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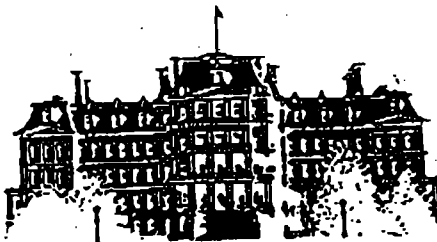
Vicky Radd Fast Track Sept. 10 evening

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7/11/97

Fast Track NEC pr.

PT
condit: most insid countries changed.
all exclusivity will be elim

Labour & Env.
Charles B right posit.

2 extremes: Rep. "no L or E" vs Dem "need sanctionable agr."

1) we embrace goals of Gopher, values. But

2) won't use fast track for that.

Don't need to ~~use~~ Amend us env. & labor laws, so don't need Congr. approval.

3) would be under us exec. authority, not trade treaty

4) Pres. will decide how to do it. NO cookie cutter

approach. By country & circum. Can ≠ M ≠ Rus...

i) side agreements? No. ^{2.e.} would not require as a ~~pre~~-condition? No.

ii) use trade sanctions to enforce L & E agrmt? NO
can say we'd use judicial processes in those countries.

Gene: Doesn't it leave us vulnerable to "you mean you'd do a trade deal with a partner (China) who has (slave labor) (child labor) (...). ..?!"

LS: There are 180 countries. We will be choosing suitable partners.

and can explain this.

Leon: ~~Trade~~ It Reps rule out labor env., can't address China prison labor.

Some of their proposals would be inconsistent.

Ch.B. Labor won't take anything. Mis-child. TAA, ..anything.

We'll need a sweetener (like TAA for the fence-sitters.

A(4.5

(1) Clean bill, with statem. of intent. or without (2)

(3) Accept other trade-related law. ^{add} statement of intent

(4) " " " " no statement of intent (B must mean)

will talk Mon. draft sum. over ruled.

Thurs 10:30 mtg with House Dems

USES OF FAST TRACK AUTHORITY

Our broad message regarding the uses of fast track authority should be built around three themes. First, trade expansion has been a key element of the Clinton economic strategy that has created 12 1/2 million jobs, brought core inflation to a 30-year low and created sustained economic growth that makes the United States the envy of the world. Second, as we enter the 21st Century, we need to be in front of world trade opening efforts, not lagging behind and losing market opportunities. Fast track is the critical tool allowing the President to pursue U.S. interests. Third, fast track will advance a coherent trade strategy built around four Presidential initiatives:

FTAA/Latin America: As the hemisphere integrates, the U.S. must not be left behind. Negotiating free trade with Chile is key to exerting American leadership in the FTAA process.

APEC/Asia: We should build on APEC's success by negotiating sectoral agreements in key areas that are springboards to global market opening (in the same way that the 1996 APEC Information Technology agreement led to the global agreement).

Africa: We would build on our Africa trade and investment initiative by indicating our readiness to begin free trade talks with South Africa when it is ready.

Multilateral: We would continue a 50-year record of American leadership in the GATT/WTO that has substantially lowered global trade barriers and contributed to a 90-fold increase in world trade. Upcoming WTO talks in key areas like agriculture, services, intellectual property right and government procurement offer large opportunities to reduce foreign barriers, creating opportunities for American companies and workers.

The Principals also addressed other issues relating the uses of fast track:

Emphasis on Latin America: Despite NAFTA sensitivities in Congress, the Principals felt we must forthrightly make the case for the FTAA and continued Latin American trade expansion, as it is an integral part of our agenda and buttresses our broader themes of global leadership and market opening. However, they recognized that talk of Latin trade can be used by fast track opponents, who seek to make this debate a referendum on NAFTA. Our message therefore might present less controversial negotiations first (e.g., sectoral agreements, which do not raise labor/environment issues), then emphasize Latin American and other regional initiatives.

Additional Bilateral Free Trade Agreements (FTA's): Beyond Chile, Principals felt we should not signal intention to conclude other Latin American FTA's during your Administration. This will alleviate concerns about more controversial FTA's (e.g., Brazil) but, since it risks having our agenda appear small, underscores the need to present Chile as part of a broader, hemispheric process. Regarding Asia, the Principals do not favor negotiating free trade agreements, preferring to focus on sectoral liberalization in APEC. Most countries would be too controversial and/or are not ready for such talks (China, Japan, Korea). Australia and New Zealand have the advantage of not presenting labor/environment problems, and Singapore has a relatively high per

capita income and is a gateway to ASEAN. However, Australia and New Zealand could draw opposition from U.S. agriculture interests (e.g., dairy, sugar) and Singapore could draw human/labor rights opposition. Therefore, we would indicate we have no present intention of pursuing these talks. Of course, we would leave some flexibility for you to pursue negotiations not presently envisioned, after Congressional consultation.

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John D. Montgomery
07/17/97 02:54:00 PM

Record Type: Record

To: Jeffrey A. Frankel
cc: Caroline Thompson
Subject: Fast track

Message Creation Date was at 17-JUL-1997 14:54:00

Jeff,

There is a principals meeting tomorrow on fast-track. (Are you attending?) This is a follow-up to a meeting held yesterday, which Janet and I attended. In preparation for tomorrow's meeting, she asked me to give some thought to what CEA's position on various fast-track related issues should be. This e-mail describes yesterday's meeting and some of the outstanding issues. Could you please give me your views, or can we talk?

Yesterday's meeting was chaired by Tarullo, and attended by Berger, Rubin, Summers, Eizenstat, Daley, Herman, Sperling, McClarty, and Barshefsky, among others. Tarullo said that he wanted to decide on what to present to Congress by the end of the week, so he could present it to the President over the weekend.

Given that timetable, I was surprised at the amount of uncertainty and disagreement in the room. Barshefsky made a pitch for FTAs negotiations with Chile and with some Pacific countries (Australia, New Zealand, Singapore, and maybe the Philippines), with the FTAA in the background but not formally part of the fast-track request. South Africa is a fainter possibility. She also pitched for a set of sectoral liberalization initiatives (a la ITA), which they are currently proposing to APEC. (The U.S. proposals in APEC are chemicals, energy-related equipment and services, oilseeds and oilseed products, and automotive initiative, and MRAs in telecommunications and information technology equipment. Other countries may also make proposals.) Finally, she said the built-in agenda in the WTO would require fast-track. This includes agriculture and services.

Eizenstat suggested FTAs with Central Europe. Berger questioned the approach of choosing trade strategies based on political support (which was one reason Eizenstat suggested Central Europe and Barshefsky suggested Australia/New Zealand and the Philippines) rather than on economic [and strategic?] benefits. Summers gently suggested that we ought to have a sense of our longer term trade negotiation strategy, especially regarding when and whether to have a new GATT negotiating round. Berger noted that the President wants an FTAA, so Latin American shouldn't be forgotten, despite the greater (NAFTA-related) political opposition. Barshefsky noted that the success of sectoral initiatives depends on Europe's attitude, but Leon Brittan has stated that any new sectoral initiatives (except an extension of the ITA) must wait until the initiation of a new round, to which Summers replied that maybe we should focus

on a new round, but Tarullo said that probably was premature. Barshefsky said that we will want the fast-track bill to have enough flexibility to accommodate proposals in 1998 or 1999 to start a new round, without the bill being specific about a new round.

My sense is that these issues are still open, and may be revisited at the principal's meeting on Friday. (Are you planning to attend this?) It is unfortunate that we have not been invited to participate in the working group chaired by Bob Kyle on this issue. We could have improved the clarity of thinking on fast-track.

The meeting ended with a discussion on labor and environment, which is to be continued on Friday. The "Gebhardt" approach of making labor standards a trade practice actionable under Section 301 and WTO dispute settlement is a non-starter (fortunately) in Congress, because Republicans would not vote for it. Republicans may agree to an approach of allowing language on labor and environment if it specifically pertains to trade (e.g., an environmental regulation used as a discriminatory trade barrier). However, the GOP doesn't trust the Administration to carry this out in good faith and not bend the letter of the law or negotiate side-agreements (which don't have to be approved by Congress).

For the meeting on Friday, we need to:

1. Formulate our view on labor and environment, so Janet can present them. I would think our view should be that labor and environment should be in trade negotiations only where there are specific connections to trade issues.
2. Decide whether we can add anything to the type of negotiations that should be covered by fast-track authority. I would like to see us throw some cold water on the politically easy but economically (relatively) unproductive approach of USTR of focussing on bilateral FTAs and sectoral negotiations. (Think of the horrendous rules-of-origin problems that an FTA with Singapore would create.) I think we should push for a clear strategy for moving to a new round where some progress could be made on: (a) barriers in protected sectors like foodstuffs and textiles and apparel, (b) anti-proliferation agreement on AD/CVD, and (c) trade and competition policy.

John

P1'

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Dear Jeff:

Enclosed is a copy of my testimony on fast track legislation to the Senate Finance Committee on June 3. It makes a strong case for urgent action in granting such authority and proposes its use to achieve a Free Trade Area of the Americas, free trade in the Asia Pacific region through APEC, and a new multilateral round in the World Trade Organization.

I hope you will find the statement to be of interest. I would be delighted to talk about it if you would like to do so.

- Ex officio*
- * C. Fred Bergsten
- Richard N. Cooper
- Honorary Directors*
- Alan Greenspan
- Reginald H. Jones
- Akio Morita
- George P. Shultz

Sincerely,

C. Fred Bergsten
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* *Member of the Executive Committee*

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Enclosure

**THE NEED FOR NEW
FAST TRACK LEGISLATION**

Statement by

C. Fred Bergsten*
Director
Institute for International Economics

Before the Committee on Finance
United States Senate

June 3, 1997

The American economy can reap enormous benefits from new international trade initiatives that reduce foreign barriers to our exports. Implementation of such a strategy requires Congressional renewal of fast track negotiating authority, which is one of the most beneficial steps the Congress could take this year to help our economy. Provision of such authority is extremely urgent because our competitors around the world are taking advantage of the absence of American activity, because opportunities for pursuing beneficial trade initiatives abound, and because other countries will not negotiate with us in the absence of fast track. I will briefly elaborate each of these three statements on the view that they should provide the focus for American trade policy in 1997 and because they make a powerful case for prompt Administration initiative and early Congressional action.

* Also Chairman, Competitiveness Policy Council and Chairman, APEC Eminent Persons Group throughout its existence 1993-95. The views expressed in this statement are those of the author and do not necessarily reflect the views of individual members of the Institute's Board of Directors or Advisory Committee.

Trade and the American Economy

The main problem facing the American economy is the slow growth of average living standards over the past generation. Our economy has created 50 million jobs over the past 27 years and we are essentially at “full employment.” But the median family income remains virtually unchanged from the 1970s. The average real wage has been flat for almost twenty years. Our cardinal economic problem is to create better jobs with higher wages and benefits.

Trade provides an important part of the solution to that problem. Export jobs pay 10-15 percent more than the average wage. Productivity in export firms is 20 percent above the norm. Exporting firms expand their employment about 20 percent faster than others and are 10 percent less likely to fail. Small and medium-sized firms account for 70 percent of these results.¹

The rapid export expansion of the past decade has come largely in high-wage manufacturing industries. Since 1992, a majority of our manufacturing workers have been employed in plants that export. The export surge has almost stopped the decline of unemployment in the manufacturing sector (see chart 1). A continuation of recent trade trends could restore net growth in manufacturing jobs within the next few years. It could even restore their previous (1979) peak in the first decades of the next century.

Increased globalization thus provides substantial benefits for American workers and the American economy. Indeed, the competitive pressures generated by globalization are an important element in our ability to maintain price stability and thus to push unemployment far below levels considered “safe” by most economists only a few years ago. Moreover, the increase in imports that comes with globalization is often extremely helpful to our poorest people; the

¹These and other data are derived in J. David Richardson and Karin Rindal, *Why Exports Matter: More!*, Washington: Institute for International Economics and The Manufacturing Institute, 1996.

long-standing quotas on apparel, for example, have been robbing the lowest quintile of our population of fully five percent of their total incomes.²

To be sure, we must undertake a series of domestic steps to empower our people to take full advantage of the opportunities provided by globalization.³ The most important are better education for all Americans and continuous training for our work force.⁴ In addition, we must provide an adequate safety net to cushion the transition for those whose lives are disrupted by rapid economic and technological change--which is accelerated, though not primarily caused, by globalization. But these efforts would be needed even if we had no trade, and globalization enables our society to exploit their benefits to the maximum possible extent. There is no reason to settle for more modest returns on our investment in education, training and the safety net when global integration offers such handsome benefits.

The Crucial Importance of Trade Negotiations

Even if we do everything right at home, such benefits are available only if we continue to succeed in breaking down barriers to our exports abroad. The United States now has an enormous opportunity to do so because we face a hugely asymmetrical international situation. On the one hand, we have already eliminated virtually all impediments to foreign access to our own market.⁵ On the other hand, most other major economies--particularly the large and rapidly

² William R. Cline, *The Future of World Trade in Textiles and Apparel*, Washington: Institute for International Economics, second edition, July 1990.

³ See Dani Rodrik, *Has Globalization Gone Too Far?*, Washington: Institute for International Economics, March 1997.

⁴ See the several reports of the Competitiveness Policy Council to the President and Congress, especially *Building a Competitive America* (March 1992) and *A Competitive Strategy for America* (March 1993).

⁵ American's remaining barriers, after full implementation of the Uruguay Round agreements, carry a net economic cost of only about \$10 billion in an economy of more than \$7 trillion. See Gary C. Hufbauer and Kimberly Ann Elliott, *Measuring the Costs of Protection in the United States*, Washington: Institute for International Economics, January 1994.

growing markets of Asia and Latin America--continue to impose substantial restrictions on our (and others') sales to them. "Reciprocal" liberalization in the future thus essentially means that other countries reduce their barriers to, or at least toward, our low level. The best way for the United States to achieve truly fair trade is thus to negotiate free trade with our most important trading partners.⁶ The only way we can achieve a level playing field is to induce them to emulate our past liberalization.

This is the right time to make such an effort. The American economy is strong and vibrant. (From a domestic political standpoint, now is therefore the ideal time to address and pass new trade legislation.) Our chief competitors, in both Europe and Japan, are suffering from prolonged economic sluggishness and loss of self-confidence. It would be tragic if we failed to seize these opportunities to further improve America's global economic position and thus our domestic economy.

The Reagan, Bush and Clinton Administrations have pursued American interests effectively and courageously by negotiating an ascending series of liberalization arrangements. The initial free trade treaties were with Israel and Canada in the middle 1980s. Mexico was added via NAFTA in the early 1990s.⁷ Global progress was made simultaneously in the Uruguay Round.

The greatest potential lies ahead, however. Building on President Bush's proposed Enterprise for the Americas Initiative, President Clinton agreed at Miami in December 1994 to

⁶ As proposed in my "Globalizing Free Trade," *Foreign Affairs*, May/June 1996.

⁷ Some critics have argued that recent American trade liberalization initiatives have been a failure because of the sharp deterioration of our trade balance with Mexico. That deterioration was caused by the Mexican macroeconomic and financial crisis, however, which had little to do with NAFTA. In fact, NAFTA shielded the United States from an even greater impact from the Mexican crisis by deterring Mexico from responding (as in the past) by erecting new widespread new import controls and by exempting the United States from those new controls which it did impose.

create a Free Trade Area of the Americas (FTAA). In Indonesia a month earlier, he agreed at the second annual APEC summit to achieve "free and open trade and investment in the Asia Pacific region" by 2010 (for the advanced countries that account for about 90 percent of APEC trade, by 2020 for the rest). Building on another Bush initiative, the Administration agreed at the end of the Uruguay Round to pursue further global liberalization in agriculture, services and several other key sectors over the coming years in the World Trade Organization.⁸

Other countries are clearly ready to liberalize further and it would be irrational for the United States to fail to join them. The APEC trade ministers met in Montreal in April and, building on APEC's crucial role in achieving the Information Technology Agreement (ITA) last year, agreed to pursue an ITA II, an accord on financial services in the WTO by the end of 1997, and a series of new sectoral initiatives. New Zealand has accepted the Administration's invitation to pursue a bilateral free trade agreement with the United States--which could catalyze similar agreements throughout the region, perhaps starting with Australia and Singapore, and APEC-wide liberalization as a whole. Chile, the Central Americans and the Caribbean countries are anxious to engage in trade-liberalizing pacts with the United States.

Most importantly, the members of the World Trade Organization agreed to pursue a series of major new global negotiations in the concluding act of the Uruguay Round and reaffirmed that program at their initial Ministerial Conference in Singapore last December. This "built-in agenda" includes such items of central interest to the United States as agriculture, services, and investment and competition policy. The European Union's chief trade negotiator

⁸ Details are in Jeffrey J. Schott, editor, *The World Trading System: Challenges Ahead*, Washington: Institute for International Economics, 1996.

and a number of important countries are advocating the early launch of a new "Millennium Round" in the WTO to address the whole range of outstanding trade policy issues.

The Administration can pursue most of these initiatives only with the provision of fast track negotiating authority by the Congress. Without fast track, the United States will be unable to reach agreements with other countries because they would fear that Congress might impose crippling amendments and thus essentially reopen the negotiations. Even Chile, whose President Frei recently addressed the Congress eloquently on these issues, will not deal with the United States in the absence of such authority (but has made agreements with Canada, Mercosur and others which carry tangible disadvantages for the American economy). APEC's initial effort to launch its liberalization program got off to a slow start last year in part because the United States was unable to move and other countries were unwilling to do so in our absence.

The exceptions prove the rule. The United States was able to lead two major successful trade negotiations over the past year, the Information Technology Agreement and a deal on basic telecommunications services in the WTO. Each eliminates barriers on over \$500 billion of trade in two of the world's most dynamic sectors. Both are hugely in the interest of the United States and were strongly promoted by American companies. But they were possible only because the Administration did not need new negotiating authority for them.

The Urgency of Action

It is extremely urgent for the Congress and the Administration to work out new fast track authority. World trade and investment patterns are moving and shifting at breakneck speed. Other countries and groupings are rapidly filling the void left by the American inaction (with the

two exceptions cited above) of the past two years. We run a serious risk of being left behind if we do not quickly re-engage. Examples abound:

- Tired of waiting for the United States, Chile has struck bilateral free trade deals with Mercosur and Canada (including a total phaseout of antidumping rules and legitimization of continued capital controls). The United States is already losing sizable sales because Chile's new preferential arrangements discriminate against our exports.
- Mercosur, already the third largest trading bloc in the world, is consolidating virtually all of its neighbors into a South American Free Trade Agreement and will continue to do so as long as the absence of negotiating authority blocks us from engaging its members in serious negotiation to achieve an FTAA. It would be an enormous historical irony if the US initiative to launch an FTAA had the effect of enabling Brazil to assemble a South American grouping that was permitted, through our own failure to follow up, to build such vested interests in Mercosur itself that the South American countries lost all interest in pursuing the original idea of hemisphere-wide integration.⁹
- The subregional arrangements in Asia, notably the ASEAN Free Trade Area, have accelerated their own liberalization timetable and will thus increasingly discriminate against us unless we are able to energize APEC to bring down barriers across the entire Asia Pacific region.

⁹ For the history to date see Richard Feinberg, *Summitry in the Americas: A Progress Report*, Washington: Institute for International Economics, April 1997.

- Prolonged American absence from implementation of APEC's liberalization goals could revive interest in an Asia-only arrangement along the lines of Malaysian Prime Minister Mahathir's proposed East Asia Economic Caucus (EAEC).
- The European Union is doing deals throughout the world, including with Mercosur and East Asia, which are only consultative at this point but could become much more substantive if the United States continues to dither.

Hence we delay at our peril. The time has long passed when the world would simply wait for the United States to act. The Asians, Europeans and Latin Americans have all become major autonomous players in the world economy. They will move on without us if we are not ready.

At the same time, American leadership is essential to push the global trading system in the most constructive directions. We simply must get back in the game if we are to protect our own interests, and to exploit the opportunities to achieve the enormous future benefits described above.

Some Specific Proposals

I believe that the Congress should in fact authorize permanent fast track negotiating authority when it considers the issue later this year¹⁰. For the reasons already cited, it is simply too costly for any President to be without such authority for any prolonged period of time. The United States is in a state of continual negotiation on trade and related issues, with a wide variety of countries, and should be fully equipped for the effort at all times.

At the same time, the Congress must of course be in on the takeoff as well as the landing for all significant trade negotiations. Hence I recommend that the President be given general

¹⁰ See I.M. Destler, *American Trade Politics*, Washington: Institute for International Economics and Twentieth Century Fund, 1995, p. 263. For more details, see Destler, *Fast Track Authority for Trade Negotiations*, Washington: Institute for International Economics, forthcoming September 1997.

authority to negotiate but that he be required to seek prior Congressional approval to enter into any major new initiative.

The previous fast track authority required the President to notify the Congress of his intention to launch any such effort and empowered this Committee, and the House Ways and Means Committee, to disapprove any such Presidential proposal. This Committee almost did so in 1986 in the case of the United States-Canada Free Trade Area. No Congressional action was taken with respect to the subsequent launch of NAFTA, however, which undoubtedly added to the difficulty of achieving its approval after the agreement was completed. The Congress as a whole should vote in advance to approve any major negotiation, within the time periods after submission of Presidential proposals required in the past, thereby making it a full partner in initiating the entire process and justifying the grant of permanent authority to follow fast track procedures in approving agreements after they are negotiated.

The new legislation should provide the President with broad authority to pursue all of the opportunities cited above: a Free Trade Area of the Americas, "free and open trade and investment" by 2010/2020 in the Asia Pacific region via APEC, and the built-in agenda (or a new "Millennium Round" to achieve global free trade) in the WTO. Expiration dates should be set for each authority to provide effective deadlines for the respective negotiations.

Objections will immediately be raised that it would be premature to envisage such far-reaching negotiations at this time. Even supporters of the ideas proposed here might argue that there will not be enough time to do so with the legislation to be submitted only in September and a goal of completing action on it by the end of the year. The problem of course is that minimal negotiating authority will lead to minimal negotiations, perhaps limited to Chile and a few other

bilateral agreements. This would condemn the United States to continued failure to follow through on its own initiatives, in Latin American and Asia as well as globally, and thereby to cede leadership to others to an increasing degree--despite the strength of our economy and competitive position. Now is the time for the United States to move ahead boldly rather than to waver and procrastinate.

In practice, none of these three major sets of negotiations are likely to proceed very soon. The internationally agreed dates are all some distance in the future: 2005 to work out the FTAA, 2010 or 2020 to reach APEC's goal, 1999 to start the next set of wide-ranging talks in the WTO. The United States could expedite them by reaching earlier agreements with Chile (en route to an FTAA) and with New Zealand (en route to APEC) and should have the authority to push these processes (and the WTO) as fast as the international traffic will bear but there will be plenty of time for the Congress to consider each negotiation in detail before approving US participation in it.

The proposed approach would also help deal with the currently vexatious problem of how the fast track legislation should address the question of the country's negotiating objectives. I believe it is a mistake to generalize; different negotiations with different sets of countries at different times may call for very different US aims. The Clinton Administration, for example, despite its insistence on including labor standards and environmental concerns in any new trade legislation, publicly announced in late 1994 that it would not raise those issues in APEC and has not done so.

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The new general negotiating authority should leave such issues open, ruling them neither in nor out. Specific US objectives could then be devised for each specific negotiation starting with those proposed here, worked out with the Congress in that context, and pursued accordingly.

If it turns out to be necessary to address the substance of those issues in the upcoming legislation, a three-part set of objectives could be adopted for both labor and environmental concerns under which the Administration would be instructed to make every effort to:

- achieve multilateral agreements on the basic standards in question, in the ILO for labor and à la Montreal Protocol (on CFC emissions) for the environment;
- improve enforcement of those multilateral standards through their own institutions, as in the ILO's recent program on child labor in Bangladesh; and
- authorize the use of trade remedies to enforce those multilaterally agreed accords, as was successfully threatened when Korea initially failed to comply with the Montreal Protocol, subject to the trade procedures of the WTO itself.

recalling

One other key issue is whether "nontrade" elements of the legislation that approves trade negotiations, under fast track authority, should also be handled under fast track procedures, i.e., without amendment and under firm time limits. This issue arose with the Uruguay Round legislation in 1994 because of its "pay-go" budget provisions and related policy questions.

It would be preferable to waive the "pay-go" provisions for trade legislation. Reductions of trade barriers clearly add to our economic activity and thus strengthen rather than weaken the Federal budget position.¹¹ If the basic requirement must be retained, it would be desirable to permit amendments to the specific budgetary provisions of the legislation as long as they yielded

Vance Schwarz

¹¹ See William R. Cline, *Impact of the Uruguay Round on US Fiscal Policy*, Washington: Institute for International Economics, March 1994.

the same net impact on the federal deficit. However, it would still be essential to retain the timing deadlines or the whole process would founder.

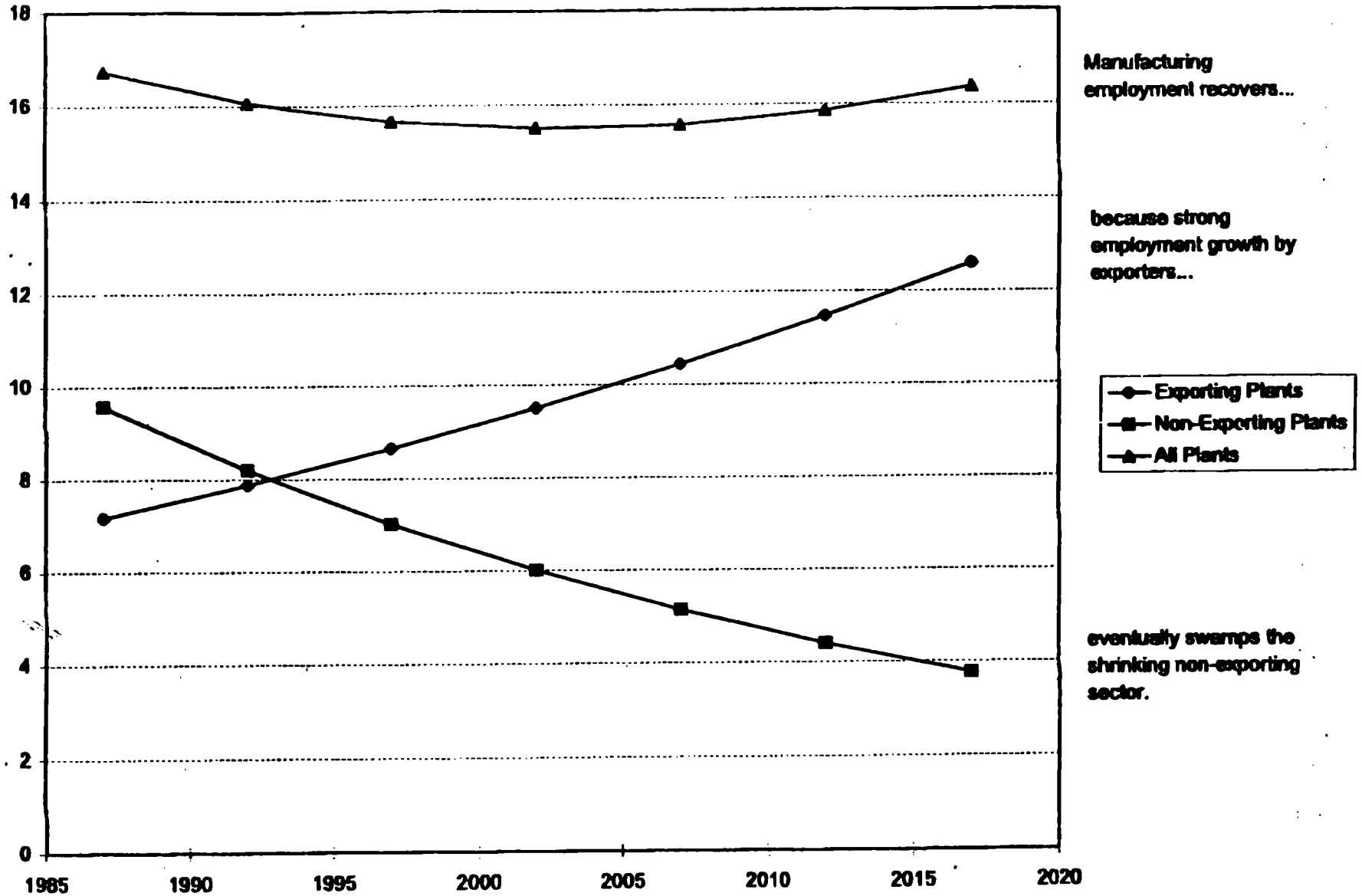
Conclusion

The fast track process has proved its worth for over twenty years. Under its procedures, the United States maintained its leadership of the world trading system by negotiating successful conclusions to the Tokyo Round and the Uruguay Round in the GATT. We achieved free trade in North America through successive agreements with Canada and Mexico.

The future prospects are even brighter, for the reasons outlined above. Sharp reductions, and eventual elimination, of barriers to our exports in the world's most dynamic markets in Asia and Latin America are within our grasp. Enormous gains to the American economy and American workers would result. Fast track authority is necessary if we are to seize these opportunities. There are few steps that the Congress could take this year that would be as helpful to the American economy.

In view of all this, I urge the Administration to effectively carry forward the commitments made repeatedly by President Clinton to make fast track one of his highest priorities in 1997 and to recognize that it must compromise on the labor and environmental issues in order to do so. I urge the Congress to then provide the new negotiating authority as soon as possible. It is imperative to move forward on the bipartisan basis that has, with so much benefit to the country, characterized American trade policy for the past 60 years.

Chart 1
Total Jobs and Job Growth for Exporting and Non-Exporting Plants
1987-1992, with 5-Year Projection Through 2017
(in millions of workers)



In his speech, Gore said the U.S. needs to do three things to sustain the economic growth. They are elimination of the federal deficit; investment in education, new technologies and environmental protection; and seizing the benefits of "reciprocal free and fair trade," Gore said. She said as the summer proceeds there will be "more and more" efforts by Gore and President Clinton to highlight the importance of trade.

Gore emphasized that the U.S. cannot turn away from the policies of open markets, despite the fight that both parties have over this policy.

"Let me just say, if protectionism was wrong in the Industrial Age, in the time of Smoot-Hawley, it is just plain dangerous in the Information Age," he said. At a time when knowledge is the most important component of national success, America should embrace fair and free trade with open arms, he said. "It is one of the three essential components that is allowing us to have this prosperity with a closing gap between rich and poor while inflation declines and encourages more investment so that we can have even higher standards of living in the future."

Gore said the Administration's policies face opposition from "organized foes" who would push the U.S. back to outdated economic policies.

At the hearing, several members of the committee warned Barshefsky that obtaining fast track will mean a tough fight. Ranking member Lee Hamilton (D-IN) said President Clinton will have to weigh in with members of Congress as he did for NAFTA and the Uruguay Round agreement. Rep. Bob Clement (D-TN) said he did not think there are sufficient votes to pass fast track, and said the Administration was probably "correct" in delaying the proposal for the fall.

"Many who voted for NAFTA are not ready yet to vote for fast track," Clement said. Those members first need answers on how NAFTA is working, he said.

Barshefsky disputed the notion that the Administration would be better off to seek congressional approval of a trade agreement with Chile than a fast-track bill. "It might be easier to enact a Chile [trade agreement] bill than a fast track for Chile, but that assumes that fast track is only for Chile, which it is not," she said. "But the Chilean government itself has told us they will not negotiate without assurance that Congress cannot renegotiate [the agreement], in part because of the sensitive agriculture issues that would arise in the negotiations."

Barshefsky said there are several problems with agricultural market access as well as an issue related to Chile's investment regime.

The Administration is seeking fast-track authority for multilateral, regional, bilateral and sectoral trade agreements, she said. Sectorally, the U.S. wants to pursue initiatives on medical equipment and environmental technology, where the U.S. is the world leader, she said.

Barshefsky said that fast-track negotiating authority gives the U.S. more options in reaching trade agreements than it would otherwise have. "As a policy, the U.S. must be in a position to look at an economy, and look at a sector and pry open markets on a much more sustained, consistent basis," she said. This means "not always using the stick of threatened trade sanctions, but the carrot of a perceived closer relationship with the U.S."

Failure to obtain fast track would show up immediately in the Administration's inability to strike a trade agreement with Chile, she said. That, in turn, would send a "signal to our hemisphere that the U.S. will not be engaged in as forceful a manner as the hemisphere had hoped," Barshefsky said.

UNION PRESIDENTS VOW TO FIGHT FAST-TRACK BILL WITHOUT LABOR RULES

The President of the AFL-CIO and a group of union presidents this week told White House chief of staff Erskine Bowles and senior Administration economic advisors that they will mount a major campaign against any fast-track bill that does not provide for labor rights to be included in future trade agreements, according to informed sources. The group emphasized that trade agreements that are acceptable to union members must take into account the interests of working families, not favor corporations the way the North American Free Trade Agreement does, these sources said.

The union presidents expressed their "deep reservations" about NAFTA, and emphasized that it should not be used as a model for future trade agreements, one source said.

Bowles did not use the meeting to lay out the kind of fast-track authority the Administration would seek, but instead insisted that the NAFTA on balance is a successful trade agreement, these sources said. He also pointed out that the current economic situation, characterized by low unemployment and increased exports, benefits workers, these sources said.

Bowles also conveyed the message that if the unions do not fight the Administration over fast-track authority that does not explicitly include labor standards, the White House would take into account union issues, sources

yet, waiting until September could seriously hurt the chances of passing fast track at all.

"I think that by delaying action until the fall, the Administration runs the risk that we will not be able to complete fast track this year or next," he said. "[I]f there is any hope of getting fast track done before the end of this year, the President must begin to lay the groundwork now, and not wait until September to start the difficult work with Congress."

Roth said he is "disappointed" that the Administration has not presented a fast-track proposal, and that reauthorizing fast track is one of his "top trade priorities."

In response, Barshefsky said the Administration does not believe that the chance of passing fast track "dwindles" after September, and noted that NAFTA was passed in a short span of time in 1994. In addition, she said she has already met with over 150 members of Congress to consult with them and explain the need for fast track. But Barshefsky added after the hearing that she did not use those consultations to win or even count votes.

"We haven't tried to round up votes," she said. "I met with 150 members and have not asked one where they stand on fast track or any special formulation of a proposal. I've been laying groundwork. This is not a question of counting votes or counting heads."

In response to a question from Sen. Bob Graham (D-FL), Barshefsky said she did "not want to put a date" on when the Administration might forward a fast-track proposal to Congress. She also said the Administration would not "pop in a bill" without first preparing Congress.

Specifically, Barshefsky said in the hearing that the Administration will likely seek broad fast-track authority that can cover three distinct areas of trade. The Administration wants the ability to cover multilateral agreements, such as the upcoming agriculture and services talks in the World Trade Organization; sectoral agreements both inside and outside of the WTO, such as the information technology agreement, which need fast track authority for implementation; and free trade areas with other countries.

On the ability to negotiate agreements with other countries, Barshefsky said the Administration does not intend to request authority for a single country. Instead, it will propose a flexible system that will allow the Administration to pursue talks with any country following "very substantial preconsultations" with Congress.

"Provided there is adequate consultation and provided that senatorial prerogatives are adequately taken care of, we would like to see authority that is as broad as possible," Barshefsky said.

But she added that the exception to preconsultations would be in the case of Chile, because that negotiation is already well known to members of Congress. Barshefsky declined to comment after the hearing whether the Administration is looking to add Chile to the NAFTA, or whether to simply negotiate a bilateral agreement with that country.

She also added in response to a question from Sen. John Breaux (D-LA) that the Administration is considering the development of a list of likely countries with which it might seek to conclude trade agreements. But she said such an effort could be "a bit of a complication" because it could limit the Administration's choices in the future.

In response to a question from Sen. Charles Grassley (R-IA), Barshefsky said that the absence of fast track has not seriously hurt the U.S. in multilateral forums such as the Free Trade Agreement of the Americas (FTAA) and the Asia-Pacific Economic Cooperation forum. For example, FTAA negotiators have decided to begin formal talks in March of next year, which means having fast-track authority will only be crucial at that time, she said. Similarly, the U.S. is "not prejudiced" by not have fast-track authority in APEC, she said.

However, she said fast track authority is generally needed to allow the U.S. to participate in trade agreements that could otherwise discriminate against the U.S. She highlighted that many Latin American countries have concluded agreements with other countries in the hemisphere that have the potential of excluding U.S. goods and services.

In a related development, Special Representative to the President for the Americas Thomas McLarty said in June 3 speech in Lima, Peru, that the Administration's goal is to have the fast-track bill passed and have advanced trade negotiations with Chile by the time the second summit of the Americas convenes in March 1998.

Two senators in particular criticized the Administration for insisting on linking trade with labor and environmental goals in trade agreements. Roth said he had no objection to the Administration seeking separate labor and environmental accords, but said he objects "most strongly" to the use of fast track to pursue those goals as they are "inconsistent" with trade agreements.

Sen. Phil Gramm (R-TX) also guaranteed that no "blanket authority" on labor and environment would be granted by Congress.

"I want to be a strong leader for fast track, but to do that, we have to be sure it won't be used for labor and environmental purposes," Gramm said. "We see the possibility of massive environmental agreements [over which] we would lose the power of unlimited debate in the Senate" if fast track authority covered environmental issues, he said.

Roth also brought up the point that Sens. Gramm and Richard Lugar (R-IN) have proposed that the fast track bill include only "necessary" provisions, as opposed to "necessary and appropriate." Barshefsky said she did not have a position on that issue, and said the Administration will weigh these and other proposals on that subject in

and importers of textiles and apparel staunchly oppose this so-called "ratcheting-down" of Single Limit quotas whereas U.S. textile makers and unions strongly support it.

Two other approaches for liberalizing textiles and apparel trade with the CBI -- a draft bill under negotiation between textile, apparel, importer and retailer associations and a bill introduced in the last Congress by Ways & Means trade subcommittee Chairman Phil Crane (R-IL) -- do not include a "ratchet-down" provision (*Inside U.S. Trade*, May 30, p. 1).

U.S., EU FAIL TO SETTLE KEY ISSUE IN TEXTILE RULES OF ORIGIN DISPUTE

The U.S. and the European Union this week failed to resolve the major sticking point in their fight over U.S. rules of origin, which the EU charges have impaired its exports to the U.S. The U.S. refused to change the rules of origin to accommodate EU exports of printed and dyed cotton fabric, and as a result the two sides are likely to begin the formal dispute settlement proceedings under the World Trade Organization next month.

The U.S. and EU will hold new talks in the week of July 14, "probably" as formal consultations under WTO dispute settlement rules, according to a senior Administration official. The EU requested these formal consultations on May 22 because of the U.S. failure to address the problems the EU charges are facing its cotton fabric exports as a result of the 1996 rules of origin changes (*Inside U.S. Trade*, May 30, p. 7).

"We are still talking about it [the problem]," the senior official said. "We are looking into their request."

But the official said the U.S. will not change its new rules of origin, and has made that clear "upfront" to any country which has complained about them. The U.S. does not feel the EU trade in cotton fabric has been damaged by the rules, since EU trade with the U.S. in the disputed fabrics is growing, the official said.

Under the 1996 rules, printed and dyed cotton fabrics no longer are considered products of the EU. Instead, they are the product of the country that produced the raw material, and require an allocation in the quotas that govern the trade of these countries with the U.S.

The U.S. has refused to deal with the cotton issue by insisting that the EU has not demonstrated any trade damage. In contrast, the U.S. has offered to deal with the other problems caused to EU products by the rules of origin change.

In April, the U.S. has offered the EU to change its marking requirements for silk scarves to ensure they are not labeled as a product of China. Earlier, the U.S. agreed to address trade problems caused by the rules for three categories of synthetic fabrics.

EU industry sources have pointed out that the U.S. argument that very little cotton fabric is affected by the rule change could open the door to an informal gentlemen's agreement that would consider the product in question to originate in the EU.

BARSHEFSKY CALLS FOR FLEXIBLE LABOR, ENVIRONMENT FAST TRACK TERMS

U.S. Trade Representative Charlene Barshefsky this week said the Clinton Administration places great importance on enhancing labor and environmental standards, but wants flexibility in handling these issues in upcoming trade agreements to be authorized by new fast-track trade negotiating authority.

"If you negotiate with some countries, the issues of labor and environment may be very important, with other countries perhaps less important," Barshefsky said after a June 3 Senate Finance Committee hearing.

"The only question is...how do we maximize progress on the full range of issues that the United States has [an interest in]," Barshefsky said in the hearing. She cited U.S. interests in "economics, interest in the environment, interest with respect to worker rights and worker welfare [and] other interests -- institution building, drugs."

Barshefsky added that labor and environmental issues comprise the "single most difficult set of issues" in the fast track debate because of ideological divides between and within the Republican and Democratic parties.

During the hearing, Barshefsky came under repeated attack by Senate Finance Committee chairman Bill Roth (R-DE), ranking member Patrick Moynihan (D-NY) and other committee members for the Administration's decision to delay introducing a fast-track bill until September. But Barshefsky defended that decision by saying the Administration decided the best chance for passing fast track this year was to wait until the fall.

"It was the unanimous view of members of the Cabinet to introduce fast track in September, and this was communicated to the President and the Vice President," she told the senators. "The reason is that fast track will take substantial presidential time, along the lines of the time spent on passing [the North American Free Trade Agreement]."

Waiting until September would allow Clinton and Gore to spend the necessary time on lobbying fast track, since efforts on the budget and most-favored nation status for China will have passed by then. She also added that there is "no question that the White House is committed to fast track."

But Roth contradicted her by saying that while the window of opportunity for passing fast track has not closed