY) |
| Bryan R (NV) | Heflin H (AL) | Reid H (NV) |
| Byrd R (WV) | Hollings E (SC) | Riegle D (MI) |
| Campbell B (CO) | Inouye D (HI) | Rockefeller J (WV) |
| Conrad K (ND) | Kohl H (WI) | Sarbanes P (MD) |
| Exon J (NE) | Lautenberg F (NJ) | Sasser J (TN) |
| Feingold R (WI) | Levin C (MI) | Wellstone P (MN) |
| Feinstein D (CA) | Metzenbaum H (OH) | Wofford H (PA) |

INDEPENDENTS (0)

REPUBLICANS (11)

| | | |
|---|---|---|
| Burns C (MT) | Faircloth L (NC) | Smith R (NH) |
| Cohen W (ME) | Helms J (NC) | Stevens T (AK) |
| Craig L (ID) | Kempthorne D (ID) | Thurmond S (SC) |
| D'Amato A (NY) | Shelby R (AL) | |

*** NOT VOTING (1) ******************************************************

DEMOCRATS (1)

Dorgan B (ND) ?

INDEPENDENTS (0)

REPUBLICANS (0)

KEY -- Special Categories of Not Voting
# Paired For X Paired Against
+ Announced For - Announced Against
P Voted Present C Voted Present to avoid possible conflict of interest.
S Speaker exercised discretion not to vote
? Did not vote or make position known

** 1993 **CQ HOUSE VOTE 247** ** **HR1876. GATT Fast-Track** Extension - Passage. Passage of the bill to extend through April 15, 1994, the administration's authority to negotiate an accord strengthening the General Agreement on Tariffs and Trade (GATT) and require Congress to consider the accord under expedited procedures that bar amendments. Passed 295-126: R 150-23; D 145-102 (ND 97-70, SD 48-32); I 0-1, June 22, 1993. A "yea" was a vote in support of the president's position. (Story, 1993 Weekly Report p. 1637)
Item Key: 8397

*** YEAS(295) ********************************************************
DEMOCRATS (145)

| | | |
|---|---|---|
| Ackerman G (NY) | Geren P (TX) | Olver J (MA) |
| Andrews M (TX) | Gibbons S (FL) | Ortiz S (TX) |
| Bacchus J (FL) | Glickman D (KS) | Orton B (UT) |
| Baesler S (KY) | Gordon B (TN) | Parker M (MS) |
| Barca P (WI) | Hall R (TX) | Pastor E (AZ) |
| Barlow T (KY) | Hall T (OH) | Payne L (VA) |
| Barrett T (WI) | Hamilton L (IN) | Pelosi N (CA) |
| Beilenson A (CA) | Hefner W (NC) | Penny T (MN) |
| Berman H (CA) | Hoagland P (NE) | Peterson P (FL) |
| Bevill T (AL) | Hochbrueckner G (NY) | Pickett O (VA) |
| Bilbray J (NV) | Hoyer S (MD) | Pickle J (TX) |
| Blackwell L (PA) | Hughes W (NJ) | Price D (NC) |

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|---|---|---|
| Borski R (PA) | Hutto E (FL) | Reed J (RI) |
| Boucher R (VA) | Inslee J (WA) | Richardson B (NM) |
| Brewster B (OK) | Johnson D (GA) | Roemer T (IN) |
| Brooks J (TX) | Johnson T (SD) | Rose C (NC) |
| Brown G (CA) | Johnston H (FL) | Rostenkowski D (IL) |
| Bryant J (TX) | Kennedy J (MA) | Sabo M (MN) |
| Cantwell M (WA) | Kennelly B (CT) | Sangmeister G (IL) |
| Cardin B (MD) | Kleczka G (WI) | Sarpalius B (TX) |
| Carr B (MI) | Kopetski M (OR) | Sawyer T (OH) |
| Chapman J (TX) | Kreidler M (WA) | Schroeder P (CO) |
| Clement B (TN) | LaFalce J (NY) | Scott R (VA) |
| Coleman R (TX) | Lambert B (AR) | Sharp P (IN) |
| Collins C (IL) | Lantos T (CA) | Shepherd K (UT) |
| Condit G (CA) | LaRocco L (ID) | Skaggs D (CO) |
| Cooper J (TN) | Laughlin G (TX) | Skelton I (MO) |
| Coppersmith S (AZ) | Lehman R (CA) | Slattery J (KS) |
| Coyne W (PA) | Levin S (MI) | Slaughter L (NY) |
| de la Garza E (TX) | Lowey N (NY) | Smith N (IA) |
| DeLauro R (CT) | Mann D (OH) | Stenholm C (TX) |
| Deutsch P (FL) | Manton T (NY) | Stokes L (OH) |
| Dicks N (WA) | Margolies-Mezv M (PA) | Studds G (MA) |
| Dingell J (MI) | Markey E (MA) | Swett D (NH) |
| Dixon J (CA) | Matsui R (CA) | Swift A (WA) |
| Dooley C (CA) | Mazzoli R (KY) | Tanner J (TN) |
| Edwards C (TX) | McCloskey F (IN) | Tauzin W (LA) |
| Edwards D (CA) | McCurdy D (OK) | Tejeda F (TX) |
| English K (AZ) | McDermott J (WA) | Torres E (CA) |
| Eshoo A (CA) | McNulty M (NY) | Torricelli R (NJ) |
| Farr S (CA) | Meehan M (MA) | Tucker W (CA) |
| Fazio V (CA) | Mineta N (CA) | Vento B (MN) |
| Fields C (LA) | Minge D (MN) | Visclosky P (IN) |
| Foglietta T (PA) | Moakley J (MA) | Watt M (NC) |
| Ford W (MI) | Montgomery G (MS) | Wheat A (MO) |
| Frank B (MA) | Moran J (VA) | Wise B (WV) |
| Frost M (TX) | Natcher W (KY) | Woolsey L (CA) |
| Gejdenson S (CT) | Neal R (MA) | Wyden R (OR) |
| Gephardt R (MO) | | |

INDEPENDENTS (0)

REPUBLICANS (150)

| | | |
|---|---|---|
| Allard W (CO) | Gillmor P (OH) | Miller D (FL) |
| Archer B (TX) | Gilman B (NY) | Molinari S (NY) |

Armey D (TX)
Bachus S (AL)
Baker B (CA)
Baker R (LA)
Ballenger C (NC)
Barrett B (NE)
Bartlett R (MD)
Barton J (TX)
Bateman H (VA)
Bereuter D (NE)
Bilirakis M (FL)
Bliley T (VA)
Blute P (MA)
Boehlert S (NY)
Boehner J (OH)
Bonilla H (TX)
Bunning J (KY)
Burton D (IN)
Buyer S (IN)
Callahan S (AL)
Calvert K (CA)
Camp D (MI)
Castle M (DE)
Clinger W (PA)
Collins M (GA)
Combest L (TX)
Cox C (CA)
Crane P (IL)
Cunningham R (CA)
DeLay T (TX)
Dickey J (AR)
Doolittle J (CA)
Dornan R (CA)
Dreier D (CA)
Dunn J (WA)
Emerson B (MO)
Everett T (AL)
Ewing T (IL)
Fawell H (IL)
Fields J (TX)
Fish H (NY)
Fowler T (FL)
Franks B (NJ)
Franks G (CT)
Gallegly E (CA)
Gingrich N (GA)
Goodlatte R (VA)
Goodling B (PA)
Goss P (FL)
Grams R (MN)
Grandy F (IA)
Greenwood J (PA)
Gunderson S (WI)
Hancock M (MO)
Hansen J (UT)
Hastert D (IL)
Hefley J (CO)
Herger W (CA)
Hobson D (OH)
Hoekstra P (MI)
Hoke M (OH)
Horn S (CA)
Houghton A (NY)
Huffington M (CA)
Hutchinson T (AR)
Hyde H (IL)
Istook E (OK)
Johnson N (CT)
Johnson S (TX)
Kasich J (OH)
Kim J (CA)
King P (NY)
Klug S (WI)
Kolbe J (AZ)
Kyl J (AZ)
Lazio R (NY)
Leach J (IA)
Levy D (NY)
Lewis J (CA)
Lightfoot J (IA)
Linder J (GA)
Livingston R (LA)
Machtley R (RI)
Manzullo D (IL)
McCandless A (CA)
McCollum B (FL)
McCrery J (LA)
McHugh J (NY)
McInnis S (CO)
McKeon H (CA)
Moorhead C (CA)
Morella C (MD)
Nussle J (IA)
Oxley M (OH)
Packard R (CA)
Paxon B (NY)
Petri T (WI)
Pombo R (CA)
Porter J (IL)
Portman R (OH)
Pryce D (OH)
Quinn J (NY)
Ramstad J (MN)
Regula R (OH)
Ridge T (PA)
Roberts P (KS)
Rohrabacher D (CA)
Roth T (WI)
Roukema M (NJ)
Royce E (CA)
Santorum R (PA)
Saxton H (NJ)
Schaefer D (CO)
Schiff S (NM)
Sensenbrenner F (WI)
Shaw E (FL)
Shays C (CT)
Skeen J (NM)
Smith B (OR)
Smith C (NJ)
Smith L (TX)
Smith N (MI)
Stump B (AZ)
Sundquist D (TN)
Talent J (MO)
Taylor C (NC)
Thomas B (CA)
Thomas C (WY)
Torkildsen P (MA)
Upton F (MI)
Vucanovich B (NV)
Walker R (PA)
Walsh J (NY)
Weldon C (PA)
Wolf F (VA)

| | | |
|---|---|---|
| Gallo D (NJ) | McMillan A (NC) | Young C (FL) |
| Gekas G (PA) | Meyers J (KS) | Zeliff B (NH) |
| Gilchrest W (MD) | Michel R (IL) | Zimmer D (NJ) |

*** NAYS (126) ************************************************************

DEMOCRATS (102)

| | | |
|---|---|---|
| Abercrombie N (HI) | Gutierrez L (IL) | Obey D (WI) |
| Andrews R (NJ) | Hamburg D (CA) | Owens M (NY) |
| Andrews T (ME) | Hastings A (FL) | Pallone F (NJ) |
| Applegate D (OH) | Hilliard E (AL) | Payne D (NJ) |
| Barcia J (MI) | Hinchey M (NY) | Peterson C (MN) |
| Becerra X (CA) | Holden T (PA) | Pomeroy E (ND) |
| Bishop S (GA) | Jacobs A (IN) | Poshard G (IL) |
| Bonior D (MI) | Jefferson W (LA) | Rahall N (WV) |
| Browder G (AL) | Johnson E (TX) | Rangel C (NY) |
| Brown C (FL) | Kanjorski P (PA) | Reynolds M (IL) |
| Brown S (OH) | Kaptur M (OH) | Rowland J (GA) |
| Byrne L (VA) | Kildee D (MI) | Roybal-Allard L (CA) |
| Clay W (MO) | Klein H (NJ) | Schenk L (CA) |
| Clayton E (NC) | Klink R (PA) | Serrano J (NY) |
| Clyburn J (SC) | Lancaster H (NC) | Sisisky N (VA) |
| Collins B (MI) | Lewis J (GA) | Spratt J (SC) |
| Costello J (IL) | Lipinski W (IL) | Stark P (CA) |
| Cramer R (AL) | Lloyd M (TN) | Strickland T (OH) |
| Danner P (MO) | Long J (IN) | Stupak B (MI) |
| Darden G (GA) | Maloney C (NY) | Taylor G (MS) |
| Deal N (GA) | Martinez M (CA) | Thurman K (FL) |
| DeFazio P (OR) | McHale P (PA) | Towns E (NY) |
| Dellums R (CA) | McKinney C (GA) | Traficant J (OH) |
| Derrick B (SC) | Meek C (FL) | Unsoeld J (WA) |
| Durbin R (IL) | Menendez R (NJ) | Valentine T (NC) |
| Engel E (NY) | Mfume K (MD) | Velazquez N (NY) |
| English G (OK) | Miller G (CA) | Volkmer H (MO) |
| Evans L (IL) | Mink P (HI) | Washington C (TX) |
| Filner B (CA) | Mollohan A (WV) | Waters M (CA) |
| Fingerhut E (OH) | Murphy A (PA) | Waxman H (CA) |
| Ford H (TN) | Murtha J (PA) | Williams P (MT) |
| Furse E (OR) | Nadler J (NY) | Wilson C (TX) |
| Gonzalez H (TX) | Neal S (NC) | Wynn A (MD) |
| Green G (TX) | Oberstar J (MN) | Yates S (IL) |

INDEPENDENTS (1)
Sanders B (VT)

REPUBLICANS (23)

| | | |
|---|---|---|
| Bentley H (MD) | Kingston J (GA) | Ros-Lehtinen I (FL) |
| Canady C (FL) | Lewis T (FL) | Shuster B (PA) |
| Coble H (NC) | McDade J (PA) | Snowe O (ME) |
| Crapo M (ID) | Mica J (FL) | Solomon G (NY) |
| Diaz-Balart L (FL) | Myers J (IN) | Spence F (SC) |
| Duncan J (TN) | Quillen J (TN) | Stearns C (FL) |
| Hunter D (CA) | Ravenel A (SC) | Young D (AK) |
| Inglis B (SC) | Rogers H (KY) | |

*** NOT VOTING (14) ********************************************************

DEMOCRATS (11)

| | | |
|---|---|---|
| Conyers J (MI) ? | Hayes J (LA) ? | Thompson B (MS) ? |
| Flake F (NY) ? | Rush B (IL) ? | Thornton R (AR) ? |
| Foley T (WA) S | Schumer C (NY) ? | Whitten J (MS) ? |
| Harman J (CA) ? | Synar M (OK) + | |

INDEPENDENTS (0)

REPUBLICANS (3)

| | | |
|---|---|---|
| Henry P (MI) ? | Inhofe J (OK) ? | Knollenberg J (MI) + |

KEY -- Special Categories of Not Voting
# Paired For X Paired Against
+ Announced For - Announced Against
P Voted Present C Voted Present to avoid possible conflict of interest.
S Speaker exercised discretion not to vote
? Did not vote or make position known

** 1993 **CQ SENATE VOTE 192 ** HR1876. GATT Fast-Track** Extension - Passage. Passage of the bill to extend through April 16, 1994, the administration's authority to negotiate an accord strengthening the General Agreement on Tariffs and Trade (GATT) and require Congress to consider the accord under expedited procedures that bar amendments. Passed 76-16: R 37-4; D 39-12 (ND 29-9, SD 10-3), June 30, 1993. A "yea" was a vote in support of the president's position.
Item Key: 8482

*** YEAS(76) ********************************************************
DEMOCRATS (39)

| | | |
|---|---|---|
| Baucus M (MT) | Glenn J (OH) | Mathews H (TN) |
| Biden J (DE) | Graham B (FL) | Mikulski B (MD) |
| Bingaman J (NM) | Harkin T (IA) | Mitchell G (ME) |
| Boren D (OK) | Inouye D (HI) | Moseley-Braun C (IL) |
| Boxer B (CA) | Johnston J (LA) | Moynihan D (NY) |
| Bradley B (NJ) | Kennedy E (MA) | Nunn S (GA) |
| Breaux J (LA) | Kerrey B (NE) | Reid H (NV) |
| Bryan R (NV) | Kerry J (MA) | Riegle D (MI) |
| Bumpers D (AR) | Kohl H (WI) | Robb C (VA) |
| DeConcini D (AZ) | Lautenberg F (NJ) | Rockefeller J (WV) |
| Dodd C (CT) | Leahy P (VT) | Sarbanes P (MD) |
| Exon J (NE) | Levin C (MI) | Sasser J (TN) |
| Ford W (KY) | Lieberman J (CT) | Simon P (IL) |

INDEPENDENTS (0)

REPUBLICANS (37)

| | | |
|---|---|---|
| Bennett R (UT) | Domenici P (NM) | Mack C (FL) |
| Bond C (MO) | Gorton S (WA) | McCain J (AZ) |
| Brown H (CO) | Gramm P (TX) | McConnell M (KY) |
| Burns C (MT) | Grassley C (IA) | Nickles D (OK) |
| Chafee J (RI) | Gregg J (NH) | Packwood B (OR) |
| Coats D (IN) | Hatch O (UT) | Pressler L (SD) |
| Cochran T (MS) | Hatfield M (OR) | Roth W (DE) |
| Cohen W (ME) | Hutchison K (TX) | Simpson A (WY) |
| Coverdell P (GA) | Kassebaum N (KS) | Smith R (NH) |
| Craig L (ID) | Kempthorne D (ID) | Stevens T (AK) |
| D'Amato A (NY) | Lott T (MS) | Wallop M (WY) |
| Danforth J (MO) | Lugar R (IN) | Warner J (VA) |
| Dole B (KS) | | |

*** NAYS (16) ****************************************************

DEMOCRATS (11)

Akaka D (HI) Dorgan B (ND) Hollings E (SC)
Byrd R (WV) Feingold R (WI) Metzenbaum H (OH)
Campbell B (CO) Feinstein D (CA) Wofford H (PA)
Conrad K (ND) Heflin H (AL)

INDEPENDENTS (0)

REPUBLICANS (5)

Faircloth L (NC) Jeffords J (VT) Thurmond S (SC)
Helms J (NC) Shelby R (AL)

*** NOT VOTING (8) ****************************************************

DEMOCRATS (5)

Daschle T (SD) ? Pell C (RI) + Wellstone P (MN) -
Murray P (WA) + Pryor D (AR) ?

INDEPENDENTS (0)

REPUBLICANS (3)

Durenberger D (MN) + Murkowski F (AK) ? Specter A (PA) ?

KEY -- Special Categories of Not Voting

\# Paired For X Paired Against
\+ Announced For - Announced Against
P Voted Present C Voted Present to avoid possible conflict of interest.
S Speaker exercised discretion not to vote
? Did not vote or make position known

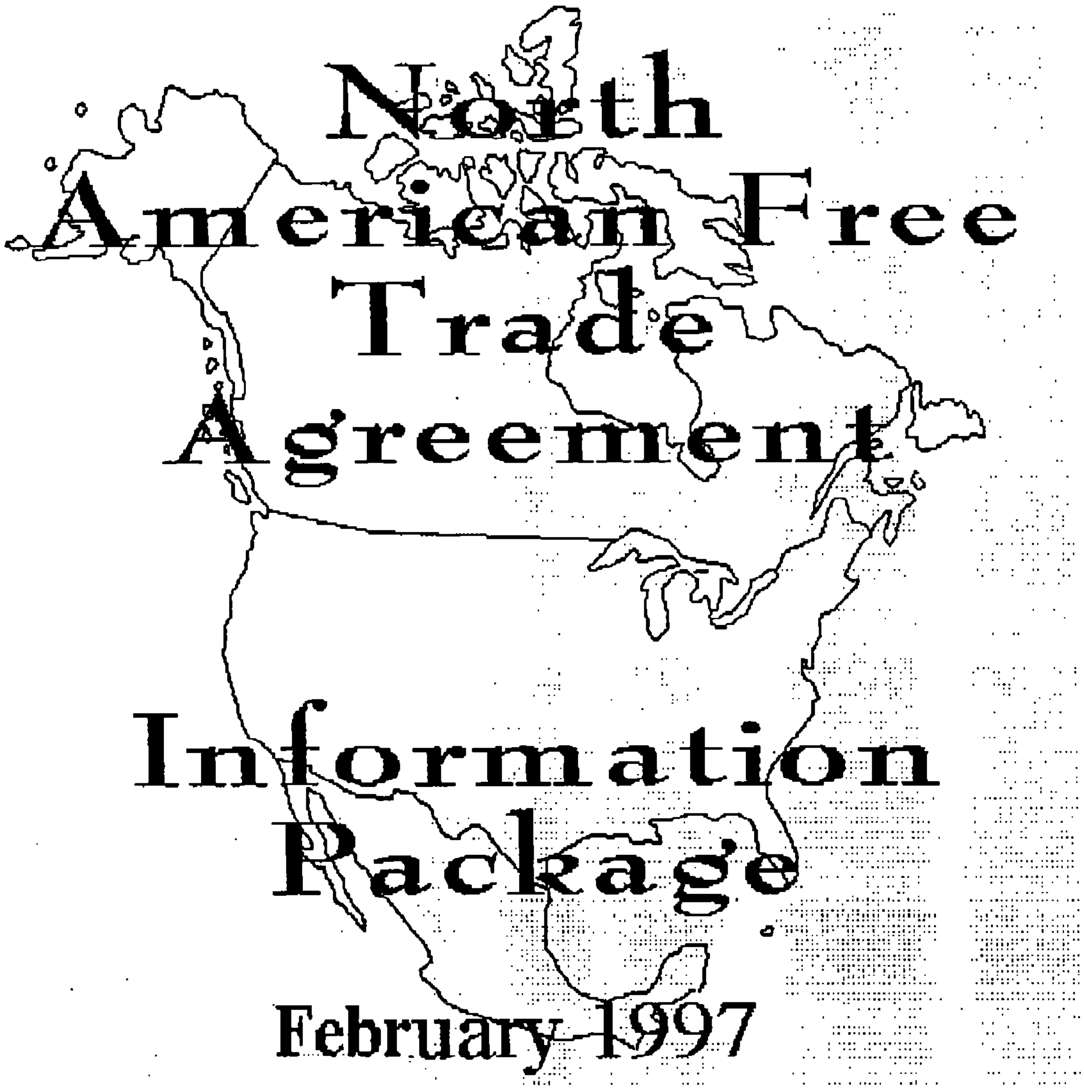


**Table of Contents**

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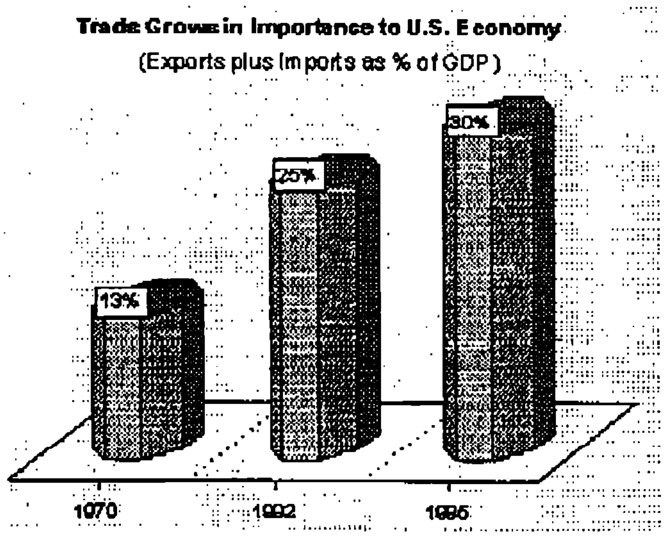
USTR

Webmaster @ USTR - 28 January 1997

# NAFTA and the U.S. Economy

**The Administration's trade policy is part of a global economic strategy.** It has been among the most effective tools to attain the broad economic objectives of strengthening U.S. economic performance and expanding high-wage jobs for U.S. workers. Market-opening agreements -- both bilateral ones such as recent agreements with Japan and multilateral agreements such as the NAFTA and Uruguay Round -- expand opportunity for America's most productive, export-oriented industries and the high wage jobs they provide. They are the only way to ensure that competitive U.S. industries and workers can compete on a level playing field in the world's important markets. This is particularly significant when one considers that 95 percent of the world's consumers live outside the United States. Competitors are shaping the trading rules in emerging markets, the markets that account for the largest percentage of U.S. exports and the fastest growing component. It is literally the case that if we do not compete we are retreating in these markets. The stakes are high. American jobs supported by the export of goods pay 13% to 16% more than U.S. jobs overall. Since 1992, U.S. exports of goods and services have risen over 35%. Export supported jobs are up by 1.5 million (to 11.3 million in 1996), thus accounting for 1 out of every 8 net job increases in the United States between 1992 and 1996.

**NAFTA1 has played a vital role in helping trade expansion strengthen the U.S. economy.** NAFTA has created jobs for American workers by expanding access for U.S. goods and services in the markets of two of our top three trading partners -- Canada and Mexico. NAFTA also serves as a buffer against reduced access to those economies -- without which access to more than 120 million consumers would be jeopardized and more than two million high-wage U.S. jobs would be put at risk.

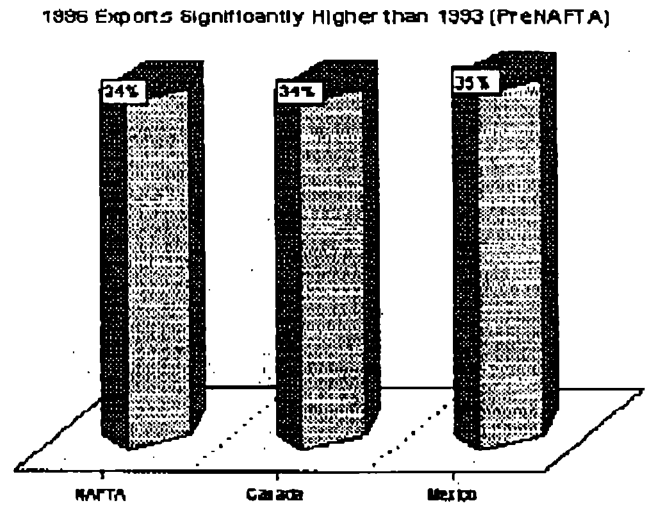



**During NAFTA's first two years, U.S. goods exports to our NAFTA partners (Mexico and Canada) were up by 22 percent or nearly $31 billion (to $173 billion)**, despite the temporary peso-related decline in goods exports to Mexico in 1995. U.S. goods exports to Canada were up by 26%, while U.S. exports to Mexico were up by 11%.

**Moreover, the growth in U.S. exports to our NAFTA partners accelerated in 1996.** U.S. goods exports to our NAFTA partners were up by over 34 percent in 1996 over the same period of 1993. U.S. goods exports were up by 33% to Canada and by nearly 37% to Mexico. U.S. goods exports set records for both these countries in 1996 ($134 billion to Canada and $57 billion to Mexico). Jobs supported by U.S. goods exports to NAFTA are up an estimated 311,000 since the NAFTA's entry into force to 2.3 million in 1996.

**NAFTA did not cause the late 1994/1995 peso crisis in Mexico, nor the related 1995 Mexican recession** and the accompanying 8.9% decline in U.S. goods exports. Decisions made by the Mexican government on exchange-rate policy in the 1980s, combined with developments in 1994 in financial markets in and outside Mexico brought forth the peso crisis. As the peso plummeted in value in late 1994 and early 1995, investors shifted investments out of the Mexican market and Mexico's interest rates jumped. The result was a near 7% decline in Mexican production in 1995 -- a recession more than three times worse than the U.S. recession of 1991. The not surprising result of Mexico's difficulties was a reduction in Mexican imports and a shift in its balance in trade in goods and services from large deficits toward balance.

**During this period, the NAFTA was extremely important in protecting U.S. export-supported jobs and U.S. economic interests.** Because of the NAFTA, U.S. goods exports fared much better in 1995 than after the last Mexican financial crisis in 1982. During that crisis, before Mexico's adherence to either the GATT or the NAFTA, government officials were free to take arbitrary measures to restrict entry of imports. They imposed 100% duties on American products and strict licensing requirements, moves that caused U.S. goods exports to plunge by 50% between 1981 and 1983. U.S. jobs supported by goods exports to Mexico were cut by more than half (from an estimated 431 thousand in 1981 to 201 thousand in 1983). It took nearly seven years for U.S. exports to Mexico to return to their level of 1981.




The situation in 1995 was very different. Instead of putting up barriers to U.S. exports, Mexico continued to reduce them in recognition of its NAFTA obligations. In contrast, Mexico did place additional restrictions on imports from its non-NAFTA trade partners. The U.S. share of Mexico's goods imports rose from 71% in 1994 to 74% in 1995, while Western Europe's, Japan's and Korea's goods exports to Mexico fell by 25.5%, 24.5% and 64%, respectively. For the first six months of 1996, the U.S. share was 76%. As the Mexican economy begins to stabilize and grow again, there has been a healthy recovery of U.S. goods exports. In 1996, U.S. goods exports to Mexico were actually nearly 23% higher than in 1995. It only took 18 months for U.S. exports to Mexico to fully recover from the December 1994 peso crisis, not the 7 yearsneeded after the 1982 peso crisis.

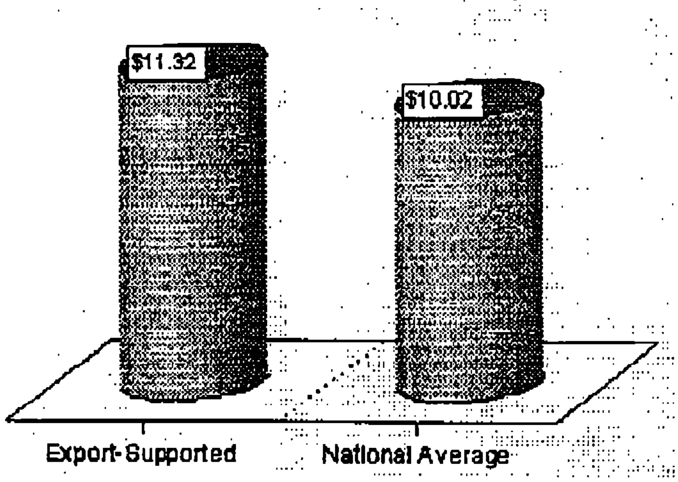
Because of Mexico's economic difficulties in 1995, there was a significant swing in the bilateral goods trade balance, from U.S. surplus of $1.3 billion in 1994 to a deficit $15.4 billion in 1995. This deterioration of the U.S. goods trade balance with Mexico contrasted sharply with improvements in U.S. bilateral trade balances with most other regions of the world. The U.S. bilateral trade surplus with the rest of Latin America between 1994 and 1995 grew $4.4 billion larger, while the deficit with Europe declined by $3.5 billion, while the Pacific Rim excluding Japan and China declined by $3 billion and with Japan alone declined by $6.5 billion.

The reason for the sharp negative swing with Mexico was Mexico's peso crisis and resultingrecession, not the NAFTA. Not only did Mexico's worldwide goods imports decline, but goods exports were enhanced by both a cheaper currency and the recession's effect of reducing Mexican demand for Mexican output, making more of it available for export. NAFTA itself only reduced the average U.S. tariff on imports from Mexico by less than 1 percentage point last year while Mexican tariffs against U.S. exports fell by more than 2 percentage points -- changes in trade treatment too balanced and far too small to explain the shift in the bilateral trade balance.

In fact, the Federal Reserve Bank of Dallas (Fed), in an article that econometrically estimated the effects of NAFTA and the Peso Crisis on U.S. exports and imports from Mexico, agreed that the peso crisis and not the NAFTA was the primary reason for the decline in U.S. exports in 1995 ("*Distinguishing NAFTA from the Peso Crisis*," Journal on the Southwest Economy, October 1996). It reported that the Peso Crisis affected U.S. exports far greater than U.S. imports. It stated that U.S. imports were basically unaffected by the crisis, whereas the decline in U.S. exports was entirely due to the crisis (i.e., the decline in Mexican income resulting from the Mexican recession that lowered GDP by nearly 7 percent in 1995). It estimates that exports would have grown by 22 percent in 1995 if the crisis did not occur. The Fed further reported that U.S. export growth to Mexico is about 7 percent higher per year with NAFTA, whereas import growth from Mexico is 2 percent higher per year with NAFTA.

The shift in the bilateral goods trade balance in 1995 came neither at the expense of U.S. workers nor particularly to the benefit of Mexican workers. The trade balance shifted because of a Mexican recession which reduced Mexican employment by 1.6 million and substantially reduced incomes. At the same time, the United States was in its 4th year of economic expansion, U.S. jobs expanded by another 1.7 million, and real national income by 2.5%. The sharp deterioration of the bilateral deficit thus was associated with recession-related woes for Mexican workers while U.S. workers continued to benefit from a sustained U.S. economic expansion, including significant export growth to Canada and to other Latin American markets.

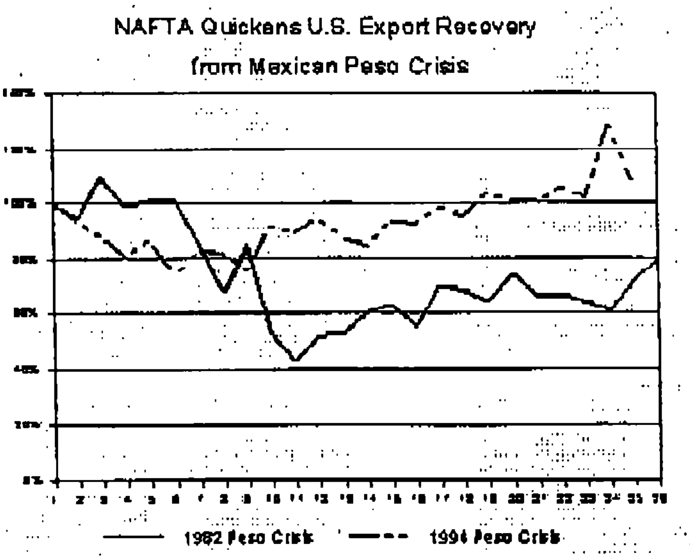
U.S. Jobs Supported by Exports Pay 13% to 16% More than the U.S. National Average




**NAFTA will continue to serve the interests of the U.S. economy and U.S. workers long after the current Mexican recession is a distant memory.** NAFTA's existence has not only kept Mexico on track toward more open markets for U.S. exports, it has also supported Mexican government efforts to sustain the course of internal economic reform. Mexico has made major efforts in recent years to pursue economic policies more similar to those of the United States. In contrast to 1981 when Mexico was a closed economy, the more open Mexican economy of today is much better positioned to recover rapidly from its problems in 1995. Growth in Mexico was estimated to have exceeded 5% in 1996, and is forecasted to be even higher beyond 1996. An open, rapidly growing Mexican economy will help the United States. The overwhelming share of Mexico's imports come from the United States. Mexico's most critical products are produced more competitively in the United States. These products include the entire capital goods area (from road building to hospitalinstruments to telecommunications), moderately priced consumer goods for Mexico's emergent middle class (everything from blue jeans to compact discs), and food. A healthy, expanding Mexican economy means that the Mexican labor force will more easily find jobs at home, affording a modest standard of living, whose growth will offer a promise for the future.

**As Mexico begins to achieve sustainable economic growth and development, U.S. workers will benefit as well.** U.S. exports to Mexico are rising again. They will continue to grow as Mexico adheres to the healthy market-oriented fundamentals put in place in recent years. These exports support the higher productivity, higher wage jobs which U.S. workers want. The NAFTA ensures the United States will be in the best position possible to not only protect, but increase, the number of higher paying jobs supported by exports to Mexico.

*2/21/97*

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1NAFTA was passed into law in 1993. 1994 was the first of a multi-year phase in of the NAFTA agreement that will not be complete until 2008.

USTR

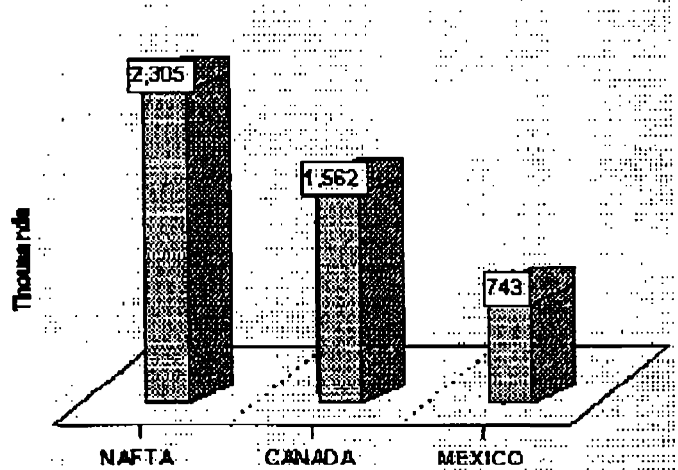
Webmaster @ USTR - 21 February 1997

# NAFTA and U.S. Jobs

**NAFTA has played a vital role in helping trade expansion strengthen the U.S. economy.** NAFTA has created higher wage jobs for American workers by expanding access for U.S. goods and services in the markets of two of our top three trading partners -- Canada and Mexico --markets that have been traditionally less accessible than the U.S. market. During NAFTA's first two years, U.S. goods exports to our NAFTA partners (Mexico and Canada) were up by 22 percent, or nearly $31 billion (to $173 billion), despite the decline in goods exports to Mexico in 1995 due to the peso crisis and related severe recession. U.S. goods exports 1993-95 to Canada were up by 26%, while U.S. goods exports to Mexico were up by 11%.

**Moreover, the growth in U.S. goods exports to our NAFTA partners accelerated in 1996.** U.S. goods exports to our NAFTA partners were up by 34 percent in 1996 over the same period of 1993. U.S. goods exports were up by 33% to Canada and by nearly 37% to Mexico. Jobs supported by U.S. goods exports to NAFTA were up by an estimated 311 thousand from 1993 (pre-NAFTA) to 2.3 million in 1996.

Over 2 Million U.S. Jobs Supported by Exports to NAFTA Countries




Although the U.S. bilateral goods trade balance with Mexico shifted from a surplus of $1.4 billion to a deficit of $15.4 billion in 1995, **NAFTA did not cause this trade deficit, nor does a deficit necessarily mean an overall loss of U.S. jobs.** The movement toward a trade deficit in 1995 was not caused by NAFTA implementation. In NAFTA's first two years, Mexico, whose pre-NAFTA tariff level was two and one-half times higher than the U.S. tariff level, cut barriers to U.S. exports to a much greater extent than was the case for the United States.

The trade deficit arose largely from two factors. The U.S. economy in 1995 continued its trend of healthy economic growth, increasing production, exports and imports. Mexico, however, experienced its worst economic downturn in modern history in 1995. Production fell by nearly 7 percent, making Mexico's recession about three times worse than the last U.S. recession in 1991-1992. Mexico's imports fell and the sharp decline in its domestic spending power made more of its remaining production available for export. The U.S. economy was able to achieve a net increase in employment of 1.7 million jobs (a 1.5% increase), while in Mexico employment fell by 1.6 million (a 7% decline). The causes of the trade balance shift in 1995 were clearly not factors that favored employment in Mexico relative to the United States.

**The Mexican recession in 1995 had its origins in decisions made by the Mexican government on exchange-rate policy in the 1980s, long before NAFTA was even envisioned.** The sharp decline of the peso, the movement of investment in securities and other financial instruments out of Mexico, and the rise in Mexican interest rates were largely the cause of the 1995 recession. NAFTA, by requiring Mexico both to continue opening its markets to U.S. exports and to abide byagreed rules with respect to its exports to the United States, worked to minimize any negative repercussions of Mexico's peso crisis and economic downturn on U.S. workers.

**Trade deficits, by themselves, do not necessarily cost U.S. jobs.** The facts do not support the view that trade surpluses are pro-job policies and trade deficits depress the overall demand for labor. In the last 40 years, U.S. employment generally grew more and the unemployment rate was lower when the U.S. trade balance was worsening. This should not be surprising; trade deficits and employment both tend to rise when the economy is growing rapidly and consumers and businesses increase their spending. For example, the U.S. current account (the broadest measure of trade) was nearly in balance in 1991, during the last major U.S. recession, yet the unemployment rate peaked at well over 7% in that year. Since 1992, the U.S. economy recovered earlier and has grown faster than those of many of our major trade partners. The relative strength of U.S. growth contributed to the current account deficit expanding to $152.9 billion in 1995; however, by the end of 1995, the unemployment rate was down to 5.6% and roughly eight million net new jobs had been created in the U.S. economy in just three years.

In the case of Mexico, its dramatic recession in 1995 sharply improved its trade balance even as domestic employment fell by 1.6 million; in the United States, a shift toward sustainable rates of long-term growth, resulted in the net addition of 1.7 million U.S. jobs, even as the deficit with Mexico deteriorated (for the world as a whole the U.S. deficit stabilized in 1995).

It is very difficult to estimate the job displacement effect of imports. Accordingly, the mainstream economic community has not been able develop a broadly agreed methodology to determine the displacement impact of imports. Certainly, some imports have a job-displacement effect; however, not all imports displace U.S. domestic production or jobs. For example, imports of materials in short supply, or those not produced in the United States, do not have a one-for-one job displacement effect. U.S. imports from Mexico of petroleum ($5.7 billion in 1995) and coffee ($600 million in 1995), if they had not occurred would have largely resulted in either reduced supply and higher prices in the United States, or in higher U.S. imports from third countries. Similarly, other imports by providing a competitive input into a production process are complementary to U.S. production and support, rather than displace U.S. jobs.

**Ultimately, the reasons the United States entered the NAFTA with Mexico are for the benefits to U.S. workers.** NAFTA greatly expands the opportunities of U.S. export industries in Mexico and thus for the expansion of higher wage jobs in the United States. Our export industries are among our most productive and dynamic of all U.S. industries. The jobs they support pay wages that are 13% to 16% higher than the U.S. national average wage. Finally, by removing trade impediments throughout the North American continent, investment in the United States is made more attractive. Higher investment at home is an important element in supporting growth of U.S. output, higher U.S. labor productivity, competitiveness, and higher U.S. labor compensation.

For those who might lose employment because of trade with Mexico and Canada, the Congress passed specific legislation worker retraining and unemployment benefits and adjustment assistance. The law was written in such a way to provide these benefits to Americans losing jobs because of increased imports from Canada or Mexico (or plant displacement to those countries ), whether the import increase (or plant displacement) was related to some provision of the NAFTA or whether itoccurred for reasons wholly unrelated to any provision of the NAFTA. Under this program, a cumulative figure of 88,602 U.S. workers were certified in the 33 months following January 1994. Of these, 51,092 have been certified with respect to imports from Mexico (or plant displacement to Mexico).

The Department of Labor reports that these certifications are an estimate and not the actual number of people that may have been affected by NAFTA or increased trade with NAFTA countries. Additionally, through September 1996, only 5,300 individuals have actually taken advantage of NAFTA transitional adjustment assistance. The reasons for this vary on a case by case basis.

A conservative estimate of involuntary job displacement for the U.S. economy as a whole during this same 33-month period between January 1994 and September 1996 is about 8.6 million workers. This is a figure nearly 100 times greater than the number of U.S. workers certified with respect to imports from NAFTA countries and nearly 170 times greater than those workers certified with respect to imports from Mexico. During the same time period, job growth in the United States was so strong that all job displacement was offset (including some of whom were certified), and net employment increased by eight million jobs in the United States. The median number of weeks spent by workers looking for work during 1995 was 13.7 weeks. The adjustment assistance furnished to those workers certified with respect to imports from NAFTA countries provides an additional degree of support in making the job transition faced by millions of Americans each year.

*2/21/97*

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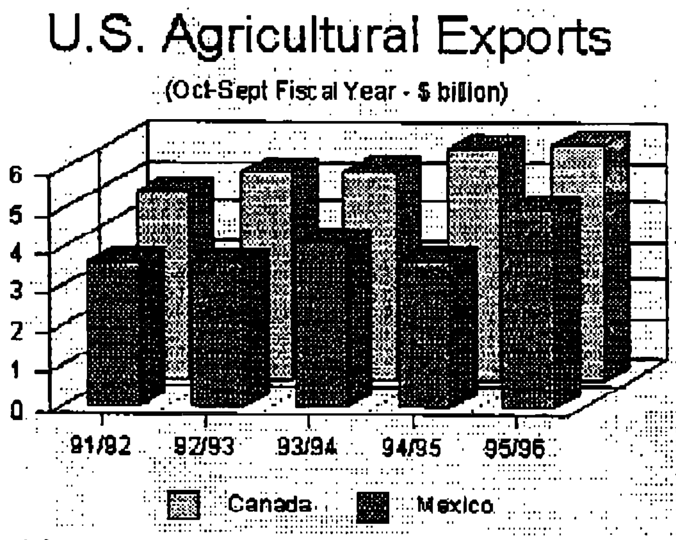
USTR

Webmaster @ USTR - 21 February 1997

# NAFTA and Agriculture Trade

**The United States is one of the world's most competitive agricultural producers and exporters.** The NAFTA continues to improve U.S. exporters' access to significant new markets in Canada and Mexico for their products. Canada and Mexico are now the second and third largest markets in the world for U.S. agricultural products.

- **Agricultural exports to our NAFTA partners increased by 14.2 percent in FY1996 (Oct-Sept), reaching record levels.** Despite a decline in exports to Mexico during FY1995, exports roared back and were up almost 35 percent for FY1996. Export growth to Canada was more modest but continued the consistent growth seen since the implementation of the original Canada-U.S. Free Trade Agreement in 1989.




- **In FY1996, agricultural exports to Mexico reached a record of $5 billion.** Increased exports of bulk agricultural products such as coarse grains, soybeans and wheat led the way. Exports of planting seeds and hides and skins were also up over 50 percent this year.
- **Export growth to Mexico is forecast to continue with projections for FY 1997 reaching $5.1 billion.** Lower expected prices for grains may decrease the export value for those products, but live animal exports are expected to increase as Mexico starts rebuilding its herds following a severe drought. An improved economic situation should also lead to increased consumer demand for meats, horticultural products and other processed foods.
- **The U.S. continues to be the dominant and growing supplier of agricultural products to Mexico, providing almost 75 percent of its agricultural imports.** This is due, in part, to the price advantage U.S. products now enjoy in Mexico compared with other Mexican trading partners that do not have the preferential access the NAFTA provides our exporters.
- **The fourth round of tariff cuts with Mexico went into effect on January 1, 1997.** This round increased by three percent the quantity of key U.S. commodities, including corn, dried beans, poultry, animal fats, barley, eggs, and potatoes, eligible for duty-free access under the NAFTA tariff-rate quotas.
- **U.S. imports of agricultural products from Mexico in FY1996 were slightly below the record set in FY 1995 of $3.7 billion.** Fresh vegetable shipments continue to dominate agricultural imports from Mexico accounting for almost a third of U.S. imports.
- **U.S. agricultural exports to Canada continue to grow, and reached nearly $6 billion in FY1996.** In FY1996 exports of bulk agricultural items, intermediate agricultural goods and consumer oriented agricultural goods to Canada were all at record levels for the second year in a row. Exports of processed foods dominate our trade with Canada, and continued strong growth in the export of snack foods, processed fruits and vegetables and fruit and vegetable juices lead the way.

- **Exports to Canada are forecast to increase in FY1997 to reach $6.1 billion**, mainly due to increases in horticultural exports and some increases in red meat exports.
- **U.S. imports of agricultural goods from Canada increased in FY1996 to $6.4 billion**. The nearly 20 percent increase is due to the relative strength of the U.S. economy and demand and the relative weakness of the Canadian dollar. Increased imports of live animals and red meats accounted for the largest changes.
- **The tariff reductions set out in the Canada-U.S. Free Trade Agreement will be completed on January 1, 1998.** With the exception of Canadian tariffs on dairy, poultry, eggs, margarine and barely, and U.S. products subject to tariff-rate quotas, which include dairy products, sugar and sugar products and peanut butter, all agricultural trade between the United States and Canada will be duty free beginning in 1998.

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USTR

Webmaster @ USTR - 28 January 1997

# NAFTA and Sovereignty

**The NAFTA is a comprehensive and reciprocal trade agreement that the U.S. needs to continue opening markets in our first and third largest trading partners and prosper in the North American and global economies.** The NAFTA corrects the fundamental imbalance that existed where the U.S. market was largely open and accessible and our neighbors' markets were closed. Reciprocal and comprehensive trade agreements such as the NAFTA help the broadest range of U.S. producers and workers tap into a world market in which 95 percent of the world's consumers live outside the U.S.

**The economic history of the U.S. has been one of progressive elimination of barriers that impede our economic expansion.** It started with the constitutional requirement to eliminate the barriers that blocked commerce between the states. That domestic effort to knock down barriers progressed onto the world stage in earnest following World War II with the development of the General Agreement on Tariffs and Trade (GATT). To continue to succeed, the U.S. must eliminate barriers to commerce in the global economy by using the rules now available in the World Trade Organization (WTO), the NAFTA, and other trade agreements, and by emphasizing reciprocity in our trade negotiations. Trade agreements are the central tools of the U.S. Government to help the private sector gain entrance into closed markets and compete on a level playing field with their competitors.

**The U.S. is the most competitive and productive large economy in the world according to prestigious independent institutions like the World Economic Forum and the International Institute for Management Development.** Because of this competitiveness, the U.S. will do even better when other economies are as open as the U.S. and barriers are eliminated.

Negotiating binding trade obligations for reciprocal market openness does not entail a loss of our sovereign decision-making in important areas such as public health and safety standards, environmental protection, or foreign policy. **The NAFTA does not permit Canada and Mexico to "intervene in" or "direct" U.S. legislative or regulatory processes through trade agreements:**

- the NAFTA puts in place rules that were supported by a strong bipartisan majority of the Congress;
- the NAFTA does not prohibit the U.S. from passing and vigorously enforcing its own laws, or from setting its own environmental or health standards, and a NAFTA panel cannot autonomously change such standards. Only the U.S. Congress has the authority to change U.S. law, and only U.S. regulatory bodies, such as the Food and Drug Administration, etc., have the authority to issue health, safety, environmental and consumer protection regulations;
- the NAFTA does not require the U.S. to adopt lower international food and safety standards; it permits the U.S. to continue to reject food and other imports that the U.S. considers to be unsafe; and it permits states and the federal government to maintain andimpose even stricter food and safety standards than is currently the case;
- No substantive change in U.S. rights and obligations under the NAFTA will apply unless the U.S. agrees to it;
- U.S. interests are enhanced because the dispute settlement system permits the U.S. to enforce rights under the agreements more effectively, open previously closed markets, and at the same time preserve U.S. trade laws; and
- The U.S. will continue to be able to use:
  - Section 301 of the 1974 Trade Act, as amended, to address unfair, or unreasonable, barriers to U.S. commerce; and

- antidumping and countervailing duty laws to address foreign unfair export practices that affect the U.S. market adversely.

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# NAFTA and the Environment

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**The North American Agreement on Environmental Cooperation (NAAEC) promotes sustainable development through mutually supportive environmental and economic policies.** The Commission for Environmental Cooperation (CEC) was created under the NAAEC to protect, conserve, and improve the environment through increased cooperation among the Parties and increased public participation.

**In the first two years of operation, the CEC has begun work on an impressive list of environmental projects under its cooperative work program.** The NAFTA parties are seeking solutions to a number of issues of trilateral significance for the first time, focusing initially on five major themes: Environmental Conservation; Protecting Human Health and Environment; Enforcement Cooperation and Law; Environment Trade and Economy; and Information and Public Outreach. The proposed 1997 Annual Program and Budget continues to look at these five major themes and has focussed the cooperative efforts into seventeen key intiatives.

**Under the theme of Environmental Conservation,** the NAFTA parties have encouraged the CEC Secretariat, located in Montreal, to coordinate non-governmental involvement on the conservation of North American birds by identifying areas important to the long-term viability of naturally occurring bird populations (Important Bird Areas or IBAs) and developing a conservation strategy for each site. The governments will cooperate on a separate initiative to protect the birds of North America by developing a recommended conservation strategy.

With respect to marine ecosystems, the CEC is coordinating efforts among the parties for the first regional implementation of the Global Program of Action for the Protection of the Marine Environment from Land Based Activities signed by 101 countries in Washington in November 1995, as well as regional implementation of the International Coral Reef Initiative. A presentation of the North American experience in regional implementation will be made at the UNEP Governing Council meeting in January 1997. Other Environmental Conservation highlights in the CEC include the development of a North American Biodiversity Information Network and cooperation for the conservation of the Monarch butterfly.

**Under the theme of Protection of Human Health and Environment,** an unprecedented trilateral discussion has taken place among the NAFTA parties aimed at creating regional action plans for the sound management or phase-out of four toxic substances: PCBs, DDT, mercury and chlordane. This process has educated all three countries about the mechanisms and technologies their neighbors use to understand and manage these substances, which saves time and resources in developing these mechanisms individually. The CEC Council will review the regional action plans in early 1997 for approval. The Parties are also developing a criteria document to assist in developing a new short list of substances to be subject to future action plans.

The CEC also facilitated the creation of the North American Pollutant Release Inventory, the regional equivalent of the U.S. Toxic Release Inventory. This activity involves developing a methodology for making pollutant release and transfer register (PRTR) data comparable, compatible, and accessible to the public. The United States and Canada are providing support toMexican efforts to establish a domestic PRTR and all three will publish the first reports on North American Pollutant Release Inventory information from 1994 and 1995 data. Other Human Health highlights include the development of a cooperative long term air quality monitoring, modeling, and assessment program in North America, a greenhouse gas trading study, as well as recommendations on transboundary environmental impact assessment procedures for the countries of North America.

The CEC is required to publish an Annual Report, which addresses, among other things, actions taken by each Party to meet it's obligations under the NAAEC. The Parties will highlight environmental enforcement activities in a thirty page section of the 1996 Annual Report. **Cooperation on enforcement issues has improved through the creation of the CEC North American Working Group on Environmental Enforcement and Compliance Cooperation**, which cooperates on activities such as technical assistance, cataloguing training courses and enforcement officials, exploring alternative approaches to voluntary compliance, and improving the tracking of hazardous waste across borders.

In 1997, the Council has agreed to develop principles to guide the development of a new generation of environmental regulatory and other management systems, in recognition of the need for continuous improvement of environmental protection and public health. The CEC will develop such principles as a standard that the public will be able to use to evaluate new laws, rules and regulations.

In 1996, the Council created a pilot fund for pollution prevention projects for small and medium enterprises. The CEC will explore options for extending this fund to the United States and Canada in 1997. The Council also created a Technology Clearinghouse to assist potential users of environmental technology in finding the technology necessary to help them comply with relevant environmental laws and regulations or to improve their production efficiency while maintaining or improving their competitiveness.

**The Information and Public Outreach activities of the CEC have been very successful**, although all arms of the Commission (Council, Secretariat, and Joint Public Advisory Committee (JPAC)) recognize the need to continue to grow in this area. The CEC's first effort was to establish an Internet Homepage (www.cec.org) so that it could publicize its actions and developments. For public use and easy access, CEC staff put the environmental laws from the three countries on-line in all three NAFTA languages. A CEC resource center was established in Mexico City, to make information more accessible to those NAFTA citizens living furthest from the CEC headquarters in Montreal.

As the CEC completes projects, it is adding these project results to the on-line service. The JPAC is hosting three public meetings each year on specific topics of concern to the Council: in 1997 they will address the long range transport of air pollutants, voluntary compliance with enviornmental laws, and environmental networking between North American communities. The public has played a key role in each of the cooperative work program projects. The United States has established both a National and Government Advisory Committee made up of business, environmental organizations, and academics to assist its delegation in making wise decisionswithin the Commission.

Finally, the CEC has undertaken a pathbreaking and complex study of the effects of NAFTA trade on the environment under the Environment, Trade, and Economy theme. The NAAEC calls for a continued consideration of the "environmental effects of NAFTA" in Article 10.6(d). The Administration is committed to reducing barriers to trade and to understanding how greater market access and higher levels of environmental performance can be pursued as complimentary and synergistic goals. To this end, the United States has supported independent CEC work to design and implement an analytical framework to identify and assess the effects of NAFTA on the environment. The CEC expects the study to provide a basis for further cooperation among the Parties.

**Other developments include the establishment of the North American Fund for Environmental**

**Cooperation (NAFEC),** which is a C$2 million fund for community based grants intended to engage the energy and imagination of the people of North America in achieving the goals of the NAAEC. The third call for proposals will be released in February 1997.

Also, despite the concern among the public about the perceived lack of enforcement of domestic environmental laws in the NAFTA countries, so far only six submissions from the public have been received by the Secretariat under the process estblished by Article 14 of the NAAEC to address that concern. Currently, there are three submissions, one against each of the NAFTA Parties, still under consideration by the Secretariat. In August 1996, the CEC Council decided to instruct the Secretariat to prepare a factual record regarding the environmental impact assessment done on a public harbor terminal in Cozumel, Mexico.

A separate complaint from members of the public concerning massive migratory bird deaths at the Silva Reservoir in Mexico resulted in the preparation of a report by the Secretariat under Article 13 of the NAAEC. Article 13 enables the Secretariat to prepare a report on any matter within the scope of the Commission's annual work program or any other cooperative, non-enforcement function of the NAAEC so long as the Council does not object to its preparation within a specified period of time. The NAFTA governments have negotiated a resolution to the Silva Reservoir situation which has created unprecedented scientific cooperation on this problem by bringing scientists together in a depoliticized environment. This resolution allowed the CEC to fulfill one of its principle missions -- to respond to a national environmental problem that has international consequences, while remaining sensitive to local priorities and to the possibility of creating effective regional models.

**With respect to BECC and NADBank, BECC has certified twelve projects in just two years of existence, six in each country; NADBank has approved financing for four of these projects.** As a result of extensive outreach and technical-assistance efforts, several dozen more potential projects have applied for certification. BECC was awarded a grant for $10 million by U.S. EPA to identify, develop, and assist water-related projects in both countries. NADBank has established a program of its own to improve the creditworthiness of border-area utilities and municipalities.

**The central strategy of the comprehensive and unprecedented Border XXI Program** emphasizes public involvement, decentralization of environmental decision-making through state and local capacity building, and improved communication and cooperation among federal, state, and local governments. The federal governments of both countries acknowledged the importance of cooperative efforts and are committed to working with their state and local counterparts and with residents of the border region to further define and realize the vision of sustainable development underlying Border XXI. The cooperative effort includes projects pertaining to the entire border and specific elements pertaining to California - Baja California, Arizona - Sonora, New Mexico-Texas-Chihuahua, Texas-Coahuila-Nuevo Leon, and Texas-Tamaulipas.

**The environmental institutions created by the NAFTA are providing for the first time the bilateral and trilateral tools to address a variety of North American environmental issues, including in the U.S.-Mexico border region.** The NAAEC commits NAFTA members to ensure that their laws provide for high levels of environmental protection and that environmental laws are effectively enforced. The NAAEC includes enforcement provisions with sanctions as a last resort if a country fails to uphold its commitment to enforce its environmental laws. The BECC and NADBank together constitute the institutions necessary to identify worthwhile projects and leverage the financing that is critical to environmental clean up along the border.

**While NAAEC encourages environmental cooperation to resolve outstanding concerns, it also protects the rights of the NAFTA members to establish and enforce their own environmental laws.** Nothing in the NAAEC can require the United States to change its environmental laws.

**The passage of NAFTA, the establishment of the BECC, NADBank, and the CEC demonstrates the commitment that all three nations have made to improve the environment in North America.** U.S. environmental technology firms are in an excellent position to provide goods and services to meet environmental needs of our NAFTA partners.

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USTR

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# NAFTA and Labor Rights

**The North American Agreement on Labor Cooperation (NAALC) is an unprecedented and balanced approach to ensuring high levels of worker rights protection. The objectives of the NAALC include:** improving working conditions and living standards in each party's territory; promoting basic labor law principles; encouraging cooperation to promote innovation and rising levels of productivity and quality; pursuing cooperative labor-related activities; and promoting compliance with, and effective enforcement by each party of, its "labor law" and fostering transparency in the administration of labor laws. The agreement does not rewrite any country's labor laws: there was no need to do so since Mexico and Canada have generally sound labor laws.

**The implementation of the NAALC is carried out by a Commission, which includes a Ministerial Council and a Secretariat.** The Commission is assisted by the National Administrative Office (NAO) of each Party to the NAALC. The Council is comprised of the Ministers of Labor of each Party, which in the case of the United States is the Secretary of Labor. The Council is the governing body of the Commission and oversees, and directs, NAALC implementation. The Secretariat, located in Dallas, Texas, is the administrative body of the Commission and assists the Council in exercising its functions, including the preparation of reports at the request of the Council on topics relevant to the implementation of the NAALC. The NAOs serve as the contact point for the government agencies of the Parties, the NAOs of the Parties, and the Secretariat. Each Party also has a National Advisory Committee made up of the Public, labor and business representatives.

**The "bright spotlight" of public, and international, scrutiny of relevant labor practices is, in effect, a function of the accord.** Under the agreement, citizens of any NAFTA signatory can request their government to review labor practices in one of its NAFTA partners. Review results are made public. Governments also may request consultations at the Cabinet level and a detailed examination of any incident or labor practice in another NAFTA country. For example, in one case which involved the right of union registration at a Mexican electronics plant:

> The U.S. Secretary of Labor and his Mexican counterpart entered into an agreement, with an action plan, to address union registration in Mexico. Under the agreed plan, officials from the Mexican Labor Secretariat met with the workers attempting to register a union at the electronics plant in question to explain to them their rights under Mexican law regarding union registration. Mexican officials also met with the plant management and local government officials who handled the union registration petition. Mexico agreed to commission a study by independent experts to examine the issue of union registration in Mexico and to prepare a public report. Mexico agreed to a series of public seminars to be held jointly with Mexican, U.S., and Canadian officials, academics, management officials, and labor representatives to discuss the issue of union registration and other labor law issues raised in the case. Seminars were held in Mexico City, San Antonio, and Monterrey.

The U.S. National Administrative Office (U.S. NAO) has received six submissions to date and twoof the cases are currently pending. These cases titled Submission 9601 & 9602 respectively, address freedom of association issues in Mexico.

In Submission 9601, the NAO will issue a public report by January 27, 1997 concerning a submission made by Human Rights Watch/Americas, the International Labor Rights Fund, and the Asociacion

Nacional de Abogados Democraticos (National Association of Democratic Lawyers). The submission involves the representation of employees at the Mexican Ministry of the Environment, Natural Resources, and Fishing. The NAO Report will include an examination of the relevant allegations and findings on whether Mexico has met its obligations under the NAALC.

In Submission 9602, the NAO will issue a public report by June 1997 concerning issues raised by the Communications Workers of America, the Union of Telephone Workers of Mexico, and the Federation of Unions of Goods and Services Companies of Mexico. The issues concern freedom of association and the right to organize issues.

**The NAALC protects the right of the NAFTA Parties to establish and enforce their own labor laws.** Nothing in the agreement requires the U.S. to change its laws or the enforcement of its laws. But the agreement is a "two-way street". Mexico and Canada may request consultations and an examination of incidents and labor practices in the U.S. Indeed, Mexico has done so on one occasion involving a California telecommunications facility that closed on the eve of a union representation election. The matter was addressed through consultations with full respect for proceedings under domestic law before the National Labor Relations Board (NLRB). The agreement's balanced approach is the right approach that serves the interests of all three NAFTA countries.

**The positive effect of a trilateral consultative process leading to greater understanding of how one country is addressing an issue, and the ability of the consultation process to persuade a NAFTA party to improve enforcement, should not be underestimated.** Trinational cooperative activities conducted under the agreement also promote transparency (i.e., a clear understanding) regarding labor law and practice on issues ranging from occupational safety and health to workplace equality.

Over the past three years, an extensive program of trinational cooperative activities has been under taken by the National Administrative Offices of Canada, Mexico and the U.S. The purpose of these activities is to promote administration of labor laws and promote greater understanding of each country's laws, policies and practices and to facilitate the exchange of information related to labor law issues.

The cooperative activities work program is carried out through a series of government-to-government meetings, seminars and public conferences. Some examples of these activities are:

- The U.S. NAO has sponsored two trinational study tours, one in construction and the other in the petrochemical industry, in conjunction with the Department of Labor's OSHA division and in cooperation with the National Safety Congress. The program fostered an exchange of best practices on ways to reduce worker fatalities and injuries in these industries.
- The three NAFTA countries have also undertaken a series of seminars and conferences on labor law and worker rights. Two of the government-to-government seminars conducted in this area were designed to address issues of industrial relations that had been raised in the U.S. NAO submissions. The goal was to begin an open discussion between the countries and to exchange information on the application and implementation of each country's labor laws in this area and find ways to resolve issues before reaching the dispute settlement process.
- The NAALC countries will be hosting, in 1997, a conference on "Child and Youth Labor in North America." The conference will examine innovations that seek to eliminate inappropriate participation of children in the workplace. The conference will explore ways that the NAFTA countries can improve the lives of children and youth who are legally in the workplace by reducing risk to health and safety and by safeguarding educational opportunities.

Monetary sanctions and denial of trade benefits are available to address the trade effects of a persistent pattern of failure by another NAFTA party to enforce selected labor laws, should evaluations by experts and consultations not lead to solution. The structure of the accord also prevents the Parties from attempting to use the NAALC to impose sanctions for anything other than the carefully prescribed reasons set forth in the accord, and none of the Parties have attempted to use the NAALC to raise barriers to commerce or impinge the broader objectives of NAFTA.

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USTR

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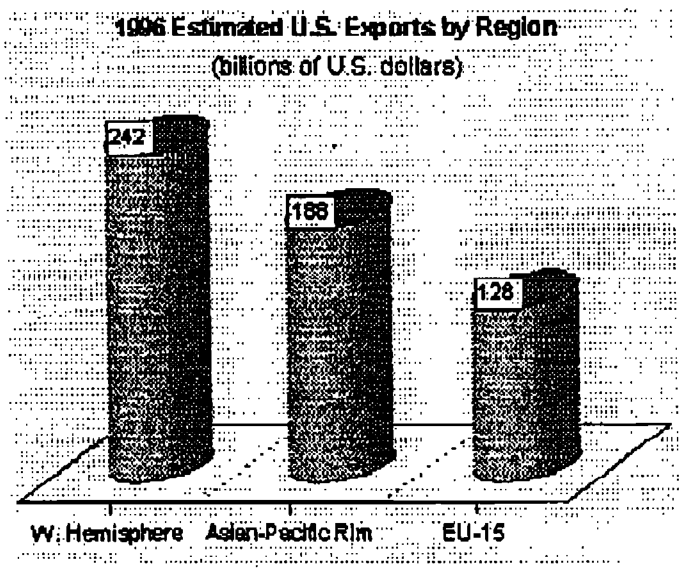
# NAFTA and the Western Hemisphere

**The NAFTA is the U.S. beginning for opening the dynamic Latin American market and for leveling this hemisphere's trade playing field to benefit U.S. exports of goods and services.** The rules of the NAFTA go far beyond the mere elimination of tariffs and other restrictions at borders. For example, they are designed to: open government procurement markets - a key to gaining access to large infrastructure projects; ensure standards regarding product certification and other related norms for selling are not disguised barriers to preclude import competition; improve the protection of intellectual property rights (i.e., copyrights, trademarks, patents, etc.); and ensure access on equitable terms for foreign and domestic investors. In short, the NAFTA is indicative of the kinds of rules that can be a most effective tool in prying open markets in virtually all respects and ensuring competitive U.S. industries and workers get the best opportunity available to compete against our global competitors in these markets. The NAFTA rules provide a standard of market openness and reciprocal fairness that should become the minimum norm for trade relations within the Western Hemisphere. Although Chile's dynamic economy is viewed as one of the most, if not the most, open in Latin America, Chile's accession to the NAFTA will require significant steps be taken to further open its economic and trade regime and harmonize its rules with those of the United States, Canada and Mexico.

Tariff barriers in Latin America, as much as they have been reduced in recent years, are still on average four times higher than the average U.S. tariff. The Uruguay Round resulted in a reduction of tariffs, and a limit being put on how high tariffs can be raised. But, as was the case with Mexico, the Uruguay Round does not preclude many Latin American countries from raising tariffs significantly in some cases. Only the negotiation of a comprehensive trade agreement will accomplish that objective. Furthermore, virtually no investment regime is as open as the U.S. regime, no country protects intellectual property rights as effectively as the United States, and access by services providers to the U.S. market is greater than any country in Latin America and the Caribbean Basin. Reciprocity would require these countries to open their regimes to a significant degree, thus creating a more level trade playing field for competitive U.S. producers and workers.

**The Western Hemisphere accounted for 39 percent of U.S. goods exports in1996. Not only are Canada and Mexico the first and third largest U.S. trading partners, but the rest of Latin America and the Caribbean Basin has been one of the fastest growing U.S. export market in recent years. It was the only major region with which the U.S. recorded a trade surplus in 1995 and this continued in 1996.** It is not broadly recognized that this resource-rich region has transformed itself over the last decade from largely closed economies to market oriented democracies. This major re-orientation is having a significant impact on the trade situation and is generating substantialcommercial opportunities for the U.S.




**Whereas U.S. goods exports to the world increased by 57 percent in the period 1990-96, U.S.**

**exports to Latin America and the Caribbean Basin (excluding Mexico) increased by 110 percent.** Latin America and the Caribbean Basin has a population estimated at 450 million, of which 300 million are consumers above the official poverty line. The total gross domestic product (GDP) of Latin America and the Caribbean Basin was $1.5 trillion in 1995, with real growth expected to average 5 percent through the year 2000. Latin American intra-regional trade is exploding, more than doubling from 1990 to 1995 from $41 billion to $88 billion. The United States has traditionally been very competitive, in most countries having supplied 40 percent or more of imports. There is no other region of the world where the United States is so naturally competitively positioned. For example, the United States exported more to Chile in 1995 than it did to India, Indonesia or Russia.

**But the U.S. is not the only country which recognizes the region's potential. Competitors from Europe and Asia are actively engaging the region and seeking to change the trade rules of the game to their advantage.** The European Union (EU) has agreed with Argentina, Brazil, Paraguay and Uruguay, the countries of the Southern Common Market (or MERCOSUR in Spanish) to negotiate a reciprocal trade agreement. Similarly, the EU and Chile expect to conclude a reciprocal trade agreement. Mexico and the EU have initiated talks to pursue a comprehensive trade agreement. The largest trading partner of the MERCOSUR is the EU.

Similarly, Latin American trade with Asia and the Pacific is booming. In 1995, China's second fastest export market was Latin America. Chile's largest export market is Japan. Senior Chinese officials have visited Latin America in the past year an unprecedented number of times targeting the region for its new commercial and strategic value and to blunt U.S. commercial power. Japan and Korea and other Asian competitors have also engaged in the highest levels of diplomacy to encourage closer commercial ties and policies more conducive to their trade, investment and trade strategies. Latin America is responding to this effort with high level visits to Asia to foster closer ties and cooperation in global issues including trade. These efforts will have direct implications for the continued competitiveness of U.S. firms in the region. It would be unacceptable if U.S. competitors in Asia and Europe were to negotiate better access and treatment for their goods and services than the U.S. achieves.

**The region itself is very active with trade agreements**. For example, the MERCOSUR recently concluded a free trade area with Chile which will virtually eliminate tariffs and quantitative restrictions. MERCOSUR is looking to expand its associate agreements to Bolivia and other South American countries. Mexico has proposed a reciprocal trade agreement with MERCOSUR, and is working on agreements with Central America and Ecuador and has initiated talks to add disciplines to its agreement with Chile. Furthermore, it has agreements with Venezuela and Colombia (i.e., the G-3) and Costa Rica. Chile also has agreements with Venezuela, Colombia, Peru and is working on one with Bolivia and the Central AmericanCommon Market. Furthermore, Chile just concluded an "interim" agreement with Canada that is modeled on elements of the NAFTA, including the labor and environment accords.

Historically, the U.S., even with its strong trade ties, has not influenced the content of these trade agreements. Latin America has a decades deep tradition in the trade and integration game. While the content of the newer agreements being negotiated is more comprehensive and effective in opening markets than was the case in the past, none of the agreements negotiated are as comprehensive as the NAFTA. The NAFTA serves as the U.S. hemispheric benchmark for the rules in trade agreements. **An open market in the hemisphere that reflects at least the rules of the NAFTA and its vigor in opening markets would level the playing field helping to ensure U.S. industries and workers the best opportunity to compete against aggressive global competitors in this dynamic and vast market.**

*2/21/97*

USTR

Webmaster @ USTR - 21 February 1997

**Testimony of Ambassador Charlene Barshefsky**
**before the Trade Subcommittee of the House Ways and Means Committee**
**March 18, 1997**

Thank you, Mr. Chairman and Members of the Committee. It am pleased to appear before you today.

I appreciate this opportunity to set forth the Administration's views on the direction of trade policy. When I entered the field of international trade twenty two years ago, trade was really the province of a relatively few academics, trade technicians, and a relative handful of interested members of Congress. Those days are long past. As trade has become more central to our economic health, it has understandably become a matter of great importance to virtually all members of Congress and to people in all walks of life across our country. This Administration, and any future Administration, bears the responsibility of explaining our trade policy clearly and building broad political support for it. To advance that goal, I pledge today to engage---as much as possible---in what President Truman once called "plain speaking."

No discussion of our trade policy should begin without reaffirming our commitment to a bipartisan partnership with Congress. No trade policy can ultimately succeed without the support of the Members. Bipartisanship has been a cornerstone of our past success and will continue to be in the future. I pledge to work closely with all members of this Subcommittee - and the full Ways and Means Committee - to advance the cause of opening foreign markets and thereby expanding exports and creating more and better jobs and opportunities for Americans in the workforce today, and their children who will be joining it in the coming years.

**Trade and the Strength of the U.S. Economy**

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 look toward the next four years, consider our situation:

- Our economy is the envy of the world. We are in the sixth year of the current economic expansion. Over the past four years, we have created nearly 12 million new jobs, while the G-7 created roughly 600,000. We have the lowest budget deficit as a percent of GDP of all the G-7 nations. Our combined unemployment and inflation---the so—called misery index—are at the lowest level since 1963. Countries around the world seek to emulate the "American model."

- We have seen a resurgence in U.S. competitiveness. We are once again the world's largest exporter setting historic records in manufactured goods, high technology goods, services, and agriculture. Over the last four years, our manufactured exports are up 42%, high technology exports jumped 45%, service exports climbed 26% and farm exports rose 40%. We are the world's largest producer of semiconductors and the largest producer of automobiles. The World Economic Forum has found America to be the most competitive major economy in the world for three years running.

- Our economic expansion has been investment-led, building the foundation for even greater economic strength. In 1995, total business investment in the U.S. was more than $800 billion. Our industrial production is up nearly 18% in real terms over the last four years. Japan's production is up 5 percent and Germany's has declined by 2 percent over this period. Growth of our industrial capacity growth is at its highest level since the 1970's. We have more manufacturing jobs than we had four years ago. The industrial Midwest has gone through a virtual renaissance of manufacturing and productivity.

Trade policy has contributed significantly to the economic strength of our country today. From the early weeks of the Administration, the President made it clear that we would compete, not retreat behind walls. We would not accept the status quo whereby too often our trading partners took advantage of our open market while maintaining closed markets at home. We have relentlessly pursued an agenda of opening foreign markets, and breaking down foreign market barriers---multilaterally, regionally and bilaterally.

We committed to work for a system where all trade nations, developed and developing, would adhere to the same set of basic rules, and we have made important strides in that regard with the creation of the WTO and elsewhere. We have not yet fully leveled the playing field for U.S. companies, workers and farmers, but we have clearly made progress. The world is generally more open to U.S. exports than it was when the President took office, and far more open than when Congress, on a bipartisan basis, passed the landmark 1988 Trade Act which gave us and our predecessors the clear direction and the tools to open markets around the world.

This Administration has negotiated over 200 trade agreements, all designed to advance our economic and trade interests. In the past four years:

- We completed the Uruguay Round, the largest trade agreement in world history, which will add $100-200 billion to GDP annually when fully implemented.

- We completed the NAFTA, which increased our exports to Mexico, and kept Mexican markets open despite the worst economic crisis in Mexican modern history.

- We worked tirelessly to break down market access barriers in Japan, which have presented one of the central trade challenges for the past twenty years, reaching 24 agreements and increasing our exports 43% in four years (with exports covered by these agreements growing roughly twice as fast).

- We led the world in setting tougher standards for trade with China: battling to open a highly protected market, negotiating landmark agreements in intellectual property and textiles, and insisting that China's accession to the WTO occur only on commercially meaningful terms.

- We breathed new life into APEC, starting with the President's leadership in 1993, spelling out a long term vision for free and fair trade, making progress more concrete year by year, culminating with the key role played by APEC in completing the Information Technology Agreement (ITA), and anchoring our country more firmly in the fastest growing region of the world.

- We have led the multilateral effort in this hemisphere to build the Free Trade Area of the Americas (FTAA) by 2005, with concrete progress by 2000, deepening our commitment to our own hemisphere, recognizing the extraordinary progress of open markets and democracy throughout the region.

- We initiated the effort regarding the creation of the U.S. - EU Transatlantic Marketplace. We have been working closely with the private sector to improve market access.

- We took the lead in combating bribery and corruption in government procurement, in respecting core labor standards, and in pursuing the agenda to make trade and environmental policies mutually supportive.

- We have vigorously enforced our trade laws and agreements using every tool possible and making it clear that agreements, if not implemented by our trading partners, will be enforced. In the past four years we have brought 48 trade enforcement actions. We have filed 23 cases to enforce U.S. rights under the new dispute settlement procedures of the WTO, having filed 15 complaints last year alone.

- Over the last three months, we have completed 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 ITA will benefit producers of 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. The telecommunications accord is expected to generate approximately 1 million U.S. jobs over the next 10 years and save billions of dollars for the American consumer. We estimate the average cost of international phone calls will drop by 80 percent -- from $1 per minute on average to 20 cents per minute over several years. The cost of U.S. domestic calls should also fall as the agreement helps raise investment in the U.S. in competitive telecommunications networks.

We pursued these initiatives because we recognized that trade is increasingly important to the future of our nation. Trade is now equivalent to nearly 30 percent of GDP, up from 13 percent in 1970. Exports over the last four years have generated roughly one quarter of our economic growth. And these are good jobs; they pay 13-16% more than non trade-related jobs. That's one reason why over 68% of the jobs created in the U.S. between 1994-96 paid above the median wage. Exports support an estimated 11.3 million U.S. jobs, and over 1.4 million of these jobs were generated by increased exports over the last four years.

None of this is to suggest that we don't face challenges and continuing problems. Many markets around the world remain closed to our exports and, to the extent our trade deficit is the result of these barriers, particularly on a bilateral basis, they must be reduced. Far too many Americans are left behind in the current economic expansion, without the skills or education to benefit from the increased opportunities. Neither government nor the private sector should rest while that is the case. And I recognize that for those Americans who have lost jobs because of trade or technological change or corporate downsizing, it is cold comfort that the overall picture is positive.

In considering the direction of future trade policy, however, we need to start by recognizing that our economy is stronger than it was four years ago, and far stronger than it was ten years ago. None of us should be complacent, but our country's economic success is no accident. We put our government's market opening efforts behind our companies, workers and farmers at precisely the time when they were at their most competitive. After years of doubt and soul-searching about our country's ability to compete, we have together succeeded in defining a distinctively American partnership to succeed in a tough global economy. As we consider what comes next, we can take pride, for a moment, in what we, together, have accomplished.

## A Moment of Choice; The Dangers of Inaction

But only for a moment. This is not the time for resting on our laurels. 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. 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. We can ignore our trading interests and opportunities around the world, and let ourselves instead bog down in an endless debate over NAFTA, but primarily our relations with Mexico. 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.

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, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements, forming relations around us, rather than with us, and creating new exclusive trade alliances to the potential detriment of U.S. prosperity and leadership. Example abound:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with ambitions to expand its association agreements to all of South America. MERCOSUR is the largest economy in Latin America and has a GDP of roughly $1 trillion and a population of 200 million. It has struck agreements with Chile and Bolivia, is discussing agreements with a number of Andean countries (Colombia, Venezuela, etc.) 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 has 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, the largest market in Latin America, comprised of Argentina, Brazil, Paraguay, and Uruguay, with a GDP of over $1 trillion. They have also concluded a framework agreement with Chile that is set up to lead to a free trade agreement. The President of France, just in the region, said we "will have to set the foundations for a new and ambitious partnership," with Latin America, adding that Latin America's "essential economic interests... lie not with the United States but with Europe." President Chirac was traveling with four Cabinet officials and 20 leading French businessman.

- 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 that 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 is forming a free Southeast Asian trade area that 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. In a bold initiative indicative of the new dynamic in the global economy, 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, but 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. It has also struck an agreement with Canada that includes a range of market opening elements.

- 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 chaebols 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 countries of Southeast Asia, some of the most dynamic economies in the world, are integrating through its ASEAN Free Trade Area. The integration gives other ASEAN countries access in some key areas where U.S. exporters would otherwise have an advantage, such as in agricultural products, particularly processed food products.

Ninety five 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 this is the tip of the iceberg. The infrastructure needs alone of the developing world are estimated to be enormous. For example, in just 8 of the large developing countries, traditional infrastructure needs (telecommunications, power, transportation and petroleum infrastructure) are estimated to be over $1.6 trillion.

Our ability to create jobs and sustain our living standard in the next century will depend, in no small part, on how successful we are, relative to our competitors, in embracing the trade opportunities offered by these emerging markets. We should not be indifferent to currents that can be identified simply by reading the newspapers. In my view, we have all the talents needed to compete successfully, but our competitors are determined, sophisticated, strategic and focussed. Many U.S. firms are already seeing evidence that their competitors are engaged in an intensive effort to rework the rules of these dynamic marketplaces to their advantage.

A recent example illustrates the dangers. 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 to buy from a U.S. producer meant an additional $20 million in costs (duties) relative to purchasing from Canada.

We have done much to level the playing field in the past four years, but in this case, we are sitting on the sidelines, spotting Canadian competitors an 11% price advantage every time we compete in the Chilean market. We will suffer that handicap again and again, in country after country, if we do not stay in the game of opening markets for our companies and workers. Looking at this sobering pattern, we need to reaffirm the commitment of the President in 1993, to "compete, not retreat."

## Our Global Trading Agenda

Our trade policy must be driven by two factors: our emphasis on building prosperity at home through the expansion of our export and trade opportunities built on a strong foundation of reciprocity as we proceed; and ensuring we are strategically well positioned in the world to advance our economic, trade and broader interests, including regional stability, through a growing number of enduring trade arrangements, particularly where those arrangements put us at the center of activity. The principle underlying our trade policy must be to support U.S. prosperity, U.S. jobs and the health of U.S. companies. The outgrowth of that policy is continued U.S. leadership as the world's indispensable nation transmitting the values of democracy, market economics, human rights and the rule of law.

Given the evidence of concerted efforts by our competitors to improve their position around the world, and the potential erosion of U.S. leadership, we need to respond with our most effective and strategically powerful trade policy. We need to position ourselves as the most important player in the global constellation of trade activity now and into the future. We need to be positioned to play a catalytic role in all key regions of the world. We must utilize the full range of our tools of leverage on the trade front while at the same time continue to enforce our trade laws and agreements vigorously.

There are some who believe that simply opening markets on a global scale is the be-all-and-end-all, no matter how it is done or no matter who benefits. I subscribe to a different view. It is imperative that we open markets in a manner consistent with the rules of the WTO, but we must make sure Americans benefit directly from this process, and to do that Americans must drive the rules of the new global landscape and the opening of markets. There is simply no other way to protect our jobs, our vital trading interests or our global leadership on trade.

In the next four years, the Administration believes we should keep on opening foreign markets, and breaking down foreign trade barriers. We believe in this for our own export performance, for our own jobs and for own prosperity at home. The ITA and the telecommunications agreement provide vivid evidence of how our country can benefit from important sectoral agreements. We will continue to use the multilateral system, and have provided recent evidence of just how much can be accomplished multilaterally. At the same time, we cannot fully confront the competitive challenges we face or open the major emerging markets around the world without an aggressive, reciprocity-based push on the regional and bilateral fronts.

Multilateral Efforts

Within four years, major WTO negotiations will occur in several areas where the United States is a top global competitor: agriculture, services, and the rules for intellectual property rights. This year we will be resuming WTO negotiations on financial services, a sector where U.S. companies excel. At the same time, the Administration will work with industry and workers to search out ever more opportunities in key sectors. We will continue to look for sectoral opportunities to benefit U.S. exporters to build on the successes we have had in recent months.

Building on the positive outcome of the negotaitions on the ITA and telecommunications, we are turning our attention to the WTO financial services negotiations which resume in April. 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 negotaitions this year, our trading partners must signficantly improve their commitments based on the GATS principles of market access, national treatment and MFN. However, with the precedent that has now been established in the telecommunications agreement, we hope to see improved offers in the financial services talks.

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. We will work hard with our allies on this issue to move ahead.

Services negotiations to expand this $1.2 trillion global market -- where U.S. firms exported more than $220 billion in 1996 (est.) with a surplus of $74 billion -- are to start in January 2000. 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, with key elements examined beginning before then. We must do everything possible to expand opportunities for such vibrant industries.

The "built-in agenda" from the Uruguay Round provides other 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.

- For example, the rules governing technical barriers to trade (covering product standards, technical regulations and associated procedures such as testing and certification) are scheduled to be reviewed by December of this year, just as sanitary and phytosanitary rules affecting trade in agricultural goods will be reviewed by January of next year. These reviews will play an important role in our broader efforts to ensure that the development and application of product standards and environmental, health and safety regulations are technically justified and do not serve as disguised protectionist measures.

- Similarly, bringing about the full implementation of the customs valuation agreement by 2000, particularly by WTO members in key emerging markets, will help to ensure that our exports to those markets are not impeded by improper or incorrect customs valuation methods which might artificially distort the price of our products and erode the benefits of Uruguay Round market access gains.

- Likewise, the upcoming reviews of pre-shipment inspection and import licensing procedures can make a big difference in opening up access to the growing markets of low- and middle-income countries, where governmental reliance on pre-shipment inspection and import licensing to compensate for underdeveloped domestic customs administrations can sometimes result in unjustified trade barriers through commercial uncertainty and corruption.

- Negotiations for harmonizing the rules for determining the origin of internationally traded products are also due to be completed by July 1998. A harmonization agreement will significantly enhance commercial predictability and will reduce the ability of governments to manipulate origin rules as a means of "reclassifying" products under a higher tariff. For those U.S. industries which source their parts and components from around the world for production in various countries, these rules are critical to their ability to predict costs and conduct business.

- The launch this year of new negotiations 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 U.S. will push for broader and clearer reporting of state trading activities which will lead to a better understanding of the relationships between state trading enterprises (STEs) and governments and of the types of activities in which STEs engage. Due to our concerns about the state trading activities of other countries, especially in agricultural products, there is heightened scrutiny of STEs in the WTO.

We also have a full agenda of accession negotiations regarding the WTO. As always, we are setting high standards for accession in terms of adherence to the rules and market access. Accessions offer an opportunity to help ground new economies in the rules-based trading system. As I indicated earlier, 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 assure that China's accession to the WTO would 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 rules of law and international trade. Discussions so far on Russia's accession, while still at an early stage, have been quite positive and we look for more progress. We are excited about the prospects of the accession of many of the former Soviet Republics, and the Baltic States. Others, like Saudi Arabia and Vietnam, are also becoming more active.

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 negotiations on bribery and corruption, competition policy and transparency in government procurement.

Regional Efforts

Latin America and the Caribbean were the fastest growing market for U.S. exports in 1996. If trends continue, it will exceed the EU as a destination for U.S. exports by the year 2000, and exceed Japan and the EU combined by the year 2010. It is also 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. The Administration recognizes the enormous opportunity to build on this historic transformation.

With regards the regional agenda, the United States is committed not only to concluding the FTAA by 2005, but also to concrete progress by 2000. A May 1997 hemispheric trade Ministerial meeting is to determine how and when these critical negotiations will be launched, and a second Summit of the Americas will take place in Chile in early 1998. We are at a key juncture in this process. The President will be visiting the region in April and May of this year. We are now turning to the negotiating phase of the FTAA and believe that the second Summit of the Americas set for March 1998 in Santiago is the venue to launch the hemispheric negotiations.

Chile is our first step in the FTAA process. The region views what we do with Chile as a litmus test for our plans for the region. Chile is symbolic of the opportunities in the region and the region's rising strategic significance to our longer term economic interests. U.S. exports to Chile area up 148 percent since 1990. Chile is a leading reformer in Latin America and its kind of reform is in the economic interests of the U.S. to ensure a growing export market well into the next century.

At the same time, and with building the FTAA very much in mind, the Administration remains committed to Caribbean Basin Trade Enhancement and will be working with the Congress on legislation to accomplish this objective. We believe it is important to provide the countries of this vital region with the right kinds of incentives to be full participants in the FTAA effort while at the same time provide the most effective tools possible to assist them in this effort.

The Asia Pacific region is enormous in its scope and has major implications for the future of the United States in many ways. 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 27 percent annually, or almost $50 billion a year. More specifically, APEC is embarked on a program of early liberalization in key sectors. Sectoral initiatives, such as the ITA, will be critical to further anchor the United States in Asia through growing U.S. exports in key technologies. In addition, as a step towards the ultimate APEC goal, market-opening agreements with key economies (or 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 this region bursting with vitality and opportunity.

With Europe, our focus will be on non-tariff barriers which continue to impede transatlantic commerce, most particularly regulatory barriers and a variety of agricultural impediments. Approximately half of our $126 billion of merchandise exports to the EU require some form of EU certification in addition to U.S. requirements. Redundant testing and certification procedures increase the base cost of exports. Our business community strongly supports our current negotiations to complete Mutual Recognition Agreements (MRAs) to eliminate redundant testing between the United States and the EU. The areas under discussion include telecommunications, electronics, medical devices, pharmaceuticals and recreational craft. At the same time, we will be steadfast in our bilateral discussions and in the WTO to convince the EU to honor its commitments to U.S. agriculture. We recognize this is a major priority of the agricultural sector and it is a major priority of this Administration.

Africa is a region rich in resources and potential, which we should engage with determination to ensure its effective and sustainable development and democratic governance. We recently completed preparation of a report to Congress on the Administration's trade and development policies for Sub-Saharan Africa. There is an urgent need to integrate Sub-Saharan Africa into the international trading system. We also believe the achievement of this goal lies in African countries reforming their own economies and in our encouraging this process.

Bilateral agreements

We recognize that certain problems can only be addressed effectively, and with a degree of specificity necessary, on a bilateral basis. Thus, we will continue to be engaged in bilateral market opening efforts with virtually every country in which we have a trading relationship: from Japan on telecommunications, photographic film, paper and other issues, to Canada on copyright protection, to Argentina on patents, to Korea on autos -- the list is lengthy and significant. There should be no misunderstanding. Now, as in the past, market access in many cases will only occur through intense bilateral efforts. This includes the intense scrutiny necessary under our enforcement capacity.

**The Importance of Fast Track Authority**

We can pursue portions of our agenda with our existing tools. But, to seize the opportunities in the global economy and to fully meet the competition, the President needs a new grant of trade agreement implementing authority, or fast track. Fast track is a key component of our trade arsenal. For that reason, the President has emphasized the importance of renewing trade agreement implementation authority and has instructed me to work with members of both Houses and both parties to forge a strong and workable grant of fast track authority.

Clearly, this should not be a matter of party or politics. Every President since President Ford has had fast track authority for key periods. For over 60 years, reacting to the lessons of the Smoot-Hawley tariff, America has led the effort to open foreign markets and increase U.S. and global prosperity. When the GATT was first formed in 1947, global tariffs averaged 40 percent among industrial nations. Today - after decades of bipartisan American leadership - global tariffs are closer to 5 percent and still declining with the Uruguay Round phase-in, and we have set the rules for bringing down many nontariff barriers. That persistent market opening has led to a period of increased global commerce unprecedented in world history. It has created enormous opportunities for our companies and workers, provided a seedbed for democracy abroad and helped further greater stability in a still uncertain world. We should not turn our back on that pattern of leadership, which continues as recently as the completion of the ITA and the telecommunications pact.

There is no substitute for our ability to implement comprehensive trade agreements. The absence of agreed procedural authority to do so 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. Such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts.

**Fast Track and NAFTA in Context**

Mr. Chairman, let me spend a moment discussing NAFTA because I think it is very important to put it in the right context as we move forward.

There is no question that many important issues characterize our relationship with Mexico: trade, drugs, immigration, worker welfare and the environment, to name a few. Those issues existed before we negotiated NAFTA and they will exist in the future. Mexico is a developing country with which we share a huge border. It is inescapable that issues of this type will be part of our bilateral agenda for some time. NAFTA is not - and cannot be - the full, long-term solution to problems we may encounter, but by keeping Mexico on the path to prosperity through market reforms, it can be a part of the solution.

Mr. Chairman, the fast track debate is and should be about our ability to conduct a global trade policy - and to advance our global trade interests. Many of the issues in the Mexico debate relate to our shared and unique border. They do not address the need to seize the trillions of dollars in global infrastructure opportunities in Asia to be created in the next decade. They do not give us the tools to continue cutting European agricultural subsidies. They do not help us respond to preferential trading relationships, or exclusionary practices that limit the United States. We must focus on the challenges of tomorrow.

Our competitors would like nothing better than for us to sideline ourselves, debating NAFTA and our relationship with Mexico for several more years 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.

**Trade, Labor and 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 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 of the 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**

President Kennedy once described himself as "an idealist without illusions." I think that description captures well President Clinton's approach to trade. He, and those who work for him, genuinely believe that expanded trade can contribute to our prosperity, and to those around the world, particularly in the developing world where poverty is still widespread. But we have no illusions about the challenges ahead. Every trade barrier facing us is there for a reason: economic, political, bureaucratic, cultural. Some only want to export and not import. The competition around the world will continue to be intense. We have reasons to be confident, but only if we forge a domestic consensus that allows us to move ahead. We need to get down to business. The hard work of the past four years gives us only the opportunity to do the hard work of the next four.