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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Friday, September 26, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below
FROM: *Ronald K. Peterson*
OMB CONTACT: Ronald K. Peterson (for) Assistant Director for Legislative Reference
Annette E. Rooney
PHONE: (202)395-7300 FAX: (202)395-5691
SUBJECT: COMMERCE Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)
DEADLINE: NOON Monday, September 29, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

* COMMENTS: If you do not respond by the deadline, we will presume that your agency has no comment.

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EOP:

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Louisa Koch
Randolph M. Lyon
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Mark A. Weatherly
Robert J. Tuccillo
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**RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM**

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Annette E. Rooney Phone: 395-7300 Fax: 395-6691
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FROM: _____ (Date)
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The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this response sheet

DRAFT

2:00PM/9/26/97

Testimony of Secretary Daley
before Senate Commerce
Sept. 30, 1977

Thank you for the opportunity to appear before this Committee on the President's request for fast track legislation. Under your leadership, Chairman McCain, this Committee has taken an increasingly active and important role in trade matters. Let me open my remarks today by pledging to work very closely with you and the Members of this Committee at all stages of negotiations on future trade agreements pursued under fast track, including seeking your advice in setting trade priorities before negotiations, consulting with you as the negotiations progress and finally, seeking to ensure that your views are reflected in the final agreement and in the manner in which it is carried out. As the legislation proceeds through markup, we will work with you to ensure that the legislation itself reflects this high level of coordination with this Committee.

This is an appropriate day for hearing, as I released metropolitan export data this morning. Exports are becoming increasingly important to the well-being of our cities throughout the Nation, with more than 90 percent of the 253 metropolitan areas examined reporting export sales growth over the 1993-96 period. In fact, some of our star performers are represented on this committee, including Lexington, Kentucky with a 140% increase in exports, Charleston, West Virginia with a 130% increase, Augusta, Georgia and Aiken, South Carolina with a 95% increase, and Kansas City [Missouri or Kansas?] with a 79% increase.

Seeing results like these compels me to try to dispel a few myths about trade and about fast track. Fundamentally, just like a general needs tanks to win a war, the President needs fast-track authority to knock down barriers to U.S. exports, in key markets and in our most competitive sectors. This is in all of our interests, and the first myth I would like to dispel is:

Myth 1: We do not need fast track.

The jobs of tomorrow are going to go to those who seize the opportunity today. If we choose to stand still, our competitors will move ahead.

Ambassador Barshefsky has laid out a comprehensive trade agenda for the next several years that is dead-in-the-water without fast track. No fast track compromises our ability:

* to compete on an even footing in the world's services market, valued at \$1.2 trillion;

- * to introduce the chance to compete in transparent foreign government procurement, especially in the developing markets where new infrastructure projects will approach trillions of dollars over the next decade; and
- * to eliminate foreign subsidies that compete against U.S. agricultural products and to further open this important market, estimated at \$600 billion globally.

No fast track would also hamstring initiatives such as in APEC, where we have identified a number of our most competitive sectors for trade talks. Such an initiative in the area of medical equipment would help companies like Arbor Technologies in Michigan, a small manufacturer of medical devices that says 20 of its 57 employees can directly attribute their jobs to exporting, or Clinical Diagnostics of South Carolina which has added thirteen employees to their initial staff of seven as a result of their first overseas sale last year.

From the Commerce Department's perspective, however, I would like to take a few minutes to focus on where we see competition heating up most, and that is right here in our own hemisphere. The 33 countries that would join us in creating the Free Trade Area of the Americas by 2005 are underpinning our export growth this year -- accounting for nearly *two-thirds* of our export gains *in dollar terms* -- but our competitors are working overtime to change that.

Take Chile. When the U.S. was unable to secure fast-track authority in 1995, Chile broke off discussions with the United States. But Chile did go on to negotiate trade agreements with the four countries of MERCOSUR (Brazil, Argentina, Paraguay and Uruguay), they are in the process of upgrading their agreement with Mexico, and they implemented a free trade deal with Canada just this past July.

-- The result is that U.S. exporters face a Chilean duty of 11 percent on virtually every single product they sell, while their competitors from these countries do not. Already, the American Chamber of Commerce in Chile has been able to identify \$0.5 billion in lost U.S. sales. And Prime Minister Chretien of Canada just announced that next January he will lead a "Team Canada" trade mission of literally several hundred business and provincial leaders to make sure that Canada takes full advantage of its preferential position in Chile's market, as well as its plans for Brazil and Argentina where Canada has proposed the start of free trade talks.

-- But it is not just Chile, and not just Canada, that we need to be concerned about. Europe, like the United States, is a major supplier in Latin America. In just the last few years, the European Community has set up 28 "Eurocontors" throughout Latin America to ensure, as French Prime Minister Chirac declared in his visit last year, "The future of Latin America is not a North-South axis, but in Europe, for historical and cultural reasons." Taking advantage of our position on the sidelines, the EU -- already the world's largest trading bloc -- is poised for a major expansion in the hemisphere and confidently

announced two weeks ago that it would conclude an EU-MERCOSUR free trade agreement before the end of 1999.

-- So, not only do we have the dubious distinction of being the only major country in this hemisphere not to already have a free trade agreement with Chile, but by the turn of the century we may find ourselves disadvantaged across-the-board in markets which by sheer geography ought to be establishing their closest trade ties with us.

-- U.S. exporters are already feeling the pinch. Stupp Corporation, a producer of custom steel pipe in Louisiana, recently lost out on a pipeline job in Argentina because it simply could not compete with another company that did not have to pay the same duties. They stressed to me that the impact of these lost sales reverberate throughout our economy. The company estimates, that in addition to its own work, winning a \$100 million pipeline project like this would:

- * require the equivalent to two days of production at a major U.S. steel plant;
- * utilize 1,600 rail cars in the transportation of steel and pipe; or alternatively, 67 barges and 1,900 trucks if transported by water and road; and
- * provide more than two months of work for a U.S. pipe coating facility.

When you begin to multiply this impact several times over, you begin to appreciate the dimension of the problem.

The costs of our inaction are not limited to Latin America. While we have hesitated to pursue our own interests, the EU has been negotiating trade agreements for its exporters with its own neighbors, the emerging markets of Central and Eastern Europe. Looking at the other side of the world, ASEAN is integrating its own free trade area. The only way to limit the effects of these agreements is to grant the President fast-track authority so the United States can get back in the game -- bilaterally, regionally, multilaterally, and sectorally.

Myth 2: We do not enforce the trade agreements we have now.

New agreements do not mean we stop enforcing old ones. A top priority of the Clinton Administration has been, and will continue to be, enforcement of commitments made to us in trade agreements. Trade agreements are clearly only as good as our partners' willingness to enforce or respect them. Compliance with agreements is the true litmus test for what we achieve in our negotiations and trade practices.

We will not hesitate to use all tools available to us to ensure such compliance and to eliminate unfair trade practices. Today, Ambassador Barshefsky announced the

Administration's Super 301 actions. In addition, I would like to point out that we have made very aggressive use of the WTO dispute settlement process, either winning or settling every case we have brought that has gone through final resolution.

To ensure that America reaps the benefit of the trade process and to safeguard our companies and workers from unfair practices and barriers, the Department has redoubled its efforts in the enforcement area. We have opened a Trade Compliance Center in the Department of Commerce to monitor foreign compliance with trade agreements and international standards. This staff will be accessible to industry and workers to explain what rights and obligations exist under our array of trade agreements. We will help American firms strengthen their negotiating positions with foreign officials and executives. We will work with you and your constituents whenever you come up against resistance to trade agreements, as well as corruption, bureaucratic hassles and flat out unlawful conduct in the course of doing business in foreign markets.

We will also continue to ensure that the companies and workers are protected from unfair trade practices that can undercut our firms and steal market share. We will continue to vigilantly enforce our antidumping and countervailing duty laws here at home. This is critical to keeping the playing field level so our workers and companies do not suffer at the hands of the unfair pricing and subsidy practices that once nearly destroyed our semiconductor and steel industries. This is not an abstraction; it translates into American jobs and economic growth.

Let me extend my pledge to this Committee to consult closely with you on the Administrations's negotiating and enforcement priorities, and especially its use of fast-track authority.

Myth 3 The United States will give more than it gets in any future negotiation.

The United States stands to gain substantially under more liberalized trade. Currently, we have an essentially open market. Our duty rates are low, and we have little in the way of non-tariff barriers.

But these negotiations will be much more than just about tariffs. These negotiations will be about ensuring that newly opened markets remain that way; that intellectual property is respected and property rights enforced. We want to increase the transparency with which we do business. This can only benefit our entrepreneurs.

--Our most competitive products still face significant barriers overseas that can only be overcome by fast track. For example, in the automotive sector, where collectively parts and vehicles' exports account for more than 10 percent of our exports, we face average tariffs of 100% in the ASPAN market, where sales are expected to top two million units by the year 2000.

-- The United States is the world leader in discovering and developing new medicines, and our pharmaceutical industry already earns two-fifths of its income from exports. But tariffs, inadequate intellectual property protection, discriminatory government procurement practices, and other barriers limit U.S. companies' abilities to compete on a level playing field. Our industry faces up to 14 percent tariffs in Brazil, the fourth largest pharmaceutical market in the world, while our Argentine competitors enter their pharmaceuticals duty-free. When the EU completes its free trade talks with MERCOSUR, it too will have a significant price advantage over our industry.

NAFTA was the first U.S. trade agreement to encompass broad investment protections, and it has not led to an exodus of U.S. capital. In fact, there has been no discernible impact on aggregate U.S. investment levels. Looking at just one oft-cited sector by way of example, since NAFTA the Big Three U.S. auto companies have invested \$39 billion in new plant and equipment in the United States, while investing only \$3 billion in Mexico; at the same time, several major foreign producers, including Toyota, Mercedes and BMW, have chosen the United States as the most competitive site for their new North American plants.

In today's global economy, there will always be some reasons to produce in several markets, whether it is to be close to inputs or close to changing customer needs. But with our competitive strengths, the U.S. will remain an attractive investment site, as evidenced by the nearly \$800 billion in total private business investment in the United States last year alone. To put this incremental investment into context, it is somewhat larger than the entire Mexican economy.

Put simply, the Administration wants to have market forces, not foreign government policies that distort the marketplace, influence trade and investment decisions. We need fast track to aggressively go after these foreign trade barriers.

Myth 4. Trade agreements are for big business.

Trade agreements are for all U.S. companies and all U.S. workers. Trade plays a key role in driving our economic engine and has accounted for one-third of our economic growth in the last four years. In fact, without these export gains, our GDP today would be \$230 billion lower than it actually is.

The dollar impact of increased export sales reverberates throughout the economy, because the products shipped overseas represents inputs from all over the United States. Boeing Corporation, for example, procured more than \$13 billion in components, parts and other goods and services from suppliers across the United States.

Small companies are not absent from the export market. The Department's Census Bureau has been able to identify more than 113,000 known exporters. Not surprisingly, the bulk of them -- 108,000 -- is small and medium sized firms, those with less than 500 workers, whose ranks are growing in terms of their contribution to both our base of exporting companies and to the value of our foreign sales. These small and mid-sized companies export more than \$100 billion, indicative of about 30 percent of our total merchandise exports (1992, latest data available).

-- Among these companies are:

* the smallest of firms, like the 6-employee International Student Exchange Cards, Inc., in the Chairman's home state, for whom exports account for 60 percent of their business;

* JWH Industries of South Carolina whose overseas sales of its unique environmental technology based on earthworms allowed it to double the number of its farm sites and staff, (add # employees);

* to Systems & Electronics of Missouri whose \$12 million sale to Israel this summer saved 200 jobs at its St. Louis plant

All of these companies, by the way, are among the nearly 4,000 U.S. firms which credit the Commerce Department with helping them initiate or expand export opportunities last year.

-- Nonetheless, anecdotes alone can not begin to convey the stories of the more than 12 million U.S. workers whose livelihoods today depend on exports. The transformation of our economy has been so fundamental that today exports account for

* One out of every five manufacturing jobs.

* One out of every three acres planted.

Myth 5: We should not enter into Free Trade Agreements with developing nations. They drive down our wages and can't afford to buy our goods, and we can not compete with them because of their low wages and lax environmental laws.

-- It was not that long ago that a best seller titled The Rise and Fall of the Great Powers included a chapter on "The United States: The Problem of Number One in Relative Decline." But we have to shed that mind set. Defying conventional wisdom, and through a period of difficult restructuring, the United States has resumed its place as the world's Number 1 exporter. We have rejuvenated our automobile and semiconductor industries, and recovered our crown as the world's largest producer in two industries once thought inexorably squeezed by foreign competition from both the high and low-end.

For five years in a row, the United States has been judged as the most competitive economy in the world by the prestigious World Economic Forum. This group's assessment looks not just at wages -- we want to be a high-wage country-- but also at other important competitive factors like technology, management and labor flexibility.

We know export-related jobs pay roughly 15 percent better than jobs in the non-trade sector. More and more U.S. jobs are dependent on exports -- an additional [update to correspond with 12 million figure through first half of 1997] million workers since 1992. As I noted earlier, one in ten civilian jobs are supported directly or indirectly by exports of goods and services. Rising exports increase U.S. living standards by putting our resources to work at what we do best.

This does not mean we can afford to rest on our laurels. While America can be proud of the best firms, the finest workers, and the most innovative products, we are also proud of the rules we live by to keep our workers safe and our communities clean. There are labor and environmental issues we must address with our partners, and trade is a good avenue to do so because it delivers as it demands responsibility. American leadership in the global economy carries an obligation with it to support and encourage labor standards and environmental protections around the world. The President has pledged that free trade will not lower our standards, but will be a way to persuade other countries to build on the prosperity that comes with trade and lift their own people up.

These overall income gains have not come by sacrificing workers at the bottom of the economic ladder. The real incomes of every segment of the workforce increased between 1993 and 1996, with the largest percentage increase for the lowest-paid workers.

Finally, it is simply not true that we cannot sell overseas to developing countries. Ninety-five percent of the world's consumers live outside of the United States. Over the past eight years -- where our exports almost doubled -- the developing nations accounted for about half of that growth. Where in 1988 the developing countries purchased just over one-third of our exports, they now buy more than 40 percent. As these countries develop, they will become even a more attractive market for our products.

We fully expect that over the coming decade, these developing countries will grow faster than our industrial partners, and therefore their share of our exports likely will grow as well. We believe that this will be critical to our overall economic well-being and if we take advantage of these opportunities, we can expect to see exports account for about 20 percent of our national income by 2010.

Conclusion

Let me conclude by mentioning the biggest myth of all: that is, if we put off this decision on fast-track now, we can do it "right" later. The time is now. This legislation is in our national

interest, and in the coming weeks we need to find ways to bridge the differences between us to achieve the broadest possible bipartisan support.

Thank you.

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FROM: Ronald K. Peterson (for) Assistant Director for Legislative Reference
A. Rooney

OMB CONTACT: Annette E. Rooney
PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT: US Trade Representative Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

DEADLINE: 1:00 P.M. Monday, September 29, 1997

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COMMENTS: This testimony is very similar to previous USTR testimony -- New sections are in italics. If you do not respond by the deadline, we will presume that your agency has no comment.

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**Draft of Written Testimony
U.S. Trade Representative Charlene Barshefsky
Renewal of Fast Track Authority
House Ways and Means Trade Subcommittee
September 30, 1997**

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

Today, this country is at the pinnacle of its influence. Just as we are the world's military superpower and strongest democracy, we are the world's most competitive and dynamic economy. What is at stake is nothing less than whether the United States will continue to be at the forefront of nations seeking the reduction of trade barriers and the expansion of more open, equitable, and reciprocal trading practices throughout the world.

The international economy is a fact of life. Whether Congress renews this traditional authority will say a great deal about whether America will continue to shape the rules and dynamics of international trade or allow rules and trade alliances to be formed by others at our peril. Fast track will enable us to negotiate new agreements that will break down barriers to American exports, create better jobs, and raise our standard of living. And it will ensure that Congress is involved at every step along the way: before, during, and after trade negotiations.

As the President said last week, the question before you is whether we are going to lead the way or follow. This is not the time to shrink from the future, but to seize the opportunities it represents.

The President is right. Today, this country is at the pinnacle of its influence. Our economy is the strongest in the world. In the last four and one half years, the United States has once again become the world's number one exporter, the world's largest manufacturer of automobiles, the world's premier agricultural exporter, and the world's leading producer of semiconductors.

Fast track is about U.S. exports. It is about accelerating the economic trends begun in 1992 and cementing U.S. economic leadership. This legislation is vital to

American businesses, farmers, and workers. From agriculture to services, technology to manufacturing equipment, software to autos, foreign trade barriers remain much higher than ours. We must get those barriers down to allow our workers and companies to compete on even terms, creating better jobs, and raising our standard of living.

Trade is a pocketbook issue. Since 1993, more than a third of our economic growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. Since 1970, trade as measured in exports and imports has risen from 13 % of the value of GDP, to 26% in 1992 and to roughly 30% today. In fact, the \$231 billion dollar increase in U.S. exports in the last four years has contributed more than one third of U.S. economic growth. This year U.S. exports of goods and services will be well over \$900 billion.

Our global exports are at record levels across the board. This year our exports of manufactured products will be up an estimated 60% from 1992; hi-tech exports, nearly 70%; agriculture, 30%; and services, over 40%. Virtually every state -- some 49 out of 50 -- has contributed to this record export performance and has benefited from it.

More than 12 million Americans jobs are currently supported by exports, an estimated increase of 2.2 million since 1992. Between 1992 and 1996 exports accounted for 1 in 7 new U.S. jobs. One in five manufacturing jobs are supported by exports. Jobs supported by goods exports pay 13%-16% above the national average wage.

Export-driven growth is one of the reasons that the American economy today is strong and sound. Since 1992, we have created nearly 13 million net new jobs. The unemployment rate has been at a 24 year low. The remainder of the G-7 countries combined created only about half million jobs over the same period. U.S. inflation is down to a low of 2.2%, for the year ended August 1997. At the same time, family incomes are up significantly and home ownership has hit a 15-year high.

Industrial output is up 20% in real terms relative to 1992 and growth of our industrial capacity -- a key factor in our continued economic expansion -- is at its highest rate since the 1970s. Business investment has been stronger than at any time since the 1960s. Our current economic expansion, in fact, has been investment-led, with business investment reaching \$800 billion in 1996. The investment orientation of this expansion has helped establish a firm footing for further sustained growth.

But, we cannot rest on our past accomplishments. We must find new markets for our goods and services in order to help our economy to maintain strong growth.

Some 96% of the world's population lives outside the U.S. and 85 percent of them reside in developing countries. Fast growing emerging markets now account for an estimated three quarters of the annual expansion of global middle class consumers. These fast growing markets, if fully open to U.S. exports, offer a great opportunity for U.S. companies, U.S. workers and sustained growth in U.S. prosperity. We need fast track if our economy is to stay on the fast track.

The Importance of Fast Track

Fast track is critical to increase access to foreign markets and shift trade conditions in our favor. Fast track sends a strong signal to our trading partners. Without it, our trade partners will not come to the table to negotiate on a range of comprehensive negotiations in areas where the United States is the most competitive producer and provider in the world. It tells them that when the President negotiates a trade agreement, he has the confidence of the Congress behind him. It also indicates that the United States is serious about reaching agreements that will reduce market barriers and trade distortions.

We must ensure that this and future Administrations possess the requisite policy tools to maintain pressure on foreign governments to reduce trade-distorting practices. Denying the President fast track authority would abdicate this effort and undermine our ability to stop breaking down barriers to U.S. exports.

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

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

Fast track is not a trade agreement; nor are we seeking Congress' approval of a particular trade agreement. Fast track merely sets out the process by which certain

trade agreements will be considered by Congress. Only Congress has the final say whether to accept or reject the deal brought back by any Administration. Congress retains the last word.

Dangers of Inaction

We are only 4% of the world's population, but 20% of the world's wealth. To hold onto that position, we must have access to the other 96% of consumers who live beyond our borders. Our economic growth and international competitiveness depend on this.

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

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

Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, which has a GDP of approximately \$1 trillion and ambitions to expand to all of South America.

MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela), as well as countries within the Caribbean Basin. *Since the President launched his fast track initiative, MERCOSUR has launched free trade discussions with Canada, and separate discussions with the EU, with which MERCOSUR plans to conclude a reciprocal trade agreement by 1999.*

In the case of Chile, the picture is the same. We sought to conclude a comprehensive trade agreement with Chile in 1994, but could not because we lacked fast track authority. Today, Chile, with one of South America's leading economies, has signed trade agreements with every major trading country in our

hemisphere but one -- the United States.

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

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

Access to markets in such developing nations is especially important to America's economic future, particularly those in Asia and Latin America, which are projected to grow at rates as much as three times the U.S. growth rate.

Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariff barriers within the region average three to four times the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but again its market access barriers are also generally higher than U.S. barriers. The elimination of these inequities is fundamentally in America's interest as we have the most competitive large economy in the world.

Our lack of fast track procedures disadvantages us by comparison to our industrialized competitors. As mentioned, Canada recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages in comparison with their U.S. counterparts. Perhaps even more disturbing, the EU, already the world's largest trading bloc, is poised for major expansion in the next few years. The EU has secured for its exporters significant advantages in the transition economies of Central and Eastern Europe. As noted, the EU also has begun a process aimed at reaching a free trade agreement with MERCOSUR and one with Mexico. It has also concluded a framework agreement with Chile which is expected to lead to a free trade agreement by 1999 based on recent reports.

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

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

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

A U.S. fabric producer, Quaker Fabric, recently lost a \$1.8 million-a-year sale in Chile to a Mexican competitor because of an 11% tariff preference favoring Mexican producers.

U.S. apple producers are at risk in their Latin American markets due to Chile's preferential tariff free, or near tariff free, access to MERCOSUR, Venezuela, Colombia, and other South American markets as a result of the FTAs that have been negotiated (six since 1991). U.S. producers have to absorb the non-preferential tariff cost to enter these growing markets.

U.S. corn producers are facing competition in Chile from Argentinean producers who enjoy a 3.3% tariff preference, which will grow to 11% over time. *Similarly, U.S. corn producers could lose half their market share in Venezuela to Argentina because of Venezuela's relationship with MERCOSUR.*

Chilean fresh fruit pays a 2 percent duty when entering Venezuela (due to the Chile-Venezuela FTA), whereas U.S. producers pay a 15 percent tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39 percent to 67 percent if U.S. producers had equivalent access to the Venezuelan market.

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

The United States can only redress these growing trade setbacks by concluding similar bilateral and regional agreements, as well as negotiating new multilateral

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

We must seize the opportunities of the global economy. We must maintain the centrality of America's role in world trade. We must respond to a staggering increase in the number of preferential commercial alliances struck around us. We must fully meet sophisticated and determined international competition. We are at the pinnacle of our influence and we should use that influence in the shaping of international economic rules, and in the transmission of our fundamental values. In light of the extraordinary opportunities before us and the economic security of the nation, retreat is not an option.

Fast track, however, is about more than economics. *A failure to renew the President's traditional negotiating authority would have real and enduring cost to American leadership. Fast track is about more than trade, "it is a foreign policy imperative. It is indispensable to U.S. economic leadership and that leadership is indispensable to U.S. influence around the globe."*

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

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

The Uses of Fast Track

The absence of fast track does not only mean that we cannot match our competitors when they enter into preferential trade arrangements. *It also prevents us from achieving the goals of our global trade agenda and focusing on those areas where our economy is most competitive internationally.* We intend to use fast track in three ways:

First, fast track would allow us to complete the built-in agenda of the World Trade Organization: that is, concluding the major trade negotiations that were deferred at

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

Second, fast track would enable us to pursue market-opening initiatives in sectors where the United States either leads the world or is a powerful competitor, and where there is extraordinary potential for growth. A good example of what can be achieved in this area is the recently concluded Information Technology Agreement (ITA), the United States and 43 other nations agreed to the reduction and eventual elimination of tariffs on information technology and electronic products, including semiconductors, computers, telecommunications equipment, faxes, phones, and integrated circuits. This is an extraordinarily favorable agreement for the United States, since we are a major exporter of these products and our applicable tariffs were already quite low. Because other countries generally maintained substantially higher duties. This agreement provides what amounts to a \$5 billion tax cut for U.S. industry, money that can be used for research and market development, creating new business opportunities and jobs for Americans.

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

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

Third, fast track is essential if we are to negotiate more comprehensive market access agreements with individual countries as well as on a regional basis. This

Administration, consistent with its predecessors, has identified Chile as a promising candidate for a comprehensive trade agreement. Chile appears in all respects to be prepared to enter into agreements with us that achieve our economic objectives, as well as our goals with respect to labor and the environment. Chile also symbolizes our commitment to proceed towards the conclusion of the FTAA by 2005.

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

The Fast Track Legislation

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

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

The proposal first sets out "overall" and "principal" trade negotiating objectives for the President. The "overall" objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting policies and practices that are directly related to trade and reduce market opportunities for U.S. exports or distort U.S. trade; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

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

(7) to promote worker rights and sustainable development through multilateral institutions.

These objectives and guidance reflect the President's three primary concerns underlying the proposal. The President has made clear that his first and overriding consideration in proposing this legislation is the expansion of American trade opportunities abroad and the tearing down of barriers impeding U.S. access to foreign markets.

However, as we take down foreign barriers we must also seek to improve international environmental standards, and elevate labor concerns as part of the American trade agenda. It is important to recognize that a commitment to the protection of core labor standards and their relationship to trade, is not new, nor is it unique to the United States. The international commitment to address this issue goes back as far as the Havana Charter, which was the effort to establish the International Trade Organization after World War II.

We were gratified that at the WTO Ministerial in Singapore, the trading nations of the world acknowledged, for the first time in a Ministerial declaration, the importance of core labor standards to trade, although we fought for stronger steps. Advancing worker rights and labor standards is in our national interest and it is consistent with our deepest national values.

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

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, but maintaining flexibility rather than pretending that one prescription would fit all countries or all cases. The fast track legislation that we have put before Congress provides a sensible approach from which we can pursue these objectives.

The proposal also provides that the President may enter into certain agreements regarding tariffs and implement them by proclamation. For example, the proposal would re-establish the President's traditional proclamation authority, under which he can reduce U.S. duties up to 50 percent and eliminate duties of 5 percent *ad valorem* or less. This authority dates back to 1934. The proposal adds a new provision that would allow the President to harmonize or eliminate tariffs in

connection with reciprocal tariff agreements in particular sectors, as we did in the ITA, as well as to carry out reciprocal tariff elimination agreements consistent with WTO rules.

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

The bill expands upon the notice and consultation requirements included in earlier trade acts. For example, the President must provide notice to Congress before initiating negotiations, and he must consult with all congressional committees having jurisdiction over relevant issues. This is an important provision; one we believe will play an increasingly significant role in the approval of future trade agreements. While we intend to continue to work closely with the Ways and Means and Finance Committees, which traditionally have had primary oversight responsibility for international trade, we also will expand our consultations with other committees, especially the Commerce Committee, whose responsibilities include matters affected by the agreements we negotiate. Only by broadening the circle of consultations and the Members of Congress included in them will we ensure that the trade agreements we bring home have broad, bipartisan support -- maximizing the benefits fast-track procedures are designed to achieve.

In addition, members of Congress and their staff are to be named as cleared advisers with respect to ongoing negotiations. These Congressional advisers will be apprised of all critical phases of the negotiations, and they will have direct input into our strategy and offers. When negotiations near completion, the President must notify Congress of his intention to enter into an agreement and, once the agreement is signed, the President must describe to Congress how he intends to implement the agreement. Finally, the President and the Congress are to receive advice on any proposed agreement from the International Trade Commission.

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

Moreover, Congress must be satisfied that the President has met his consultation

obligations. Under the proposal, if Congress finds that the President has not done so, an expedited procedure is available for Congress to withdraw fast track procedures.

The proposal also builds on existing provisions to ensure that the public is informed of trade negotiations and that a mechanism is available for ensuring that the public can make its views known to U.S. negotiators. In addition, the proposal calls for the President and Congress to receive advice from officially-designated advisory committees covering the full range of sectors and policy matters, including manufactured goods, agricultural products, services, intergovernmental matters, investment, intellectual property, labor, and environmental matters. These provisions demonstrate the Administration's hope that Americans will not only understand our trade agenda, but take an active part in formulating it. Under well-established practice, the President collaborates with the Congress in drafting fast track implementing legislation. Such legislation is subject to informal public hearings and "mark-ups" by all Congressional committees of jurisdiction before its introduction. Under the President's proposal, provisions may be included in such legislation only if they are necessary or appropriate to implement an agreement and are related to trade. This language was designed to provide the President and Congress with sufficient flexibility to modify domestic law to achieve our trade objectives while ensuring that implementing bills will retain their focus on trade issues.

The President's proposal seeks this authority until his term is completed, with the possibility for an extension until 2006, subject to disapproval by Congress. This provides Congress and the next President the opportunity to ensure that the consensus that we hope can be achieved with this fast track proposal endures during the term of the next President.

Conclusion

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

As the President Clinton said last week: "Walking away from this opportunity will

not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers."

The world is on a very fast track to the 21st century. America must lead in shaping our future.

URGENTTotal Pages: 9

LRM ID: AER204

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Friday, September 19, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Ronald K. Peterson (for) Assistant Director for Legislative Reference
Ron Peterson

OMB CONTACT: Annette E. Rooney
PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT: US Trade Representative Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

DEADLINE: 1:30 P.M. Monday, September 22, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

X **COMMENTS:** USDA is also testifying at this hearing. We circulated USDA's testimony earlier today (LRM AER 203). If you do not respond by the deadline, we will presume that your agency has no comment.

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LRM ID: AER204 SUBJECT: US Trade Representative Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

**RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM**

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Annette E. Rooney Phone: 395-7300 Fax: 395-5691
 Office of Management and Budget
 Branch-Wide Line (to reach legislative assistant): 395-6194

FROM: _____ (Date)
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The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this response sheet

**Statement of
Deputy U.S. Trade Representative Jeffrey Lang
Renewal of Fast Track Authority and U.S. Agriculture
House Committee on Agriculture
Subcommittee on General Farm Commodities**

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to discuss the Administration's proposal to renew fast track negotiating authority and the President's tariff proclamation authority under the "Export Expansion and Reciprocal Trade Agreements Act of 1997."

Simply stated, this bill is vital to the future of American farmers, businesses and workers as well as fundamental to our position as a leader in the global economy. If enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American agriculture and the entire economy.

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

Agricultural Exports and the U.S. Economy

Mr. Chairman, the contributions of agricultural exports to the U.S. economy are impressive and bear repeating: a record \$60-billion in exports last year and the largest positive trade balance--\$27 billion--of any sector. The total contribution to U.S. economic activity from 1996's agricultural exports is estimated by USDA at around \$140 billion, and farm exports created close to one million jobs here at home.

It's not surprising, then, that America's farmers and ranchers are twice as reliant on foreign trade as the U.S. economy as a whole, with exports accounting for an estimated 30 percent of gross cash receipts. Dollar for dollar, the United States exports more grains and soybeans than airplanes, ships, and boats combined. We export more corn than coal, more wheat than steel, more meat than aluminum, and more fruits and vegetables than CD's, records, and tapes.

Viewed in this light, the critical importance of creating new market opportunities for agriculture is clear. Last year's farm bill--the FAIR Act--signaled a shift away from government support for farm income to market returns. Under these circumstances, access to foreign markets is critical to maintain farm income. If approved, fast track authority would give us a powerful

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tool to break down barriers to U.S. agricultural exports. Successful use of this authority would give U.S. producers greater opportunity to respond to market demands and benefit from market returns, two fundamental pillars of the FAIR Act.

Fast Track Provides for Future Export Growth

For farmers and the agriculture industry, trade means jobs. Farmers today face a simple dilemma: each year, the combination of hard work and technological innovation make American farmers more productive. At the same time, the US population is relatively stable. The only way to ensure that prices stay strong and farmers and ranchers stay in business is to continue to expand markets outside the United States. Because 96% of the world's population lies outside the United States, this shouldn't be a problem, but we need Fast Track to get access to this huge segment of the world's population.

We need to continue the successes of past market opening agreements. The Uruguay Round Agreements and the NAFTA made a solid start in liberalizing world trade by reducing export subsidies, putting in place disciplines over certain types of trade activity, and establishing a working dispute settlement mechanism. Despite this progress, foreign agriculture remains one of the most protected and subsidized sectors of the world economy. And because our farmers are among the least protected and subsidized and most competitive in the world, trade distortions in agriculture are a particular problem for the United States.

We still have a lot of work to do in removing barriers to U.S. agricultural exports and addressing unfair competition from other countries. Fast track negotiating authority was essential to achieving our past successes; it's no less critical to meeting our goals for further trade liberalization.

Our Goals for Fast Track in Agriculture

The bill the President delivered to Congress on Tuesday contains specific negotiating objectives for agriculture. It covers market access barriers, unfair subsidies, improving international rules and disciplines on state trading enterprises, sanitary and phytosanitary regulations, including biotechnology, and strengthening the rules on such practices as tariff rate quotas. Frankly, the agriculture section of the President's fast track bill is the strongest in history.

We need to ensure that other countries live up to their commitment to negotiate further agricultural trade reforms in the World Trade Organization starting in 1999. The United States insisted on this commitment at the end of the Uruguay Round and it would be unfortunate if our reluctant trading partners got off the hook because we couldn't come to the table. This is the only way for us to address high tariffs and trade-distorting subsidies.

To prepare properly for the 1999 negotiations, we need to begin building consensus now for moving our agricultural agenda forward. That means we must begin to lay the ground-work for reducing tariffs to US agriculture exports, disciplining state trading enterprises, developing



consensus for scientifically justified rules governing biotechnology products, and strengthening rules on the administration of tariff rate quotas. Let me talk briefly about each.

- *We will press for global tariff-reduction on agricultural products.* The U.S. has on average the lowest tariffs in the world (around 3 percent) while the world average is 56 percent. Across the board tariff reductions will greatly benefit US producers, and Fast Track is essential to make this happen.
- *We will press for transparency and improved disciplines on STEs.* The United States has much to gain from disciplining STEs. STEs distort trade and frequently operate behind a veil of secrecy. They allow some countries to undercut US exports into third markets and restrict imports. Fast Track negotiating authority will help us instill transparency and discipline in the system which help ensure increased market access for U.S. exports.
- *We will negotiate improved rules in the area of Genetically Modified Organisms.* The United States leads the world in developing GMOs and is poised to capture a larger share of the global agricultural marketplace because of increased efficiencies and improved product lines. Other countries, most notably those in Europe, threaten to adopt policies regarding the importation and planting of GMO's and the labeling of products containing GMO's that are not based on scientifically-justified principles. If producers and consumers in the United States and around the world are to enjoy the benefits of this new technology, our negotiators need the authority to build consensus in international fora for basing GMO regulations on scientifically-justified principles. If we do not have that authority other countries will take the opportunity to build consensus in ways contrary to U.S. interests.
- *Strengthen the rules on the administration of tariff rate quotas.* In the Uruguay Round, many countries converted their non tariff trade barriers to tariff rate quotas (TRQ's). TRQ's provide increased market access within in a defined import quota. Our goal over time is to negotiate increases in the size of TRQ's. However, we are faced with many cases of countries administering their TRQ's in a way that substantially or completely restricts access. We will use fast track authority to negotiate improved rules for TRQ's to ensure that countries that commit to improved access cannot fall back on restrictive administrative procedures.

Fast Track authority will also give us the ability to go after promising opportunities for agriculture through regional arrangements with countries in Asia, Latin America and Africa. There are already more than 30 bilateral and regional trade agreements operating here in the Western Hemisphere, and the United States is only party to one--NAFTA. While these preferential agreements multiply, the U.S. share of the Western Hemisphere's total agricultural imports is actually declining.

We also need Fast Track to allow us to benefit from trade liberalization among the 18-member APEC group. Reducing tariffs in the fastest-growing countries of the Pacific Rim could provide a dramatic boost to U.S. exports of consumer-oriented products.

The Dangers of Inaction

There are serious and immediate consequences if we do not renew this authority. Major trade agreements are being negotiated without our participation. In every region of the world, but particularly Latin America and Asia, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements. They are forming relationships around us rather than with us, and they are creating new exclusive trade alliances to the detriment of U.S. interests. I can assure you that our trading partners are not waiting for us.

Let me cite three examples:

- Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, which has a GDP of over \$1 trillion and ambitions to expand. MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries as well as countries within the Caribbean Basin. There are also recent press reports that the EU intends to sign a free trade deal with Mercosur by 1999.
- Canada recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages in comparison with their U.S. counterparts and just last week Canada and the EU both announced their intention to enter into trade agreements with MERCOSUR.
- Chile, one of South America's leading economies, has signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and the MERCOSUR states. Indeed, Chile has preferential trading relationships with every major trading partner in our hemisphere but one -- the United States. The EU has also concluded a framework agreement with Chile which may lead to a free trade agreement.

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

- On a host of important U.S. agricultural exports, our producers face tariffs of 8 percent to 20 percent on shipments to MERCOSUR, while MERCOSUR members trade tariff-free amongst themselves on most products.

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- The Washington Apple Commission and the Oregon-Washington-California Pear Bureau have identified Columbia, Venezuela, Peru and Ecuador as potential growth markets. But these countries currently impose import duties of 15 percent to 25 percent on U.S. apples and pears while imports from Chile face little or no duty.
- Chile's bilateral agreement with Ecuador has put U.S. wine at a considerable disadvantage. U.S. wine faces a 25 percent tariff versus no duty for Chilean wine.

The danger of inaction in Latin America, and in other regions where free trade agreements are being signed, is the danger of lost opportunity for U.S. agriculture. We risk losing out increasingly to others in our own backyard, not because they are more efficient producers, but because they are party to trade agreements that put the United States at a commercial disadvantage. We need fast track authority as an important tool to level the playing field for U.S. agriculture in regional trade agreements and in agreements negotiated in the WTO.

The Export Expansion and Reciprocal Trade Agreements Act of 1997

The President's bill calls for the reactivation of the long-standing partnership between the Congress and the President in trade negotiations. The President's proposal ensures that the Congress is fully integrated into the formulation of U.S. goals, strategies, and decision-making for each trade negotiation subject to fast track procedures.

The proposal first sets out *overall* and *principal* trade negotiating objectives for the President. The *overall* objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting policies and practices; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

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

In order for an agreement to qualify for fast-track treatment under the bill, the President

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must comply with stringent notice and consultation requirements. These provisions enable the Congress to set priorities, provide advice, and exercise oversight at all stages of the negotiations. They ensure that Congressional views will be reflected both in any final agreement and in the manner in which an agreement is to be carried out.

I am particularly aware of the shared commitment between this Committee and the Administration in support of expanding agricultural exports. The proposal's consultation requirements will build on this solid base of ongoing cooperation. Under the proposal, the President must provide notice to Congress before initiating negotiations, and he must consult with Congress during the course of negotiations. Members of Congress and their staff are to be named as advisers to U.S. negotiating delegations. These Congressional advisers will be apprised of all critical phases of the negotiations, and they will have input into our strategy and offers. When negotiations near completion, the President must notify Congress of his intention to enter into an agreement and, once the agreement is signed, the President must describe to Congress how he intends to implement the agreement. Finally, the President and the Congress are to receive advice on any proposed agreement from the International Trade Commission.

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

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

The proposal also expands on existing provisions ensuring that the public is informed of trade negotiations and that a mechanism is available for ensuring that the public can make its views known to U.S. negotiators. The proposal calls for the President and Congress to receive advice from officially-designated advisory committees covering the full range of sectors and policy matters, including agricultural products.

Conclusion

Mr. Chairman, no sector of our economy has more at stake in expanding exports than agriculture. The continuing profitability and viability of U.S. agriculture -- its very future -- depends on the ability of U.S. producers to be competitive in a world market. In the face of unprecedented opportunities and challenges, continuing bipartisan collaboration between the Administration and Congress toward a bold, comprehensive trade and export strategy will ensure America's leadership in the global food and agricultural markets of the future.

The President's fast track proposal ensures that the Congress will be a full partner in

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setting negotiating objectives, establishing trade priorities, and in gaining the greatest possible benefits through our trade agreements. This collaboration will strengthen both America's effectiveness and leverage at the bargaining table.

The successes we have achieved in opening up markets for U.S. agriculture are many, but new problems and restrictions are before us. We must use every tool in our arsenal to ensure that the rules that emerge from on going international negotiations reflect our interests and our values. Fast track authority is one of the most important tools. U.S. leadership is essential if we are not only to maintain, but enhance our competitive position.

As the President Clinton said last week: "Walking away from this opportunity will not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers."

With renewal of fast track authority, we can continue to open new opportunities for agriculture; maintain the U.S. leadership role in initiating and writing new agreements; and better secure our economic future here in our own hemisphere. Without fast track, we could find ourselves in the marketplace of the 21st century playing by European, or Asian, or Latin American rules, and it is very unlikely that these rules will be written to expand substantially market access opportunities for U.S. agriculture.

I look forward to continuing our work with you and other Members on fast track.

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URGENTTotal Pages: 12

LRM ID: AER202

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001**

Friday, September 19, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Ronald K. Petersen (for Assistant Director for Legislative Reference)

OMB CONTACT: Annette E. Rooney
PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT: REVISED COMMERCE Testimony on US Trade Representative Draft Bill on Export Expansion and Reciprocal Trade Agreements Act of 1987 (Fast Track)

DEADLINE: 3:00 P.M. Monday, September 22, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

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EOP:

Nancy E. Schwartz
Louisa Koch
Randolph M. Lyon
Daniel D. Heath
Mark A. Weatherly
Robert J. Tuccillo

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Jon D. Haveman
Victoria Radd

LRM ID: AER202 SUBJECT: REVISED COMMERCE Testimony on US Trade Representative
Draft Bill on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

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 Office of Management and Budget
 Branch-Wide Line (to reach legislative assistant): 395-6194

FROM: _____ (Date)
 _____ (Name)
 _____ (Agency)
 _____ (Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: _____

_____ FAX RETURN of _____ pages, attached to this response sheet

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**Testimony of Timothy J. Hauser
Acting Under Secretary of Commerce for International Trade**

Our Commercial Stake in Fast Track and in Hemispheric Integration

**House International Relations Committee
Subcommittee on International Economic Policy and Trade**

September 24, 1997

Madame Chairman, Members of the Subcommittee:

Thank you for the opportunity to testify today. Your hearing could not be more timely given the upcoming consideration of fast track authority and the importance of access to international markets to our domestic economic well being. Today, we are enjoying the fruits of 5 years of labor by President Clinton and the U.S. Congress to open markets and expand exports, and the NAFTA as well as the WTO are key accomplishments in that regard. However, in order to pursue additional opportunities for American firms, farms and workers, the President needs fast track. We have a large agenda waiting for us in the WTO, in sectoral negotiations, and in regional agreements.

The Renewal of the President's Traditional Negotiating Authority

On September 16, 1997, the President sent to the Congress his proposals for renewing his traditional trade negotiating authority. In crafting this legislation the President reemphasized his commitment to three objectives:

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- to break down unfair foreign trade barriers and create good American jobs;
- to promote and advance worker rights; and,
- to promote responsible environmental protections.

As we renew fast track authority, the goal has been to give the President an array of negotiating tools to advance those objectives and level the playing field for American workers in the trade deals in partnership with the Congress. The bill:

- Provides Authority to Open Markets: The bill gives the authority to the President to negotiate global, regional, sectoral, and/or bilateral trade agreements, which would be brought back for Congressional approval under "fast track" procedures (limited debate, no amendments). This authority is critical to give our negotiators the credibility they need to secure good agreements.
- Reaffirms Commitment to Labor and the Environment: The bill includes a specific negotiating objective to improve labor rights and environmental protection abroad (a first ever reference to the environment in fast track legislation). Provisions in bilateral free trade agreements must be "directly related to trade" but the Administration may also seek side agreements, where appropriate.

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- **Pursues Trade Priorities:** The bill contains negotiating objectives emphasizing key U.S. trading interests, such as agriculture, services, investment, intellectual property, and the need for the U.S. to preserve its health and safety laws and to vigorously enforce U.S. trade laws.
- **Provides for Enhanced Congressional Consultations:** The bill has added strong language to ensure Congress is a full partner in setting objectives and establishing trade priorities for American negotiators, including some provisions that have never before been included in fast track bills:
 - 1.) A requirement that the Administration inform Congress of its negotiating objectives for a specific agreement before negotiations begin;
 - 2.) A requirement that the Administration consult before signing a trade agreement about any parallel agreements, such as labor and environmental side agreements.
- **Duration:** The authority would be granted until 2001, with the possibility of extension until 2005 unless Congress disapproves.

Where We Are Heading

Madame Chairman, the global economy is expanding, and there are many opportunities for the United States to take advantage of -- if barriers to our products are reduced.

Regrettably, it is not always appreciated in the United States that trade is good for workers, consumers and farmers. Too few people understand that almost one-third of our economic growth since 1992 is due to our exports of goods and services or that export-related jobs pay 13-16% more than other jobs. With few trade barriers of its own, the United States can only gain by negotiating the elimination of much higher barriers overseas. But those are the facts.

The Administration is pursuing a broad agenda on trade focussed in three general areas. First, we will seek to engage in global negotiations in the WTO aimed at lowering barriers to agricultural goods, services and infrastructure trade. We can attack export subsidies in agriculture and open new opportunities in the vast international services market like health care, education, entertainment and business services. We have unfinished business in government procurement and intellectual property rights protections as well. This year, we begin the negotiation on government procurement, followed by intellectual property rights in 1998, agriculture in 1999, and then services in 2000. Government procurement opportunities amount to a trillion-dollars in Asia alone over the next decade; agriculture, a \$600-billion market globally; services, a \$1.2 trillion market.

The recent Information Technology Agreement (ITA) is a good example of the second kind of fast track use, for sectoral initiatives. The ITA eliminated tariffs and freed \$500 billion of trade. Our tariff barriers in information technology products were zero or very low; Asia's averaged 30 percent. We agreed with 43 countries that those tariffs with few exceptions should be eliminated by 2000. We want to work on an ITA-2 -- that is to expand the scope of the products encompassed by this extremely ambitious initiative. And with fast track authority, we can extend

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this kind of successful opening to other sectors where the United States is most competitive but global barriers tend to be high, such as environmental equipment and services, medical equipment and technology, etc. We have already begun this process in the APEC context, where we are pursuing market openings for agriculture, energy, high technology and environmental goods and services.

The third use is for comprehensive trade agreements with individual countries or regions, like Chile and the Free Trade Area of the Americas. We want to concentrate on the best emerging markets in Latin America, Africa, and Asia that will grow much more rapidly than our own mature market and that of Europe in the next decade. We must have fast track authority going into these talks or countries will not negotiate seriously with us. Our competitors are not waiting: since 1992, in Latin America and Asia alone, our competitors have negotiated over 20 agreements that don't include the United States.

Sectoral Initiatives

The President has rightly noted that numerous barriers remain in those sectors where we are particularly competitive. He seeks to reduce those barriers and thereby increase the strength of the American economy and the security of workers' jobs. Lowering barriers globally in individual sectors would complement the lowering of all barriers in specific regions.

A few facts will illustrate this:

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- In the automotive sector, automotive parts alone accounted for nearly \$41 billion in U.S. exports last year; this represented more than one-quarter of all U.S. auto parts production. Vehicle exports exceeded \$24 billion, and collectively parts and vehicle exports amount to more than 10 percent of our total exports. In percentage terms, this amounts to about twice the impact the industry has on our GDP (where it accounts for 5 percent of output), a ringing endorsement of the competitiveness of the 1.2 million men and women who are directly employed by this industry.
 - The energy equipment sector shipped over \$15 billion abroad last year, about 30 percent of all of the sector's shipments. We are competitive in this sector -- last year we ran a trade surplus of over \$6 billion. In less than ten years, experts expect that this sector's exports will exceed domestic shipments as demand for energy in the developing world grows at double the rate for industrial countries.
 - The environmental technologies sector is one of the fastest growing sectors worldwide and the United States is at the cutting edges of that development. About one dollar of every twelve in this sector's earnings came from revenues generated outside the United States. This represents a 20 percent increase over the previous year. Moreover, the United States currently is the world's largest exporter and we expect the market to grow by double-digits in Asia and Latin America over the next 15 years.
 - The information technology industries account for more than 3.5 million domestic jobs and over \$166 billion in shipments in 1996. Our info-tech companies as a whole export about
- 

one-third of their production; and I should also note, in the telecommunications sector the United States accounts for one-third of the world's shipments. Clearly, in these industries we can continue to set the pace and we must continue to position ourselves so that we can take advantage of the growth to come in the near future. Both Asia and Latin America anticipate double-digit growth -- at least twice as much as Europe and the United States.

Access to markets in Latin America, Asia, as well as Africa are important to our firms, farms and workers. We have active trade liberalization efforts in both Latin America and Asia, and we want to foster economic prosperity and development in Africa.

Our Trade with Latin America -- A Case Study

The most immediate use and need for fast track is in the Western Hemisphere. Our trade relationship with this hemisphere is rapidly evolving as every country in the region, except Cuba, has embraced democratic principles, market-oriented economic reforms, and trade liberalization. The President has indicated that his first use of fast track would be to conclude a comprehensive free trade agreement with Chile. Here are some facts about our trade with the region.

- Our trading relationship with Canada and Mexico, our NAFTA partners, is already our largest in the world. Those two countries buy \$3 out of every \$10 that the United States exports. They also supply \$3 out of every \$10 that the United States purchases from other countries. In 1996, U.S. trade with them stood at \$420 billion -- a one-third increase since 1993.
- 

- This year that growth continues -- exports to Canada and Mexico are up by over 15 percent. And, our exports to the rest of the Hemisphere's countries are up nearly twenty percent. This makes the hemisphere far and away the most attractive growth market for the United States in the world, out pacing our exports to the rest of the world in 1997 by 3:1. In fact, the 33 countries that would join us in forming a Free Trade Area of the Americas (FTAA) account for two-thirds of U.S. export growth in the first half of this year (latest data available).
- A comprehensive FTA with Chile would be the next step for the United States in the creation of an FTAA. Much has been made over the Chilean economic model which has energized the private sector, reduced state controls over that economy, and in general raised the living standards of most of its citizens. Other Latin countries have adopted much of the Chilean philosophy, and to the benefit of our entrepreneurs.
- During this decade, our exports to Chile have grown from \$1.7 billion to \$4.1 billion. Last year, we sold more to Chile -- a country of 14 million people -- than we did to Russia (148 million) or to Indonesia (some 195 million). Clearly, it is in our interest to bring Chile into an FTAA and to demonstrate to the rest of the world that responsible economic policies do matter to the United States.

Nowhere in the world are we as competitive as we are in Latin America. The U.S. supplies over two-fifths of the region's imports.

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We already have benefitted from the liberalization that has occurred in Latin America and the Caribbean. During this decade (1990-96), U.S. exports to Latin America and the Caribbean Basin, including Mexico, doubled from \$54 billion to \$109 billion. And these sub-regional trade agreements have broken much new ground and demonstrate the potential of free trade. For example, in 1990, Mercosur's trade among its members amounted to just nine percent of its total exports; by 1996 it had more than doubled to twenty percent. For the Andean Pact region, intra-pact trade amounted to three percent in 1990; by 1996 it had more than tripled to over ten percent. This growth shows that regional integration is working at a rapid pace. And these agreements can help prepare countries for eventual hemispheric free trade by injecting greater competition to their economies.

But there are real reasons for concern, and they suggest we must get on with the FTAA, and soon. While the U.S. is sitting on the sidelines, our exporters -- both farmers and manufacturers - - are facing an increasing price disadvantage in countries that have negotiated free trade agreements with others but not with us. Chile is a prime example. Chile has sought to maximize its benefits from free trade, and has signed trade agreements with Mercosur, with Canada and with Mexico (as well as being a member of APEC.) A recent study by the American Chamber of Commerce in Chile has identified some \$500 million in U.S. export sales that have been lost to other suppliers from these countries that can take advantage of duty preferences already in place - - advantages that are not available to U.S. suppliers. There is a viable free trade process in place ready to produce results once we get fast track.



Conclusion

There is much to be gained from tearing down trade barriers abroad. Today, millions of Americans directly or indirectly owe their jobs to exports. The United States is the world's largest exporter. If we do not choose to take the lead now, we run the real risk of falling behind. Already, strategic alliances are being formed without us. Without fast track, our trading partners will not negotiate with us. It's as simple as that. Without fast track, we run the risk of losing the gains we have made and our commanding competitive position.

As the President noted last week, "Other countries look at this decision in the United States as a decision about whether we continue to lead the world toward freedom and openness and partnership. And make no mistake about it, it is about more than economics, but increasingly our foreign policy and our economic policy are merging. And what is good for us economically, when it is good for other countries economically, advances the cause of freedom and prosperity and free markets and stability and partnership."

The proliferation of trade agreements in recent years demonstrates the importance of not standing on the sidelines. There is opportunity in the global market place -- if we choose to take it. If we chose not to, then the economic growth and jobs of tomorrow will go to those who took the challenge today. For unfortunately, in today's global competitive economy, the status quo does not mean standing in place; it means falling behind.

Thank you, Madame Chairman.

SPECIALTotal Pages: 11

LRM ID: AER201

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001**

Thursday, September 18, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: *Ron Peterson*
Ronald K. Peterson (for) Assistant Director for Legislative Reference

OMB CONTACT: Annette E. Rooney
PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT: STATE Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

DEADLINE: 4:00 P.M. Friday, September 19, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

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Testimony
of
Under Secretary of State
for Economic, Business, and Agricultural Affairs

Stuart E. Eizenstat

before the
Economic Policy and Trade Subcommittee
of the
House of Representatives Committee on International Relations

September ²⁴~~20~~, 1997

OUR FUTURE TRADE AGENDA

Thank you, Chairwoman Ros-Lehtinen, for the opportunity to appear before the Subcommittee to discuss the President's trade agenda and the renewal of the President's traditional authority to negotiate trade agreements, better known as "Fast Track."

As the sole remaining superpower, the United States has a fundamental national interest in contributing to stability and security around the world. A more prosperous world will be a more peaceful world -- a world more hospitable to American interests and ideals. By opening markets, Fast Track will also contribute to global as well as to American prosperity -- and that is good for America. Fast Track will reinforce the common interest that diverse countries and regions share in deepening and sustaining that prosperity. For these reasons, as Secretary Albright said this morning in a major speech, Fast Track is a foreign policy imperative of the United States.

World Leader in Eliminating Trade Barriers

For the past half century, the United States has been the champion of open trade and economic liberalization. Now we must continue to lead the world in shaping an increasingly open trading system for the next century. We all have profited from this open trading system, and it has helped us to achieve the highest level of prosperity ever in our history.

Two possible scenarios exist if the United States fails to lead:

The first scenario, simply, is that others will. If we fail to shape events, others will shape events for us -- to our obvious disadvantage. In the past four years alone, more than 20 trade agreements have been reached in Latin America and Asia without the United States. Every major economy in the hemisphere has concluded a trade deal with Chile except for the United States. That's a bad deal for U.S. workers.

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The second possible scenario if the U.S. fails to lead is that no one will. The United States is the indispensable nation in the world. No one can take our place. Without U.S. leadership, there will be an enormous void and lack of direction in the accelerating process of globalization.

Continued U.S. Prosperity at Stake

Our economy -- which has achieved the lowest combined rates of unemployment and inflation since the 1960s -- is the most competitive in the world. The President, working with the Congress on a bipartisan basis, has put the American economy in its strongest footing in three decades. At home, we have cut the deficit and put a balanced budget within reach while preparing Americans to adapt to change by investing in education and training. At the same time, we have worked aggressively to open markets abroad, above all, by concluding the Uruguay Round -- the most far-reaching trade agreement in history. During the past four years, one third of our economic growth has come from increased exports as we have enjoyed an unprecedented boom in trade. The United States is once again the world's largest exporter.

We are the world leader in key sectors such as automobiles, agriculture, and semiconductors. An increasing number of U.S. jobs now depend on exports (approximately 11 million). These jobs tend to be higher paying than those not related to exports. Over the past four years exports have created 1.7 million new American jobs. We expect this positive trend to continue -- but to ensure it does -- we must have the tools to negotiate further market-opening trade deals.

The President seeks to further open foreign markets to our goods and services, but we need Fast Track authority to do so. The simple truth that is often lost in debates over trade is that our market is already the most open major market in the world. Too many other markets remain closed to our products. We stand to gain enormously from concluding new market-opening trade agreements, which will require far more from our partners than from us. For example, under the North American Free Trade Agreement (NAFTA), Mexico's tariff cuts have been five times greater than our own.

Fast Track: A Traditional Negotiating Tool

Fast Track has effectively advanced America's national interest since 1974. Under Fast Track, Congress and five Presidents have established a partnership in setting the trade agenda and approving the terms of trade agreements. We are seeking a renewal of this common sense procedure.

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The three essential features of Fast Track authority are: (1) extensive consultations and coordination with Congress throughout the process; (2) a vote on implementing legislation within a fixed period of time; and (3) an up or down vote, with no amendments. Congress is ensured a central role before, during and after negotiations.

Using Fast Track

The President has developed an ambitious trade agenda to advance U.S. economic interests. Moving this agenda forward depends on regaining Fast Track authority especially in three key areas:

First, The WTO Agenda: The "built-in" agenda of the World Trade Organization (WTO) calls for negotiations on intellectual property in 1998; agriculture in 1999; and trade in services in 2000. In each of these sectors, the United States is the most competitive nation in the world and stands to benefit the most from writing the rules of trade.

Second, Key Sectors of the Future: The President also wants to build on the success of the Information Technology Agreement (ITA). This \$5 billion tariff cut on products for which the United States is the world's leading producer was achieved by the use of residual tariff cutting authority. Within the context of the Asian Pacific Economic Cooperation (APEC) forum -- known as APEC -- the Administration has identified eight additional sectors for future negotiations: ITA II, chemicals, automotive, oilseeds, energy equipment and services, environmental technology and services, medical equipment and services, and wood and paper products. Other APEC members have submitted their "wish lists" and there is overlapping support for many of the U.S. recommendations. Without fast track, it is unlikely that this process will go forward.

Third, Emerging Economies: The President intends to move forward in APEC toward the goal of open trade by the year 2010 and with a Free Trade Area of the Americas (FTAA) by the year 2005. U.S. exports to these fast-growing regions have increased rapidly over the past five years, but tariff and other barriers remain high. Tariff reductions and greater market access will have a very positive effect on our exports. Without the active participation of the United States in each process, neither of these goals will be attainable.

Opportunities in Emerging Economies

Opening foreign markets is a win-win scenario for us and the rest of our trading partners, particularly developing countries whose economies are projected to grow more rapidly than our own.

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In Latin America, Asia, and Africa, country after country is opening its economy, decreasing tariffs, dismantling barriers, and searching for new markets abroad. Eighty-five percent of the world's consumers reside in these developing countries. Middle classes are growing rapidly. Many of them have become the fastest growing markets in the world; Latin America and Asia are projected to grow at two to three times the U.S. growth rate. Latin America and the Caribbean represent a market of more than 500 million consumers whose rising incomes are often spent on U.S. goods and services -- sometimes in spite of high tariffs or other trade barriers. In Asia the ASEAN countries alone have a combined population of some 500 million people.

If we can help create a middle class like those which have emerged with such enormous purchasing power in countries like Argentina and Brazil and Korea and the Asian Tigers, these become the consumers of tomorrow. They want U.S. products. They are hungry for the kinds of products we take for granted. We have quality and price that can compete and outcompete anybody in the world if we can only open those markets and lower those tariffs. We can not do it unless a bipartisan coalition gives us the authority to tear these barriers down.

The developing countries, especially those approaching developed country status, are extraordinary areas of export opportunity. For example, they imported over one trillion dollars of manufactured goods from the industrialized countries last year alone. American workers and companies stand to benefit the most if we are successful in further lowering tariffs and trade barriers in sectors which we are the most competitive worldwide.

For decades the United States pursued a policy of opening its own market to the less developed countries without demanding reciprocal access for our own products. As more of these countries approach fully developed country status, this approach has become less appropriate. To reach new agreements to liberalize trade in key sectors of the world economy, we need to obtain the participation of a critical mass of developing countries. Achieving this "critical mass" of countries to come forward in this way was essential to the success of the Information Technology Agreement (ITA) and the Basic Telecommunications Agreement.

Emerging markets are the future of growth in information technology -- the sector in which American companies are the most competitive in the world. Asia and Latin America technology markets, in particular, will continue to experience double digit growth rates, at least twice the rate of U.S. and European markets.

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Emerging markets are also the fastest growing export markets for trade in services. U.S. exports to emerging markets have grown at impressive rates: nearly 30 percent to China, Taiwan, and Korea; and over 20 percent to Hong Kong and Argentina. Opportunities abound for U.S. environmental technology, agriculture, automotive, telecommunications, and energy sectors among others. Fast Track will strengthen our efforts to dismantle trade barriers and open international markets, which will be key to maintain our nation's competitiveness and innovation in these critical sectors.

Cost of Inaction

Further delay in granting Fast Track authority will cost us abroad -- and ultimately here at home. There is a real danger in U.S. inaction. The rest of the world will not wait for us, and trading pacts will be concluded without our imprint. Already more than 20 trade agreements have been signed in our hemisphere since 1992 without our participation.

We are already beginning to feel the effects of not having Fast Track authority. For example, every major economy in this hemisphere -- with the exception of the United States -- has gained duty-free access to Chilean markets. U.S. firms conducting business in Chile operate at a competitive disadvantage, as they are subject to an 11-percent tariff on U.S. goods entering Chile. As the President said last week, that is a bad deal for America. For example, U.S. telecommunications companies are now competing for contracts in Chile at a significant disadvantage because the trade agreement between Canada and Chile eliminated Chile's across-the-board tariff on Canadian goods.

Earlier this week, the EU announced their intent to negotiate a trade agreement with MERCOSUR by 1999, the growing regional bloc among four nations in South America -- including Brazil and Argentina. Our negotiations won't even start until 1998. This begs the question -- do we want to stand back and watch while Europe gains greater access in our hemisphere at our expense? I don't think we do. We cannot invoke the Monroe Doctrine to block their advance. But we can use Fast Track -- and we must if we are serious about expanding opportunity for the United States.

Our global competitors are focused on the fastest growing markets in the world, not only in Latin America and the Asia-Pacific Rim, as well as additional markets of great promise such as Africa and Central Europe. America's place is not on the sidelines -- it is on the frontline, battling to open markets so our companies and workers can compete everywhere.

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Improving Environmental and Labor Standards

Further delay in granting Fast Track will not only diminish our global economic opportunities and leadership, but it will also deny the President a tool that can help improve environmental and labor standards around the world.

It is a fallacious argument that expanded trade threatens worker rights and the environment. We believe trade is fully compatible with both of these important objectives. At home jobs related to exports pay more than others. Abroad, expanded trade helps create rising living standards and wages, middle class consumers more anxious to buy U.S. products and more sensitive to environmental degradation.

Addressing labor and environmental issues in the trade context has been complex and controversial. Gaining international recognition of the link between trade and labor issues will be a gradual process, requiring perseverance and commitment. But our leverage on labor and environment issues will certainly be greater if we can build economic partnerships where our partners have a stake -- a vested interest in a strong economic relationship with the United States. Furthermore, by helping build middle classes and enhancing prosperity in every region, we can help lift labor and environmental standards worldwide.

Despite significant obstacles, the Administration has made significant progress in obtaining commitments on core labor standards in international trade organizations and improving the standards of living for workers around the world.

The President has fought for and won important advances on the environment in the WTO, including the establishment of a permanent WTO forum to address the link between trade and the environment. He has also effectively implemented U.S. environmental laws to encourage improvements in other countries' environmental practices, including using, where called for, the threat of trade sanctions. We are committed to working, in consultation with Congress, to further strengthen the recognition of core labor standards and enhance the protection of the environment.

What Fast Track is Not

Madam Chairwoman, it is no secret that opponents of Fast Track are attempting to cast the debate as a referendum about the North American Free Trade Agreement (NAFTA). We believe that the NAFTA has been good for the United States, but Fast Track is about much more. It is about our economic future, American leadership, and the continued prosperity of this nation and the rest of the world.

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NAFTA is but one part of our effort to open foreign markets to U.S. goods and services. Only three and one half years old, NAFTA has already yielded benefits to the United States, including a modest positive impact on investment, wages, and jobs supported by exports. Our southern neighbor will soon replace Japan as the second largest market for U.S. exports. Probably more important, the agreement has been an important impetus for positive change in Mexico.

NAFTA has also protected U.S. jobs and exports by locking in preferential access in Mexico. Following the 1982 economic crisis, Mexico raised tariffs by 100 percent, and American exports to Mexico fell by half and did not recover for seven years. In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, U.S. exports recovered in 18 months and were up 37 percent by the end of 1996 relative to pre-NAFTA levels. Moreover, U.S. suppliers have increased their share of Mexico's import market from 69 to 75 percent.

Trade Strengthens Cooperation

As the President stated on September 10, Fast Track is about more than economics. Increasingly our foreign policy and economic policy are inseparable. It is in our national interest for the developing countries to prosper, to build strong democratic institutions, and to be capable of resisting threats like those posed by international crime. Sustained economic growth abroad and the opening of markets contribute to job growth, rising incomes, growing middle classes, and stronger democratic institutions. Market-opening trade pacts reinforce our efforts to create a common global stake in freedom, stability, and prosperity.

I cannot emphasize enough that at the State Department we regard stable economies and international cooperation as critical foreign policy goals for the United States. Expanding economic ties benefits the United States not only for economic reasons, but also because it supports our efforts on other fronts. Without fast track, we can't lead on trade. And if we can't lead on trade issues -- especially with developing countries -- our political and security agenda will be hampered. Increasingly, countries want to work with the United States to expand trade -- and naturally because we are the largest market in the world. Unless we can engage with them on our mutual economic interests, we will not be able to engage them on either our economic or political interests.

For example, Fast Track is essential for creating the Free Trade Area of the Americas, but it will also help generate new momentum in areas of cooperation that emerged from the historic

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Miami Summit. These include our efforts to fight drug trafficking, transnational crime and environmental degradation -- each threat that touch the lives of each and every American.

Maintaining U.S. Leadership

Fast Track is critical to America's overall global leadership. Our competitors and partners will be watching whether we decide to lead toward a shared future of peace, freedom, and prosperity. The world is looking to the decision by the Congress on Fast Track as a key signal of our intentions -- of our willingness to continue to lead the global push for open markets, economic reform and rising prosperity.

Fast Track also has great symbolic importance -- what we do sends a message to reformers throughout the world. For decades, on a bipartisan basis, we have encouraged economic and political reform throughout the world. Now, countries are finally making tough decisions in eastern Europe, Africa, Latin America and Asia. What kind of message would it send to reformers for the United States to withdraw from leading the world toward more openness and prosperity? Failure to move forward on Fast Track would, in my view, only empower opponents of economic reform throughout the world.

From my recent travels to Central America and the ASEAN countries, I returned convinced that if we do not obtain Fast Track authority, we will send a signal of retreat -- a dangerous signal to the countries whom we have encouraged for several decades to liberalize trade and become part of the global economic system. If we send the wrong signal that there are no benefits to be gained from staying on the difficult path of market freedom, we can expect that progress in areas such as deregulation and privatization will slow considerably.

Without Fast Track, we will choose to squander the spectacular opportunities before us as the world moves into the next century. Moreover, we will be unable to establish new trade disciplines, generate a critical mass of developing countries to negotiate reciprocal agreements in key areas, such as the recent Information Technology Agreement. Perhaps worst of all, we will have lost credibility and diminished our ability to lead -- both to secure our fundamental national interests and in other countries in small but cumulatively critical ways.

As the world's leading trading power, the United States is in a unique position to foster further reform and internationally-accepted, rules-based trade and investment practices around the globe. I strongly believe that we can best protect the interests of American businesses and workers by remaining engaged and proactive in shaping the rules of the game.

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Madam Chairwoman, granting Fast Track authority would preserve the bipartisan partnership between the President and Congress on trade issues that has produced massive benefits for America for more than 20 years. Presidents from both parties have used this authority with great success -- and made it the traditional authority by which the Congress and the President can best work together to advance America's trade interests around the world.

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Tuesday, September 16, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO:

Legislative Liaison Officer - See Distribution below

FROM:

Ronald K. Peterson (for) Assistant Director for Legislative Reference

OMB CONTACT:

Annette E. Rooney

PHONE: (202)395-7300 FAX: (202)395-5691

SUBJECT:

US Trade Representative and Treasury Testimony on Export Expansion and Reciprocal Trade Agreements Act of 1997 (Fast Track)

DEADLINE:

1:00 P.M. Tuesday, September 16, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: If you do not respond by the deadline, we will presume that your agency has no comment. USTR (Lang) is also testifying on CBI and Sub-Saharan Africa. Three testimonies are attached.

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RESPONSE TO
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MEMORANDUM

FAX RETURN of _____ pages, attached to this response sheet

Draft of Written Testimony
U.S. Trade Representative Charlene Barshefsky
Renewal of Fast Track Authority
Senate Finance Committee
September 17, 1997

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

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

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

Today, it is imperative that we recognize the increasing importance of international trade to our economic strength at home and leadership abroad. Exports are more important in our economy now than ever. Since 1993, more than a third of our economic growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. A total of some 13 million U.S. jobs depend on exports, and these jobs pay an average of 15% more than non-trade-related jobs. Since 1985, U.S. exports have roughly tripled from about \$300 billion to an expected \$900 billion this year.

But, we cannot rest on our past accomplishments. We must find new markets for our goods and services in order for our economy to grow. To frame our economic challenge clearly, the United States represents less than five percent of the world's population, yet our share of global income is 20%. How are we going to maintain that our share of the world's wealth? We must sell to the more than 95% of the consumers that live outside our borders, which requires that we open foreign

markets to our goods and services. We need fast track if our economy is to stay on the fast track.

The Importance of Fast Track

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

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

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

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

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

More than 30 bilateral and regional trade agreements are already operating here in the Western Hemisphere. The United States is party to only one. In fact, most U.S. trading partners in the hemisphere have been actively forging closer ties with neighboring countries. Since 1992, over 20 such agreements have been negotiated -- without us.

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

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

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

In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- have set 2001 as the target for the creation of a free trade area. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. That some day this will be a force to be reckoned with is all but a foregone conclusion.

Access to markets in such developing nations is especially important to America's economic future, particularly those in Asia and Latin America which are projected to grow at rates three times the U.S. growth rate, while at the same time remaining vigilant in our efforts to open the mature economies of our traditional trading partners. In the global economy, more than 95 percent of the world's consumers reside outside the United States. Of the more than 30 million annual additions to the world's middle class consumers, an estimated three quarters are found in emerging markets and other low and middle income countries. Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariff barriers within the region average three to four times the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but again its market access barriers are also generally higher than U.S. barriers. The elimination of the inequity market access barriers in the global marketplace is fundamentally in the interests of America given that America is the most competitive large economy, and the most open large economy in the world.

Regrettably, our disadvantage in not having fast track procedures extends beyond developing nations. We are losing ground on our industrial competitors. Canada, for example, recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages in comparison with their U.S. counterparts. Perhaps even more disturbing, the EU, already the world's largest trading bloc, is poised for major expansion in the next few years. The EU has secured for its exporters significant advantages in the emerging markets of Central and Eastern Europe. As noted,

the EU also has begun a process aimed at reaching a free trade agreement with MERCOSUR and one with Mexico. The EU has concluded a framework agreement with Chile, too, which may lead to a free trade agreement.

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

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

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

U.S. fabric producer, Quaker Fabric, recently lost a \$1.8 million a year sale in Chile to a Mexican competitor because of the 11% preference.

U.S. apple producers are at risk in their Latin American markets due to Chile's preferential tariff free, or near tariff free, access to MERCOSUR, Venezuela, Colombia, and other South American markets as a result of its FTAs that have been negotiated (six since 1991). U.S. producers have to absorb the non-preferential tariff cost to enter these growing markets.

U.S. corn producers are facing competition from Argentinean producers who enjoy a 3.3% tariff preferences in Chile, which will grow to 11% over time.

Chilean fresh fruit pays a 2 percent duty when entering Venezuela (due to the Chile-Venezuela FTA), whereas U.S. producers pay a 15 percent tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39 percent to 67 percent if U.S. producers had equivalent access to the Venezuelan market.

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

The only way to offset the effects of these developments is for the United States to enter into similar bilateral and regional agreements, or to negotiate new multilateral liberalization agreements. But, no such agreements are likely as long as our trading partners believe that any agreement negotiated is likely to be rewritten by Congress without ever receiving even one up or down vote.

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

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

The Uses of Fast Track

The absence of fast track not only allows our competitors to enter into agreements from which we are excluded, but it also prevents us from achieving our own goals. There are three major areas of pressing concern that which require fast track now..

First, fast track would allow us to complete the built-in agenda of the World Trade Organization: that is, concluding the major trade negotiations that were deferred at the end of the Uruguay Round. This year, we resume negotiations on reform of government procurement. Next year, we begin again the negotiations on intellectual property rights, followed by agriculture negotiations in 1999, and then services negotiations. We seek enhanced access to global markets in these areas, and the stakes are very high. Government procurement in Asia alone is a trillion-dollar market over the next decade. Agriculture and services represent another almost \$2 trillion market, with agriculture representing \$600-billion globally; and services \$1.2 trillion. We must have fast track authority to enter these various talks or countries will not put meaningful offers on the table.

Second, fast track would enable us to pursue market access initiatives in sectors where the United States either leads the world or is a powerful competitor, and where there is extraordinary potential for growth. For example, under the recently concluded Information Technology Agreement (ITA), the United States and forty-two other nations agreed to the reduction and eventual elimination of tariffs on information technology and electronic products, including semiconductors, computers, telecommunications equipment, faxes, phones, and integrated circuits. This is an extraordinarily favorable agreement for the United States, since we are a major exporter of these products and our applicable tariffs generally were quite low. Because

other countries maintained higher duties, the agreement provides what amounts to a \$5 billion tax cut for U.S. industry.

In fact, the agreement has proven so successful that we already have a consensus among our trading partners to pursue an "ITA-2" -- which would expand the scope of products covered by the agreement, address non-tariff barriers instead of just tariff barriers, and increase access to and keep trade on the Information Superhighway "duty free." Fast track will be key.

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

Third, fast track is essential if we are to negotiate more comprehensive market access agreements with individual countries. This Administration, consistent with its predecessors, has identified Chile as a promising candidate for a comprehensive trade agreement. Chile appears in all respects to be prepared to enter into agreements with us that achieve our economic objectives, as well as our goals with respect to labor and the environment.

Prior to the pursuit of other specific free-trade arrangements, the Administration would clearly define our negotiating objectives and engage in meaningful consultations with Congress before embarking on any additional negotiations.

The Fast Track Legislation

The President's proposal would allow us to achieve these goals and more. The proposal calls for the reactivation of the long-standing partnership between the Congress and the President in trade negotiations. The President's proposal ensures that the Congress is fully integrated into the formulation of U.S. goals, strategies, and decision-making for each trade negotiation subject to fast track procedures.

Before I turn to the specifics of the President's proposal, I believe it embodies much of what fast track is about, finding an American consensus. As many members of this Committee know, the Administration spent significant time consulting with members in both Houses and of both parties to try to develop a proposal that would reflect the views our constituents, the American people. The consultations were invaluable in shaping this proposal, and I thank the members of this Committee and their staffs for their significant contribution to forging a consensus.

What was immutable was that the President was committed to being able to pursue his trade agenda, as well as his other priorities, including labor and the environment. This proposal satisfies that

standard and, we believe, reflects a consensus about how the United States should seek to achieve those goals in the world today. The success in working with Congress to shaping this proposal portends similar success working together under these fast track procedures, and I look forward to that opportunity.

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

The proposal first sets out "overall" and "principal" trade negotiating objectives for the President. The "overall" objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting policies and practices; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

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

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

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

carry out reciprocal tariff elimination agreements consistent with WTO rules.

Next, the bill provides for the President to negotiate certain agreements requiring implementation legislation and bring them back to Congress under fast track procedures. This means that Congress must vote up or down on the agreement without amendment within 60 "legislative days." The agreements may address tariff barriers, non-tariff barriers or both, regardless of the number of nations involved.

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

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

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

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

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

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

The President's proposal seeks this authority until his term is completed, with the possibility for an extension until 2005, assuming the extension is requested and is not disapproved by Congress. This provides Congress and the next President the opportunity to ensure that the consensus that we hope can be achieved with this fast track proposal endures during the term of the next President.

Conclusion

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

As the President Clinton said last week: "Walking away from this opportunity will not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers."

The world is on a very fast track to the 21st century. America must be an active participant in international trade if it is to shape the future. I have approached my responsibility as U.S. Trade Representative not just in terms of delivering the best possible trade agreements on behalf of today's working Americans -- though they surely are a paramount consideration -- but in terms of where America should be positioned 20 to 30 years from now. The United States should position itself at the center of a constellation of trade relationships, with our trading partners looking to us for leadership. Unquestionably, we have already taken strides toward fulfilling that vision, but much remains to be done.

That is why I look forward to working with you on this initiative as we seek to shape the course of change around us.

**Fast Track Testimony
Secretary Robert Rubin
September 17, 1997**

**Mr. Chairman, I appreciate the opportunity to appear today with
Ambassador Barshefsky to say a few words about the importance of fast track.**

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

The President's ongoing efforts to break down barriers to trade have been crucial to our economic success, in conjunction with renewed competitiveness by American companies. We are once again the world's largest exporter.

But we must not let these current conditions, favorable though they may be, mask the challenges we still face in improving our economy. There is still much work to do to make sure we sustain this economic momentum into the future and that everyone enjoys the fruits of our economy. That is why we must

work to equip Americans with the tools they need to prosper in today's economy, through stronger education and training, and assistance when dislocation occurs. But we must also build on our trade record to continue to create better jobs and raise standards of living.

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

With fast track authority, we can negotiate further trade agreements to open foreign markets to U.S. goods and services. Without it, no nation will enter into a serious negotiation with the United States, and our economic interests will suffer. We will, of course, consult with Congress, during the course of negotiations that we enter. However, our negotiating hand is significantly strengthened when the other side knows that a deal we reach will not be

amended by the Congress.

Already, countries around the world are moving ahead to expand trade with each other. There is no question this is going to continue. The question is whether we will part of the process of integration, or on the outside looking in. Our exports to the Mercosur nations, which have created preferential trade arrangements amongst themselves, fell by more than 10 percent in 1996, while our exports to the rest of the world grew by almost 8 percent. We must make sure U.S. companies have a level playing field as markets of the future open their doors to trade.

The next steps for our trade agenda are to expand trade with the rest of Asia and Latin America. These are some of the most dynamic economic regions in the world and are areas of increasing importance as export markets for U.S. goods. We must reduce trade barriers in these regions and strengthen economic ties so that we may continue to create jobs and foster prosperity in this country. In addition, we must move forward in agreements in some of our most competitive sectors, and reduce barriers to trade in agriculture, a key U.S. export.

Fast track is about more than one trade agreement or set of trade agreements, however. It is about U.S. leadership in the growing global economy

and is an integral part of the strategy that has put our economy on the right track.

Mr. Chairman, trade policy has been a bipartisan effort for the past fifty years and it should continue to be a bipartisan effort. This has been a period marked by U.S. leadership in promoting free trade, which helped foster unprecedented global economic growth and benefited the United States, its businesses and workers. We must continue to work together to devise an acceptable negotiating authority so that we can continue to open markets, expand trade, and raise living standards both at home and abroad.

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

17 September 1997

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

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

At this time, I would like to discuss both proposals in detail.

Caribbean Basin Trade Enhancement

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

On June 17, 1997 the Administration transmitted the United States Caribbean

Basin Trade Enhancement Act (CBTEA) to the Congress. The purpose of the CBTEA proposal is to give Caribbean Basin countries enhanced market access and serve as a bridge toward the Free Trade Area of the Americas. This bill is part of an integrated Administration-wide strategy to advance economic progress and promote regional cooperation throughout the Caribbean. It signals our intention to expand trade with Caribbean countries on terms consistent with the objectives of the Free Trade Area of the Americas (FTAA) and their own obligations in the World Trade Organization (WTO).

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

The Administration originally had expected to introduce the CBTEA proposal as a free standing bill. However, when CBI enhancement was included in the Ways and Means reconciliation bill, we forwarded a proposal that the Administration supported in preference to the text in the reconciliation bill. Wishing to maximize the possibility of passage of CBI enhancement and to ensure funding for the measure, the Administration worked hard to reach compromise language that would enable CBI trade enhancement to remain in the budget reconciliation package. We were disappointed when the such language was dropped from the final version.

However, the Administration's proposal has been introduced by Senator Graham and Representative Rangel. Under the U.S. Caribbean Basin Trade Enhancement Act (CBTEA)

new trade preferences would be phased in as countries undertake appropriate policy measures that will prepare them for the FTAA.

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

Indicative of the changes underway in the region is the fact that all but one of the CBI beneficiaries belongs to the World Trade Organization and that as members they have undertaken a commitment to adhere to the rules of that organization. In

addition to meeting their WTO commitments, these countries will need to make structural reforms in order to take advantage of the benefits to be derived from a hemisphere-wide free trade zone.

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

Textile/Apparel Provisions

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

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

The bill would also contain safeguard provisions on both originating and non-originating products. Imports of non-originating products could be limited under the same conditions, both criteria and remedies, as in the NAFTA; also as under the NAFTA, imports of originating products could be subject to a tariff snap-back safeguard. The draft bill also expands the quota safeguard provision so that all textile and apparel products receiving benefits under the bill can

be subject to quota safeguards. While NAFTA applies quota safeguards only to non-originating

products, safeguards in this bill are more comprehensive, again because the bill is not a negotiated agreement.

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

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

The key to the success of the existing CBI program is that the trade provides benefits to both the U.S. and to the Caribbean countries. The majority of our apparel imports from the Caribbean countries contains substantial U.S. content. This means that our producers and our workers make the fabric and the other inputs (linings, sewing thread, notions) that go into the CBI's apparel; our companies employ people in cutting and distribution in the U.S., and so on.

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

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

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

Given the potential benefits for these countries, the changing economic and trade environment in the region and the need for such a bill to include strong incentives for sound trade policy measures in the Caribbean, we have designed a program that would, through a phase-in process, give countries the incentive to continue to make

progress on trade policy. We have also given a great deal of thought to ensuring increased market access for U.S. businesses as we grant increased preferences to CBI countries. This bill does not create a one way street of open-ended trade preferences with no benefit to U.S. interests. Nor does it place unreasonable or unfair burdens on the countries of the Caribbean. It is a balanced trade package that promotes economic development in this region that is so important to the United States.

Initial Designation

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

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

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

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

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

creative and inventive activity in the region as well as U.S. holders of intellectual property rights.

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

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

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

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

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

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

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

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

Customs Valuation. The bill includes an eligibility criterion based on the provisions of the WTO Agreement on Implementation of Article VII of the GATT 94, which addresses rules for customs valuation. U.S. exports are put at a disadvantage in the market when arbitrary customs valuations result in higher tariffs, making our exports less competitive in the market. Adherence to the WTO Agreement is of great importance to our exporters, and all WTO members in the CBI region are required to implement those obligations by the year 2000..

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

Duration

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

Phase-In of Benefits

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

comment and undertake extensive consultations with the Congress on the operation of the program at the time of the review.

Maturing Relationship

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

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

Africa: Growth and Opportunity

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

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

We recognize the achievements of many countries in Sub-Saharan Africa in pursuing economic and political reforms and wish to offer special support to those countries committed to pursuing accelerated reforms. Today, I want to discuss the Clinton Administration's new economic approach to Africa. We have worked intensely within the Administration to develop a program that we hope will help

African countries lock in and accelerate the increase in growth that they are starting to achieve. I would like to acknowledge the contributions of a number of agencies, including the Treasury, State, Commerce and Agriculture Departments, USAID, OPIC, Export-Import Bank and the Trade and Development Agency. We have worked on this project as a team under the coordination of the National Security Council and the National Economic Council to produce this comprehensive program. I will focus on the trade and investment policy aspects of the program because that is my area of expertise and trade and investment is, I understand, the subject of this hearing.

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

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

Our plan highlights Africa's success stories. In the last few years, more than 30 countries have instituted economic reform programs. They have adopted the most critical reforms -- liberalizing exchange rates and prices, privatizing state-owned enterprises, instituting tighter disciplines over government expenditures, ending costly subsidies, and reducing barriers to trade and investment. Many countries have also undertaken political reforms.

Reform efforts have helped boost economic growth in Africa from 1.4 percent in the 1991-94 period to 3.4 percent in 1995 and 5.6 percent in 1996. The United States seeks to encourage these reforms and the growth that stems from them. The benefits for the United States are clear. In an increasingly competitive global economy, the United States cannot afford to neglect a largely untapped market of some 600-million-plus people, and the world cannot afford to see a vast region marginalized. The lowering of tariffs and other trade barriers will help African nations to grow. They will also help Americans by opening these markets to our goods and services. Increased growth will also contribute to social and political stability on the continent and to an enhanced capacity to address the problems with which we are all too familiar.

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

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

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

In the area of trade and investment, we attach particular importance to the extent to which countries have made substantial progress toward reducing tariff levels, binding their tariffs in the WTO and assuming meaningful binding obligations in areas of trade such as services, and in eliminating nontariff barriers to trade. We also think it is very important that any country in Sub-Saharan Africa that is not already a member of the WTO should be actively pursuing membership in the WTO and be prepared to take on meaningful obligations. We are pleased that several African countries made commitments in the recently concluded WTO telecom services negotiations. We hope that these countries will also make commitments in the WTO financial services negotiations which resumed last month.

We also believe economic growth may be enhanced by other factors in the trade and investment area such as the provision of national treatment for foreign investment, a readiness to begin negotiations with the United States on a Bilateral Investment Treaty, privatization of sectors of the economy that are most likely to attract foreign investment, compliance with programs with and obligations to the

International Monetary Fund and other international financial institutions and the introduction of current account convertibility.

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

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

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

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

-- In support of this we strongly hope that the Congress will quickly re-authorize the global GSP program on a multi-year basis. For 20 years it has provided developing countries with preferential tariff access to the United States, and we believe it can be even more effective with the expanded product coverage that was authorized last year for the least developed countries.

-- *Investment support.* The Overseas Private Investment Corporation (OPIC) is working with the private sector sponsors of a proposed \$150 million fund for equity investment in a variety of economic sectors. Two-thirds of the fund would consist of OPIC guaranteed debt. OPIC is also working to develop one or more separate funds that would focus on economic infrastructure projects. These potential funds would have aggregate capital of up to \$500 million. We have also secured agreement that the African Development Fund will develop a capacity for financing infrastructure projects, in particular those that

will improve linkages among markets, both within countries and regionally. We are pleased that HR 1432 calls for such funds.

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

-- *Support for American-African business relations.* USAID will provide support to help catalyze American-African business ties.

-- *Export-Import Bank.* The Export-Import Bank of the United States will encourage use of its programs through designation of a senior advisor on Africa to its board and a campaign for outreach, particularly with the private sector.

-- *Assistant U.S. Trade Representative for Africa.* To ensure that trade issues with Africa receive proper attention, Ambassador Barshefsky has undertaken the steps necessary to create an Assistant U.S. Trade Representative for Africa.

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

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

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

-- The Administration recognizes the importance of the textile and apparel industry to developing countries. We are looking forward to working with Congress on an initiative. We support a program that will be consistent with our overall commitments under the WTO, while at the same time taking into account the interests of U.S. industry and Africa.

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

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

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

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

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

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

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

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

Their specific contributions would include, for example

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

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

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

To magnify the economic impact of this proposal, the Administration will encourage Africa's trading and investment partners to take bilateral and multilateral actions that work toward the same ends as those described above. We will particularly be discussing this matter at the forthcoming summit of industrialized nations in Denver. Collaboration among Summit partners on matters affecting

Africa has already yielded major results, with the unveiling last year of a program of multilateral debt reduction for Heavily Indebted Poor Countries --the HIPC Initiative --which will benefit a number of poor African countries that are pursuing strong reform policies but are burdened with particularly heavy debt loads. We believe that a discussion of the need to accelerate economic growth in Sub-Saharan Africa at the Denver Summit will provide similarly powerful impetus for further global action on Africa's behalf.

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

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



jon @ intrepid.mgmt.purdue.edu
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To: jon d. haveman

cc:

Subject: Fast Track (fwd)

*This e-mail contains
the text of the letter that
R. Deardorff and J. Bhagwati
have circulated. Apparently,
Baldwin wrote it.*

Jon

----- Forwarded message -----

Date: Tue, 14 Oct 1997 15:41:12 -0400 (EDT)
From: Alan Deardorff <alandear@econ.lsa.umich.edu>
To: Jon Haveman <jon@mgmt.purdue.edu>
Subject: Fast Track (fwd)

Here it is.

Prof. Alan Deardorff <http://www.econ.lsa.umich.edu/~alandear/>
Department of Economics internet: alandear@umich.edu
University of Michigan phone: 313-764-6817
Ann Arbor, MI 48109-1220 fax: 313-763-9181

----- Forwarded message -----

Date: Sun, 28 Sep 1997 12:19:22 -0400 (EDT)
From: Alan Deardorff <alandear@econ.lsa.umich.edu>
To: International Seminar Economics <econ.intl.sem@umich.edu>,
Avik Chakrabarti <chakra@econ.lsa.umich.edu>,
Gunter Dufey <gdufey@umich.edu>, Jan Svejnar <svejnar@umich.edu>,
Katherine Terrell <terrell@umich.edu>, Bernard Yeung <byeung@umich.edu>
Subject: Fast Track

Jagdish Bhagwati has faxed me a draft (by Bob Baldwin) of a statement supporting fast track legislation that he intends to release over the names of international economists who endorse it. He wants our names by Monday morning (9/29), so please respond to me by Monday at 11:00 AM if you would like your name to be included, and I'll send him a list shortly before our seminar. If you don't make that deadline, give me your name anyway and I'll send another list later on Monday in hopes of reaching him in time.

Here is the statement (copied from his fax of an e-mail from Baldwin):

We strongly support fast-track legislation in the traditional form that does not link trade liberalization to requirements concerning labor and

environmental standards. Insisting on such a linkage in view of the wide differences among our trading partners on appropriate standards in these areas will slow down or even possibly halt the opening up of world markets through trade-liberalizing negotiations -- a process that has been so important in raising average wages and living standards in the United States over the last fifty years. Failing to conclude new, market-opening trade agreements will also retard income growth in the developing countries and thereby slow down the voluntary adoption of stronger labor and environmental standards that comes with rising per capita income levels.

Human rights and environmental issues clearly deserve attention, but we believe they should be pursued in a pro-active manner in institutions other than those concerned with the liberalization of trade. Trade institutions, such as the World Trade Organization (WTO), not only lack the expertise to deal adequately with complex human rights issues but assigning responsibility for labor and environmental standards to these institutions will reduce their effectiveness in settling the many trade issues they already face. More efficient outcomes are achieved by institutional specialization in policy assignment coupled with consultation and coordination among the relevant organizations.

Prof. Alan Deardorff
Department of Economics
University of Michigan
Ann Arbor, MI 48109-1220

<http://www.econ.lsa.umich.edu/~alandear/>
internet: alandear@umich.edu
phone: 313-764-6817
fax: 313-763-9181

cc: LIB
JF
JY
MH

FACSIMILE COVER SHEET
OFFICE OF INTERNATIONAL TRADE & INVESTMENT
15TH & PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20220

DATE 10/29 NUMBER OF PAGES TO FOLLOW 5

TO: Mr Xaver Kamp

ADDRESSEE'S FAX NUMBER 395 685 3

FROM: Meg Lundsager

SENDER'S FAX NUMBER: 622-5304

SENDER'S CONFIRMATION NUMBER: 622-0168

COMMENTS/SPECIAL INSTRUCTIONS:

As promised

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Expanding Trade Through Fast-Track Will Raise American Incomes

U.S. Treasury Department

October 23, 1997

RR-2012

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202 622 5304 P. 02/06

OCT-29-1997 09:17

Expanding Trade Through Fast-Track Will Raise American Incomes

United States Treasury
Office of International Affairs

New trade agreements negotiated under fast-track will expand trade by reducing tariffs and other barriers to trade. They will cut the taxes that foreign governments impose on U.S. products, making our products more attractive to foreign consumers and fueling continued growth in American exports. By allowing the United States to maintain the momentum generated by previous trade liberalizations, new fast-track agreements could contribute to an increase of at least \$200 billion in U.S. merchandise exports, relative to what they otherwise would be, in the year 2010. Faster export growth is important. Studies show that jobs in export industries pay about 15% more on average than other jobs.

Fast-Track Cuts Taxes on U.S. Products

The benefits of fast-track agreements for the United States are clear. U.S. tariffs are already quite low—only about one-third of the average tariff rates applied by the major countries in Latin America and Asia with whom we are most likely to attempt to negotiate trade liberalizing agreements over the next decade. Fast-track agreements will cut barriers to U.S. exports to these countries far more than our barriers to their products.

In 1996, foreign governments collected approximately \$31 billion from tariffs on U.S. exports. Countries in Latin America, who imposed an estimated \$6.2 billion tax on U.S. exports, and in APEC, whose Asian members imposed an estimated \$13.4 billion tax, account for most of these tariffs. *If an agreement had been in place to cut these foreign taxes on American products by even one-half, taxes on U.S. exports would have*

been reduced by nearly \$10 billion in 1996.

Effective Tariff Rates¹

Thailand	26.1%
China	23.0
Philippines	19.0
Peru	14.6
Uruguay	14.6
Venezuela	12.4
Brazil	11.7
Chile	11.0
Colombia	10.9
Indonesia	10.7
Argentina	10.3
Australia	8.9
Korea	7.7
New Zealand	6.8
Malaysia	6.4
Japan	2.8
Singapore	1.3
Hong Kong	0.0
Weighted Ave. of Above	7.5
United States	2.8

Agreements negotiated under fast-track authority will reduce trade barriers in some of the most rapidly growing markets in the world; they will also allow the negotiated reduction of trade barriers in sectors where the United States has a comparative advantage.

¹ World Bank. Effective average applied tariff rates on total merchandise imports. For China, the arithmetic average of tariff rates. National rates are weighted by 1996 U.S. bilateral exports to compute the weighted average.

The United States hopes to negotiate agreements on a global basis in the many areas of export interest, including agreements: in agriculture, a global market of \$536 billion; in services, a market of \$1.2 trillion; in government procurement, a market estimated to be worth \$1 trillion in Asia alone in the next decade; in medical equipment; and in environmental technology. It also hopes to expand the scope of the successful information technology agreement.

1996 U.S. Exports (\$ billion)

Services	237
Agriculture	61
Chemicals	71
Wood and Paper	26
Medical Equipment	11

Focusing on the gains from reducing average tariffs understates the gains from fast-track agreements in many ways. Average effective tariff rates often mask higher tariffs in products where the United States is extremely competitive. For example, many Asian APEC countries impose tariffs on transportation equipment and electrical machinery that are nearly twice as high as their average tariffs. Many countries -- particularly countries in Latin America and Southeast Asia -- have the right to impose higher tariffs on U.S. goods than they currently proposing.² Fast-track agreements are needed to lower these tariffs.

² For example, Brazil, which currently imposes an average tariff of only 11.7%, could increase its tariffs to an average rate of 31% without violating any WTO rules. Similarly, Indonesia could increase its tariffs to produce an average tariff of 38.4% even though its current average tariff is 10.7%.

Plus, tariffs are not the only, or in many cases, the most important, barriers to trade. While non-tariff barriers (NTBs) are difficult to quantify, fast-track agreements clearly provide one of the most effective ways to address NTBs as well as to reduce barriers to trade in services and to improve the protection of intellectual property rights.

Lower Barriers Mean More Trade

During the post-World-War-II period, trade has expanded rapidly--more rapidly, in fact, than overall economic activity. This expansion is not just a product of lower transportation costs and technological innovation. Trade as a share of economic activity actually fell when trade barriers rose sharply after World War I. Trade as a share of economic activity only recently returned to the levels experienced 100 years ago because of the reduction of trade barriers after World War II.

During the past 10 years global trade has grown at an average rate of 10% per year -- faster than global GDP, which has grown by 7% per year. The Uruguay Round agreement, the most recent set of tariff reductions negotiated under fast-track authority, has contributed substantially to the recent growth of trade. In addition to creating new GATT limits on barriers to trade in agricultural products and to trade in services, the Uruguay Round reduced average tariffs by almost one-third. Treasury baseline forecasts assume that U.S. trade will continue to grow by 9% per year--its average over the past 10 years -- between 1996 and 2000 because of the ongoing benefits from the Uruguay Round.

Fast-Track Needed to Sustain Momentum

Without continued U.S. leadership and fast-track agreements to assure that the U.S.

captures a growing share of key export markets, U.S. trade will not be able to grow as rapidly. Since the content of future fast-track agreements is not currently known, the precise magnitude of the increase in trade likely to stem from future trade-liberalization agreements remains uncertain.³

Treasury analysis indicates that each one percentage point increase in the annual rate of growth in U.S. trade between 2000 and 2010 translates into an additional \$200 billion in U.S. exports in the year 2010. If further trade liberalization aided by fast-track agreements increased the annual rate of growth in U.S. trade between 2000 and 2010 by two percentage points -- not an unrealistic assumption given the estimated gains from the Uruguay Round -- this would increase total U.S. merchandise exports by more than \$400 billion in 2010, or roughly 2.4% of estimated U.S. GDP in 2010.

More Trade Means Higher Incomes

Increased trade raises American incomes in many ways. Trade allows America to concentrate on producing the goods and services that we produce best. This increases the income of U.S. workers: studies show that jobs in export industries pay around 15% more than jobs in the rest of the economy.⁴

³ The deadline for free trade in the proposed Free Trade Agreement of the Americas is 2005; for APEC industrial countries, 2010; and for APEC developing countries, 2020. 2010 was selected as an intermediate date.

⁴ David J. Richardson and Karin Rindahl (1996), Why Exports Matter: More! Institute for International Economics and Manufacturing Institute; Lester Davis

Trade provides workers with better jobs and lets consumers benefit from greater competition, lower prices, and a wider selection of products.

It is very difficult to quantify all of the beneficial impacts of expanded trade on U.S. income. However, a substantial body of statistical evidence does demonstrate that countries that trade more are better off than countries that trade less. The results of a recent study that takes into account other factors and influences in order to better isolate the impact of trade on income suggests that the extra trade associated with fast-track trade agreements will raise the average incomes of Americans substantially by the year 2010.⁵

In terms of 1997 purchasing power, each additional percentage point increase in the rate of growth in U.S. merchandise trade is estimated to generate between \$800 and \$1600 in extra income for a typical American family of four in 2010. A two percentage point increase in the rate of growth of U.S. trade from fast-track agreements would increase the income of a typical family of four by between \$1600 and \$3200 in 2010.

These calculations understate the likely gains

(1996), U.S. Jobs Supported by Growth in Services Exports, 1983-94, Department of Commerce.

⁵ Jeffrey Frankel and David Romer, NBER Working Paper No. 5476; Jeffrey Frankel, David Romer and Teresa Cyrus, NBER Working Paper No. 5732. Frankel and Romer examined a cross section of a 100 countries and found that trade, along with investment in human and physical capital, is a key determinant of a country's growth rate.

from fast-track agreements. They only look at the benefits of liberalizing merchandise trade and thus do not incorporate the benefits associated with fast-track agreements that will lower the barriers, particularly the non-tariff barriers, to trade in services. Plus, many countries still have the right to impose higher tariffs than they currently impose, so continued rapid trade growth in the absence of future trade agreements should not be taken for granted.

The Cost of Inaction

Many countries of the world, including many of the most dynamic emerging markets, are moving to expand trade in preferential agreements that do not currently include the United States. Canada already has reached an agreement with Chile -- an agreement which is causing U.S. firms, like the Quaker Fabric Company of Massachusetts, to lose business to Canadian competitors simply because U.S. products face a 11% tariff in Chile and Canadian products do not. The European Union is exploring a preferential deal with Mercosur, a customs union that includes both Argentina and Brazil, that would give European products an edge over American products in the two largest markets in South America.

American leadership is needed to assure that the United States continues to exercise a dominant voice in the development of the global trading system. If we choose to sit on the sidelines, other countries will proceed without us, both undermining the world trading system that the U.S. has worked hard to create during the past 40 years and hurting U.S. exporters.

**Side-by-Side Analysis of the 1988 Fast-Track Law,
and the Pending House and Senate Bills**

I. Title.

<u>1988</u>	<u>Senate</u>	<u>House</u>
Omnibus Trade and Competitiveness Act of 1988.	Reciprocal Trade Agreements Act of 1997.	Reciprocal Trade Agreements Authorities Act of 1997.

II. Overall Objectives.¹

<u>1988</u>	<u>Senate</u>	<u>House</u>
More open, equitable and reciprocal market access.	Same as 1988 act, but makes the objective explicitly related to goods, services and investment.	Same as 1988 act.
Reducing or eliminating barriers and other trade-distorting policies and practices.	Same as 1988 act.	Same as 1988 act, but limits the objective to barriers and distortions that are directly related to trade and that decrease market opportunities for U.S. exports or otherwise distort U.S. trade.
A more effective system of international trading disciplines and procedures.	Same as 1988 act.	Similar but slightly different language as 1988 act; adds specific reference to improved dispute settlement.
N/A	Economic growth, higher living standards, and full employment in the U.S., and economic growth and development among U.S. trading partners.	Same as Senate bill, but instead of economic growth and development among U.S. trading partners, aim is to enhance the global economy.

¹While the 1988 act and the House bill refer to overall negotiating objectives, the Senate bill uses the term "Statement of Purposes."

III. Principal Objectives.

<u>1988</u>	<u>Senate</u> ²	<u>House</u>
<u>Dispute Settlement (DS)</u> -- more effective and expeditious DS mechanisms; ensuring such mechanisms within GATT and GATT agreements provide for more effective/ expeditious resolution of disputes and better enforcement of U.S. rights.	Same as 1988 act, but GATT replaced by WTO; clarifies that more effective DS mechanisms are to be provided for in "any trade agreement entered into under this authority."	N/A
<u>Improvement of GATT/Multilateral Agreements</u> -- enhance status of GATT; improve/extend operation of GATT and such agreements; expand country participation in multilateral agreements.	<u>Improvement of WTO/Multilateral Agreements</u> -- similar to 1988 act, but updated by replacing GATT with WTO; no reference to enhancing status of WTO.	N/A
<u>Transparency</u> -- obtain broader application of transparency and clarification of costs/benefits of trade policy actions through observance of open and equitable procedures by GATT contracting parties.	<u>Transparency</u> -- obtain broader application of transparency through increased public access to information regarding trade issues, clarification of costs/benefits of trade policy actions and observance of open and equitable procedures by U.S. trading partners and within the WTO.	<u>Transparency</u> -- obtain broader application of transparency through increased and more timely public access to information regarding trade issues and the activities of international trade institutions, and increased openness of DS proceedings, including under the WTO.

²The principal objectives contained in the Senate bill explicitly apply to "agreements subject to provisions of section 3," which includes both fast-track agreements and presidential tariff proclamation agreements.

<u>Developing Countries</u> -- ensure developing countries promote economic development by assuming fullest possible measure of responsibility for an open trading system by providing reciprocal benefits, restoring account equilibrium and expediting implementation of agreements.	Same as 1988 act.	N/A
<u>Current Account Surpluses</u> -- develop rules to address large, persistent surpluses, which will encourage countries to change policies so as to address surpluses.	Same as 1988 act, but calls for promotion of policies to achieve stated goals, not development of rules.	N/A
<u>Trade and Monetary Coordination</u> -- develop mechanisms to assure greater coordination, consistency and cooperation between international trade and monetary systems and institutions.	N/A (but see section IV below).	N/A

<u>Agriculture (Ag)</u> -- achieve, on an expedited basis to the maximum extent feasible, more open/fairer trade by developing rules for trade in Ag commodities, including on restrictive or distorting practices; increasing U.S. Ag exports by eliminating barriers and subsidies consistent w/U.S. policy of Ag stabilization in cyclical/unpredictable markets; creating free/more open Ag trading system by resolving questions pertaining to export and other distorting subsidies, market pricing and market access and eliminating/reducing substantially other specific constraints, such as tariffs, quotas and other nontariff practices, including unjustified sanitary/phyto-sanitary restrictions; seeking agreements by which major Ag export nations agree to reduce excessive production of Ag commodities during periods of oversupply, with due regard for fact that U.S. already undertakes such policies and w/o recourse to arbitrary schemes to divide markets among major export countries.	<u>Agriculture (Ag)</u> -- in addition to objectives in section 1123(b) of the Food Security Act of 1985, achieve -- on an expedited basis to the maximum extent feasible -- more open/fairer trade in Ag commodities by: developing rules for Ag trade, including on restrictive or distorting practices such as those affecting perishable/cyclical products; increasing U.S. exports by eliminating barriers/subsidies consistent w/U.S. policy of Ag stabilization in cyclical/unpredictable markets; creating free/more open Ag trading system by resolving questions pertaining to export and other distorting subsidies, market pricing and market access and eliminating/reducing other constraints, such as tariffs, quotas and other nontariff practices; developing rules on practices decreasing U.S. market opportunities (including activities of state-trading enterprises and other administrative mechanisms), including lack of price transparency; unjustified restrictions or requirements affecting new technology, including biotechnology; unjustified sanitary/phyto-sanitary restrictions, other unjustified technical barriers to trade; and restrictive rules in administering TRQs.	<u>Agriculture (Ag)</u> -- obtain opportunities for U.S. exports equivalent to those afforded in the U.S. and more open trade in bulk and value-added commodities by: reducing/eliminating tariffs and charges decreasing market access (giving priority to products subject to higher tariffs or subsidies by major producing countries and providing adjustment periods for import-sensitive products, in consultation with Congress in reducing tariffs); reducing/eliminating foreign subsidies; developing rules against and DS mechanisms to prevent practices decreasing U.S. market access or distorting trade (particularly for import-sensitive products), including state-trading enterprises (with emphasis on requiring price transparency), unjustified restrictions affecting new technology (including biotechnology), unjustified sanitary/phytosanitary restrictions; other technical barriers to trade; and restrictive rules in administering TRQs; improving import relief (especially for perishables); recognizing whether a party met prior obligations; ensure countries acceding to WTO make meaningful liberalization commitments.
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<u>Unfair Trade Practices</u> -- improve agreements to deter persistent use of unfair practices having adverse effect on trade, including dumping, subsidies and other practices (such as resource input subsidies, diversionary dumping, dumped or subsidized inputs and export targeting practices); obtain application of similar rules to the treatment of primary/non-primary products in Agreement on Application of GATT Articles VI, XVI, and XXIII (on subsidies and CVD); and obtain enforcement of GATT rules against distorting practices of state-trading enterprises and unreasonable requirements for substantial direct investment in foreign countries, intellectual property to be licensed to a foreign country or firm therein, or other collateral concessions to be made.	<u>Unfair Trade Practices</u> -- enhance operation/ effectiveness of Uruguay Round Agreements and other agreements designed to deter persistent use of unfair practices having adverse effect on trade, including dumping, subsidies and other practices (such as resource input subsidies, diversionary dumping, dumped or subsidized inputs and export targeting practices); obtain enforcement of WTO rules against distorting practices of state-trading enterprises, and unreasonable requirements for substantial direct investment in foreign countries, intellectual property to be licensed to a foreign country or firm therein, or other collateral concessions to be made.	N/A
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<u>Services</u> -- reduce/eliminate barriers/distortions including violation of national treatment and restrictions on establishing or operating services; and develop rules and DS procedures that are consistent w/U.S. commercial practices and that will reduce barriers/open markets. U.S. negotiators shall take into account U.S. domestic objectives, including health, safety, the environment and employment opportunities.	Same as 1988 act.	Similar to 1988 act, but deletes reference to distortions; clarifies that restrictions on establishing or operating services must be "unreasonable"; and strikes provision referring to U.S. domestic objectives.
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<u>Intellectual Property (IP)</u> -- seek foreign laws protecting IP, including copyright, trademark, patents, semi-conductor chip layout designs, trade secrets, and unfair competition; establish GATT obligations based on existing agreements providing adequate protection or national laws if agreements are not effective; establish effective enforcement procedures; implement effective DS procedures; recognize that inclusion in GATT of IP provisions does not prejudice efforts in other international organizations; strengthen standards in other international organizations, including coverage of new/emerging technology and preventing unreasonable exceptions to protection.	<u>Intellectual Property (IP)</u> -- further promote adequate and effective protection of IP rights by: seeking enactment and effective enforcement of laws protecting IP (including copyright, trademark, patents, semi-conductor chip layout designs, and trade secrets) and protecting against unfair competition; accelerating and ensuring full implementation of TRIPs Agreement and achieving improvement of standards in that agreement; providing strong protection for new/emerging technology and methods of transmitting/distributing IP products; preventing/eliminating discrimination in IP protection; providing strong enforcement of IP rights (civil, administrative, criminal enforcement mechanisms). Also, secure fair market access opportunities for U.S. persons relying on IP protection; and recognize inclusion in WTO of adequate/effective norms and standards for IP protection and DS for IP (w/o prejudice to initiatives undertaken in other international organizations).	<u>Intellectual Property (IP)</u> -- - further promote adequate and effective protection of IP rights by: accelerating and ensuring full implementation of TRIPs Agreement, particularly with respect to lengthiest transition periods for developing countries; ensuring that agreements entered into by the U.S. provide protection at least as strong as that afforded by NAFTA Chapter 17; providing strong protection for new/emerging technology and methods of transmitting/distributing IP products; preventing/eliminating discrimination in IP protection; providing strong enforcement of IP rights (civil, administrative, criminal enforcement mechanisms). Also, secure fair market access opportunities for U.S. persons relying on IP protection.
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<u>Foreign Direct Investment (FDI)</u> -- reduce/eliminate artificial or distorting barriers to FDI; expand national treatment; develop rules (including DS) which will ensure free flow of FDI and reduce/eliminate distorting effects of certain trade-related investment measures. U.S. negotiators shall take into account U.S. domestic objectives, including health, safety, the environment and employment opportunities.	<u>Foreign Investment</u> -- same as 1988 act, except refers to foreign investment instead of foreign direct investment.³	<u>Foreign Investment</u> -- reduce/eliminate artificial or distorting barriers to foreign investment by reducing/eliminating exceptions to national treatment; freeing transfer of funds relating to investments; reducing/eliminating performance requirements and other unreasonable barriers to the establishment and operation of investments; seeking to establish standards for expropriation and compensation for expropriation consistent w/U.S. law and practice; and providing meaningful DS procedures.
<u>Safeguards</u> -- improve and expand rules/procedures; ensure safeguards are transparent, temporary, degressive, and subject to review and termination when no longer necessary; require notification of, and monitoring of, safeguards by GATT contracting parties.	Same as in 1988 act, but updated to refer to WTO instead of GATT.	N/A

³"Foreign direct investment" is a narrower term than "foreign investment." The main difference is that foreign direct investment would not include "portfolio" investment, which in some instances is defined as investment resulting in less than 10 percent ownership of a foreign entity.

<u>Specific Barriers</u> -- obtain competitive opportunities for U.S. exports in foreign markets substantially equivalent to opportunities afforded here; in particular, removal of barriers identified in annual report prepared under section 181 of the 1974 Trade Act and foreign tariff and nontariff barriers blocking U.S. exports when like products enter U.S. w/o such restrictions.	<u>Reduction of Barriers to Trade in Goods</u> -- obtain competitive opportunities for U.S. exports in foreign markets substantially equivalent to the opportunities afforded foreign exports to the U.S., including reduction/elimination of the following: tariff and nontariff disparities remaining from previous rounds of multilateral negotiations that put U.S. at a disadvantage; measures identified in the annual report prepared under section 181 of the Trade Act of 1974; tariff elimination for products identified in section 111(b) of the Uruguay Round Agreements Act and the accompanying Statement of Administrative Action.	<u>Trade Barriers and Distortions</u> -- expand competitive opportunities for U.S. exports and obtain fairer/more open conditions of trade by reducing/eliminating tariff/nontariff barriers and policies/practices of foreign governments directly related to trade that decrease market opportunities for U.S. exports and otherwise distort U.S. trade; obtain reciprocal barrier elimination agreements, w/ particular attention to tariff categories covered in section 111(b) of the Uruguay Round Agreement Act.
<u>Worker Rights</u> --promote respect for worker rights; secure a review of relationship between worker rights to GATT articles and related instruments w/a view to ensuring that the benefits of the trading system are available to all workers; adopt as a GATT principle that the denial of worker rights should not be means of a country gaining a competitive advantage.	N/A (but see section IV below).	N/A

<u>Access to High Technology</u> -- eliminate/reduce barriers to and policies or laws limiting equitable access by U.S. persons to foreign-developed technology; such barriers include restricting participation of U.S. persons in government-supported research, denying access by U.S. persons to government-held patents, requiring government approval or intervention as a condition for the granting of licenses to U.S. persons by foreign persons (except where national security/military involved), and otherwise denying U.S. persons access. U.S. negotiators shall take into account U.S. policies in licensing or otherwise making available to foreign persons technology and other information developed by U.S. laboratories.	Same as 1988 act.	N/A
<u>Border Taxes</u> -- obtain revision of GATT with respect to treatment of border adjustment for internal taxes to redress disadvantages to countries relying primarily on direct taxes rather than indirect taxes.	Same as 1988 act, but GATT has been replaced by WTO.	N/A

N/A	<u>Regulatory Competition</u> -- with respect to regulation or other practices by foreign governments to provide a competitive advantage to domestic producers, ensure such regulation and practices do not unfairly discriminate against U.S. goods, services and investment; prevent use of regulations or practices (including lowering of or derogation from existing labor [including child labor], health and safety, or environmental standards) for purpose of attracting investment or inhibiting U.S. exports. Nothing in this objective shall be construed to authorize in an implementing bill or an agreement inclusion of provisions restricting autonomy of the U.S. in these areas.	<u>Labor, the Environment and Other Matters (LEOM)</u> -- address the following aspects of foreign government practices regarding LEOM that are directly related to trade: ensure foreign labor, environmental, health or safety practices do not discriminate or serve as a disguised barrier; ensure that foreign governments do not derogate from or waive existing domestic environmental, health, safety or labor measures (including child labor) as an encouragement to gain competitive advantage in trade. Nothing in this objective is intended to address changes to a country's laws that are consistent with sound macroeconomic development.
N/A	N/A	<u>WTO Extended Negotiations</u> -- adopting objectives set forth in the Uruguay Round Agreements Act for financial services, civil aircraft and rules of origin.

IV. International Economic Policy Objectives.

<u>1988</u>	<u>Senate</u>	<u>House</u>
N/A	<u>In General</u> -- foster stability in international currency and develop mechanisms to assure greater coordination, consistency and cooperation between international trade and monetary systems and institutions to protect against unanticipated currency movements. Supplement standards for protecting IP under conventions administered by organizations other than the WTO; expand conventions to cover new/emerging technologies; eliminate discrimination/unreasonable exceptions. Promote respect for workers' rights (WR) by reviewing relationship of WR and the trading system; seek to establish ILO review mechanism of the extent to which ILO members promote/enforce freedom of association, right to organize and bargain collectively, as well as prohibit forced labor, child labor and employment discrimination. Optimize use of world's resources while preserving environment and international means to do so. Doesn't authorize fast-track to change U.S. law.	<u>In General</u> -- take into account relationship between trade agreements and important U.S. priorities. U.S. priorities are: ensuring trade and environment are mutually supportive; optimize use of world's resources while preserving environment and international means to do so; promote respect for WR and rights of children by working with ILO to encourage observance of core labor standards (including child labor); supplement standards for protecting IP under conventions administered by organizations other than the WTO; expand conventions to cover new/emerging technologies; eliminate discrimination/unreasonable exceptions. Doesn't authorize fast-track to change U.S. law.

V. Guidance for Negotiators.

<u>1988</u>	<u>Senate</u>	<u>House</u>
N/A	N/A	<u>Domestic Objectives</u> -- U.S. negotiators shall take into account U.S. domestic objectives, including health, safety, the environment and employment opportunities.
N/A, but see discussion in section VIII below.	N/A, but see discussion in section VIII below.	<u>Consultation with Congressional Advisers</u> -- U.S. negotiators shall consult closely and on a timely basis with, and keep fully apprised, the congressional advisers established under section 161 of the 1974 Trade Act; negotiators shall take into account need for U.S. to rigorously enforce its trade laws.
N/A	N/A	<u>Adherence to Uruguay Round Obligations</u> -- in entering into agreements, President shall take into account whether trading partners have met or accelerated their Uruguay Round obligations.

VI. Presidential Tariff Proclamation Authority.

<u>1988</u>	<u>Senate</u>	<u>House</u>
<u>Tariff Proclamation Agreements</u> -- whenever the President determines that one or more duties or other restrictions are unduly burdening U.S. trade, he may enter into agreements and proclaim the modification or continuance of any duty, the continuance of existing duty-free or excise treatment, or additional duties as he determines to be required/ appropriate to carry out such agreements.	Same as 1988 act.	Same as 1988 act.
<u>Limitations</u> -- President can reduce a tariff above 5 percent <i>ad valorem</i> up to 50 percent; duties 5 percent or less may be eliminated. President can increase duties up to the amount that applied on effective date of the act.	Same as 1988 act.	Same as 1988 act, but President cannot raise duties above the level that applied on January 1, 1996.
<u>Aggregate Reduction/Staging</u> -- President can reduce duties up to 3 percent <i>ad valorem</i> or 1/10, whichever is greater. No reduction may take effect more than 10 years after effective date of first reduction. No such staging is required for goods not produced in the U.S.. President may round-off tariffs to compute the reduction.	Same as in 1988 act, but clarifies that staging calculation to be done in 1-year intervals.	Same as Senate bill.

<u>Additional Modifications</u> -- Tariff modifications beyond the delegated authority must be submitted to Congress for approval under fast-track procedures.	Same as in 1988 act.	Same as in 1988 act.
N/A	<u>Expanded Tariff Proclamation Authority</u> -- Subject to the consultation and layover requirements of section 115 of the Uruguay Round Agreements Act and pre-negotiation congressional notice and consultation, President may proclaim the modification of any duty if the U.S. agrees to such modification in a negotiation for reciprocal elimination or harmonization, within the same tariff categories, under the auspices of the WTO, or as part of an interim agreement leading to formation of a regional free trade area. This authority does not affect section 111(b) of the Uruguay Round Agreements Act.	<u>Other Tariff Modifications</u> -- Same as Senate bill, but does not have pre-negotiation congressional notice and consultation and does not refer to tariff categories.

VII. Fast-Track Agreements.

<u>1988</u>	<u>Senate</u>	<u>House</u>
<u>Agreements on Nontariff Barriers</u> -- Whenever the President determines that any barrier or distortion burdens or is likely to burden trade and the purposes, policies and objectives of the fast-track law are served, the President may enter into an agreement to reduce or eliminate such barrier or distortions. The agreement may be entered into only if it meets the objectives of the fast-track law.	<u>Agreements on Tariff and Nontariff Barriers</u> -- Whenever the President determines that any duty, barrier or distortion burdens or is likely to burden trade and the purposes, policies and objectives of the fast-track law are served, the President may enter into an agreement to reduce or eliminate such duty, barrier or distortion. An agreement may be entered into only if it makes progress in meeting applicable objectives of the fast-track law and the President meets the consultation requirements of the law.	<u>Agreements on Tariff and Nontariff Barriers</u> -- Essentially the same as Senate bill.
<u>Bilateral Agreements on Tariff and Nontariff Barriers</u> -- President may enter into agreements with foreign countries providing for the elimination or reduction of any U.S. duty; agreement also may address any barrier or distortion. No benefit of such agreement shall apply to any non-party. The agreement may be entered into only if it makes progress with respect to the objectives of the fast-track law and was requested by another country. This provision does not affect free trade agreements previously entered into.	N/A	N/A

<u>Bills Qualifying for Fast-Track</u> -- provisions may include: approval of an agreement; approval of the statement of administrative action, if any; and if changes in existing laws or new statutory authority is required to implement such agreements, provisions necessary or appropriate to implement such agreements.	<u>Bills Qualifying for Fast-Track</u> -- provisions may include: approval of a fast-track agreement that achieves one or more of the principal negotiating objectives and the statement of administrative action, if any. Also, implementing bills may include: provisions necessary to implement such agreements; or provisions otherwise related to the implementation, enforcement and adjustment to the effects of such agreement and are directly related to trade; and provisions necessary to meet PAY-GO.	<u>Bills Qualifying for Fast-Track</u> -- provisions may include: approval of a fast-track agreement and the statement of administrative action, if any. Implementing bills may also include: provisions directly related to the principal negotiating objectives achieved in such agreement, if those provisions are necessary for the operation/implementa-tion of U.S. rights/obligations under the agreement; provisions defining/clarifying or that are related to the operation or effect of the provisions of the agreement; provisions to provide adjustment assistance to workers and firms adversely affected by the agreement; and provisions necessary to meet PAY-GO.
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VIII. Duration and Extension Disapproval Resolutions.

<u>1988</u>	<u>Senate</u>	<u>House</u>
<u>Duration</u> -- Proclamation authority and fast-track procedures originally were to last until June 1, 1991. They were extended until June 1, 1993. With respect to the Uruguay Round, they were extended until April 16, 1994.	<u>Duration</u> -- Proclamation authority and fast-track procedures last until October 1, 2001. Possible extension until October 1, 2005.	Same as Senate bill.

<u>Extension Disapproval Procedures</u> -- As long as Congress did not disapprove, extension was automatic to June 1, 1993, if President submitted request by March 1, 1991, along with report on progress made in meeting objectives of fast-track law, on status of ongoing negotiations and explaining why an extension was needed; and the ACTPN submitted its views by March 1, 1991. These reports may be classified. A disapproval resolution need only be passed by one House before June 1, 1991. It may be introduced by any Member. In the House, it must be referred to and reported out of the Ways and Means Committee as well as the Rules Committee. In the Senate, it must be reported out of the Finance Committee. It is subject to expedited treatment, no amendments and limited debate.	<u>Extension Disapproval Procedures</u> -- As long as Congress does not disapprove, extension is automatic if President submits request by July 1, 2001, along with report on progress made in meeting objectives of fast-track law and on status of ongoing negotiations; and the ACTPN submits its views by August 1, 2001. These reports may be classified. A disapproval resolution need only be passed by one House before October 1, 2001. It may be introduced by any Member. In the House, it must be reported out by the Ways and Means Committee as well as the Rules Committee. In the Senate, it shall be referred to the Finance Committee. It is subject to expedited treatment, no amendments and limited debate.	<u>Extension Disapproval Procedures</u> -- Same as Senate bill, though the House version does not explicitly state that resolutions must be referred in the Senate to the Finance Committee (it does state that the resolution must be reported out of the Finance Committee).
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VIII. Notice and Consultation Requirements.

<u>1988</u>	<u>Senate</u>	<u>House</u>
The President must provide 60 day advance notice of intent to enter into bilateral FT agreement and consult with Congress.	N/A	N/A

Before entering into FT agreement, President shall consult with Finance, W&M, and other committees with jurisdiction.	Similar provision.	Similar provision.
90 day advance notice of intent to enter into FT agreement.	Similar provision.	Similar provision.
ISAC report due 30 days after President gives notice of intent to enter into FT agreement. [Limited to Uruguay Round negotiations.]	Similar provision. [Not limited to any kind of negotiations.]	Similar provision. [Not limited to any kind of negotiations.]
Congress may withdraw FT for failure to consult under the act generally.	Similar provision [limited to consultations under section 4.]	Similar provision.
Congress may withdraw FT within 60 days of President's notice that he intends to enter into bilateral negotiations.	Congress may withdraw FT within 90 days of President's notice that he intends to enter into negotiations. [Not limited to bilateral agreements.]	N/A
President must hold a public hearing for any negotiations before making a formal offer.	Similar provision.	Similar provision.
President must get advice from ITC for tariff negotiations before making a formal offer.	Similar provision.	Similar provision.

The President must consult with congressional advisers.	In the course of negotiations, the President shall consult closely and on a timely basis (including immediately before initialing an agreement) with, and keep fully apprised of the negotiations, the congressional advisers appointed under section 161 of the 1974 Trade Act.	Same as Senate bill.
N/A	90 day advance notice of intent to enter into negotiations for a FT agreement. Within 60 days of entering into agreement, President must submit to Congress a description of changes in U.S. law necessary to bring U.S. into compliance with the agreement.	Similar provision.
N/A	N/A	For traditional proclamation authority, President must notify Congress of intention to enter into agreement.
N/A	For sectoral and interim free trade area agreements, President must meet notice and consultation requirements of section 115 of the Uruguay Round Agreements Act and pre-negotiation notice and consultation requirements described above.	Only the requirements of section 115 of the Uruguay Round Agreements Act applies.

IX. Disapproval Resolutions.

<u>1988</u>	<u>Senate</u>	<u>House</u>
<u>For Lack of Consultations</u> -- fast-track procedures will not apply if both Houses pass a resolution within a 60-day period. In the House, the resolution must be introduced by the Chair or ranking Member of Ways and Means Committee or Rules Committee. It shall be referred to and reported out of both of those committees. In the Senate, the original resolution shall be from the Finance Committee. It is subject to expedited treatment, no amendments and limited debate. Fast-track is a rule of each House and may be amended as any other rule of each House.	<u>For Lack of Consultations</u> -- Essentially the same as the 1988 act. Adds the requirement that the resolution must be reported out of the Finance Committee.	<u>For Lack of Consultations</u> -- Essentially the same as the 1988 act.

<u>Disapproval of Negotiations</u> -- Within the 60 days following the President's notice of his intention to enter into negotiations, either Ways and Means or Finance may disapprove of bilateral negotiations if procedural requirements not met (60-day advance notice and consultation with Congress; negotiations would make progress in meeting applicable objectives; negotiations requested by foreign country).	<u>Disapproval of Negotiations</u> -- Similar provision as in the 1988 act, but: applies to all fast-track agreements, not just bilaterals; applies time period of 90 day pre-negotiation notice, not 60 days as in the 1988 act; and requires both Committees to disapprove, not just 1.	N/A
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IX. Grandfathered Agreements.

<u>1988</u>	<u>Senate</u>	<u>House</u>
N/A	Pre-negotiation notice and consultation does not apply to negotiations regarding: an agreement on information technology products under the WTO; work programs initiated under the Uruguay Round Agreement; and an agreement with Chile.	Same as Senate bill, but instead of Uruguay Round work programs, refers to negotiations on financial services and rules of origin.



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Trade bill: Clinton in trouble over fast-track

THURSDAY OCTOBER 23 1997

By Nancy Dunne in Washington

President Bill Clinton's bid for new trade negotiating authority appeared to be in trouble yesterday as a bold plan to push the legislation through the Senate, before going to the House, was caught up in the end of year turmoil.

Traditionally, trade bills must first go through the House, but it is possible for the Senate to vote on a bill first and hold up final passage until a House bill passes.

However, the path through the Senate is riddled with procedural problems.

Tom Daschle, Senate Democratic leader, has vowed to attach campaign reform to every bill which appears in the Senate and will not make an exception for trade legislation. Nine senators have put "holds" on the trade bill, and a certain filibuster will cause days of delay.

The fast-track legislation is designed to allow Mr Clinton to negotiate free trade deals around the world and bring completed pacts back to congress to either pass or reject without amendment.

The White House hoped passage of fast-track through the Senate would give the bill momentum in the House where Democrats continue to resist it because of weak provisions on the inclusion of labour and environment in new trade talks.

The move to take the bill to the Senate produced glee among fast-track opponents.

"It's a desperation move," said Lori Wallach of Public Citizen, a public interest lobbying group. "You would never go to the Senate first unless your circumstances in the House were worse than the future of an ice cube in Hell."

She said fast-track opponents have almost half the members of the House in their camp.

Groups from both sides have been holding competing press conferences all week.

A bipartisan coalition of congressmen yesterday said they would oppose the legislation because "the pursuit of free trade has caused the US to surrender its sovereignty - the ability of the Congress, state and local legislatures to establish democratically laws and standards."

A spokesman for USA Engage, the business lobby coalition supporting fast-track, yesterday said lobbying during last week's Congressional recess had produced movement in the House, until attention shifted to the Senate. At least three undecided members publicly came out for fast-track.

E-mail is a new tool being employed by the business lobby. The coalition sent out 2.9m E-mails to Congressional offices in support of fast-track. Congressional offices also received 6-7,000 letters last week urging passage of the bill.

USA Engage has been running an advertising campaign in dozens of congressional districts, and it is expected to announce a new campaign today.

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**NATIONAL
GOVERNORS'
ASSOCIATION**



cc: *John H. Mack*

Ge
Go
Ch
Th
Go
Vx

P. 2/7
Mr James L Martin
Legislative Counsel
National Governors' Assn.
444 N. Capitol St. NW, Ste 267
Washington, DC 20001-1512

October 16, 1997

To All Governors:

Congress will decide whether or not to renew fast-track authority in the next two weeks. Through the National Governors' Association, we have always supported fast-track authority as a necessary tool for the promotion of foreign trade. We are writing to ask you to help us achieve enactment of fast-track legislation this month. We urge you to lobby your delegation in support of renewal. We suggest the following steps.

1. Personally call and write House and Senate leaders and your Congressional delegation asking them to support congressional approval of fast-track legislation this year. Emphasize the impact of trade on your state economy. Members of Congress will be on recess during the week of October 13, 1997. You may want to take advantage of the recess by calling or meeting with members when they are in your state. Use the attached talking points and state statistics.
2. Plan a media event or encourage local newspapers to write editorials in support of fast-track. There is broad support for fast-track in every state from agricultural interests, state chambers of commerce, and local export businesses. Governors can work with these groups and others to send out a positive message about the impact of fast-track and international trade on state economies. *America Leads on Trade* is a business coalition with an active grass-roots campaign in almost every state. They also may be of help in generating positive media coverage. The name of your state contact for *America Leads on Trade* is enclosed.
3. Encourage grass-roots lobbying by people in your state. Congress needs to hear directly from state economic development officers and state and local chambers of commerce. Economic development officials and small businesses are important trade advocates.

NGA policy calls for swift renewal of fast-track as a way to enhance the President's ability to expand free trade. The policy is silent on labor and environment issues. In April, NGA sent a letter to President Clinton urging him to move forward with his proposal to renew fast-track authority. NGA sent a letter to congressional leaders and the relevant committees on October 1, 1997 urging Congress to work with President Clinton to reach a bipartisan consensus on fast-track legislation.

Both the House and the Senate currently are moving forward with fast-track proposals. The Senate Finance Committee reported legislation on October 1, 1997, and the House Ways and Means Committee is scheduled to consider a bill on October 8, 1997. The window of opportunity for passing fast-track legislation this year is very narrow. Congressional elections will make it difficult to pass legislation in 1998. We strongly encourage all Governors to work on behalf of fast-track, which will help ensure continued growth of the nation's economy.

Sincerely,

George V. Voinovich
Governor George V. Voinovich

Tom Carper
Governor Thomas R. Carper

Attachments: Talking points. Governor Voinovich's letter to his Congressional delegation,
10/1/97 NGA letter to Congressional leadership and committees of jurisdiction,
state specific trade data, *America Leads on Trade* state specific contact

Governors' Talking Points on Fast-Track Trade Negotiation Authority

- ◆ Governors have consistently supported congressional renewal of fast-track trade negotiation authority for the President. The National Governors' Association policy calls for swift renewal of fast-track as a way to enhance the President's ability to expand free trade. The policy is silent on labor and environment issues.
- ◆ In today's global economy, continued American prosperity and job creation depend on our ability to boost American exports. One-third of U.S. economic growth in the last ten years came from export growth. Businesses and workers in (insert state) benefit when the U.S. successfully expands foreign trade.
- ◆ U.S. exports of goods and services support over 11 million U.S. jobs -- more than ten percent of private industry employment. Between 1986 and 1994, jobs supported by exports rose 63 percent -- four times faster than overall private industry job growth.
- ◆ Export-related jobs are better -- higher-paying and higher-skilled. Export-related jobs pay, on average, 13 percent more than the average U.S. job.
- ◆ Fast track is necessary for the United States to reach new agreements that tear down barriers to U.S. trade and investment.
- ◆ Without fast-track, foreign nations will not negotiate with the United States, and we will lose our role as the world's economic leader. Competing nations are not waiting for us to resolve internal political disputes over the structure of fast-track authority but are forging ahead with agreements in Asia and Latin America. Both Canada and Mexico have signed free trade agreements with Chile, while U.S. negotiations over Chilean accession to NAFTA are stalled.
- ◆ Without fast track, the United States will be unable to participate effectively in important negotiations already scheduled for the World Trade Organization, including negotiations on agriculture, intellectual property, and services. We will also miss out on opportunities to decrease tariffs for specific economic sectors such as information technology.
- ◆ Presidents Nixon, Ford, Carter, Reagan and Bush all had fast track to help expand U.S. economic growth and tear down foreign trade barriers.
- ◆ Fast track is a partnership between the President and the Congress; it does not undermine Congress' role in trade. Congress does not give up its power to oversee the negotiations or its constitutional authority to vote on any agreement that requires a change in U.S. law. The slow, deliberate pace of negotiations means there is plenty of time for all interested parties—including Congress, consumers, environmental and labor groups, and businesses—to monitor the process and weigh in with their views and concerns.
- ◆ Fast track is about the future of U.S. leadership in world trade; it is not about the North American Free Trade Agreement (NAFTA). Most of the concerns raised by NAFTA opponents, such as illegal immigration and environmental conditions on the U.S.-Mexican border, are specific to Mexico and are simply not relevant to our economic relations with other countries.



GEORGE V. VOINOVICH
GOVERNOR

STATE OF OHIO
OFFICE OF THE GOVERNOR
COLUMBUS 43266-0601

October 9, 1997

The Honorable David Hobson
1514 Longworth House Office Building
Washington, DC 20515

Dear David:

In the coming weeks you need to vote on an issue that I believe is vital to the future of Ohio and the country: fast-track negotiating authority for trade agreements.

International trade is vital to the nation and to our state. Ohio is the eighth largest exporter among the states. Exports from Ohio totaled just under \$25 billion in 1996, growing almost 29 percent between 1993 and 1996. What we export is just as important as how much we export. Thirty-four percent of Ohio's exports are transportation equipment: cars, trucks and jet engines. Ohio is also a leading exporter of industrial machinery, chemicals, electronic equipment, plastics and agricultural products. These exports that support good, high-paying, high-skill jobs. Ohio workers are better than any others in the world at making these products. That is why we are exporting, and that is why open markets and fast-track are crucial to Ohio's economy.

Ohio's economy is world class. We not only have global companies like Proctor & Gamble, Lucent Technologies, NCR, Dana Corporation, TRW and General Electric that are hallmarks of American industry; but we also have small and medium sized exporters who are shipping Ohio built products around the world. All of these companies will benefit from expanded free trade.

Groups that oppose giving the President the tools that are needed to lower trade barriers pretend that rejecting fast-track will somehow protect workers. That is just not true. America's trade barriers are among the lowest in the world. American workers already face competition from overseas. Competition has made our workers the best and most productive in the world. That is why Europe and Japan have built or expanded almost 200 plants in Ohio since 1994. Now, our people need the ability to take on the competition on their home turf. That is what fast-track is about.

Opponents will argue that trade agreements have cost Americans their jobs, but international business, and exports in particular, create better, higher paying jobs. Trade is about letting American workers do what they do best. Our economy and our country are based on the principle of giving people the opportunity to succeed. If we are worried about the fate of

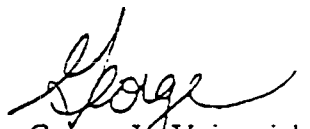


American workers, then we need to concentrate on giving workers the skills that they need to compete, not preventing them from selling their Ohio made products overseas.

The economic power houses of Europe and Asia are already moving forward to carve out preferential access to the key markets of the next century. Our competitors would like nothing better than to have the United States sitting on the sidelines as key negotiations on agriculture and reducing trade barriers in the Western Hemisphere go forward. They will not stand still while we dither. The future of our nation's economy, Ohio's economy and Ohio's workers will depend on the continued opening of markets around the world.

I hope you will join me in vigorously supporting fast-track and the Export Expansion and Reciprocal Trade Agreements Act of 1997.

Sincerely,



George Voinovich
Governor

George V. Voinovich
Governor of Ohio
Chairman

Thomas R. Carper
Governor of Delaware
Vice Chairman

Raymond C. Sarp, 647
Executive Director

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1512
Telephone (202) 624-3300

October 1, 1997

The Honorable Newt Gingrich
Speaker of the House
United States House of Representatives
Washington, D.C. 20515

The Honorable Richard Gephardt
Minority Leader
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker and Representative Gephardt:

The National Governors' Association (NGA) has consistently supported federal efforts to expand global free trade. Governors played a critical role in the successful passage of the North American Free Trade Agreement (NAFTA) and the Uruguay round negotiations of the General Agreement on Tariffs and Trade. We are now working to ensure reauthorization of fast-track authority. The nation's Governors urge you and your colleagues to work with President Bill Clinton to reach a bipartisan consensus on this critical legislation as soon as possible.

Fast-track trade negotiation authority is an important and effective tool that allows the United States to establish cooperative trade agreements with other nations. We have already seen the negative effects of delayed action on this critical issue. Negotiations with Chile over its accession to NAFTA seem interminably stalled. The rest of Latin America is watching this process and has voiced growing concerns that the United States will be even less able to negotiate effectively on issues related to the creation of the Free Trade Area of the Americas. Competing nations are not waiting for us to resolve internal political disputes over the structure of fast-track authority and are forging ahead with agreements in Asia and Latin America.

Trade agreements signed in the past have helped create the current economic expansion; one third of the growth in gross domestic product in the last four years can be directly attributed to trade agreements negotiated under fast-track authority. Though Governors must rely on the federal government to effectively manage international trade, states and the federal government share responsibility for creating a healthy economy. The Governors ask that the federal government consult with them when a potential trade agreement could impact state law. By working together, states and the federal government can create a thriving economy fueled significantly by international trade.

We are very concerned that legislation to reauthorize fast-track authority will not move forward unless Congress and the White House quickly agree upon a legislative proposal. We recognize that the legislative agenda this session is extraordinarily tight and know that political realities may prevent a vote on this issue next year because of the 1998 elections. We must all work together now if we want to pass legislation before 1999.

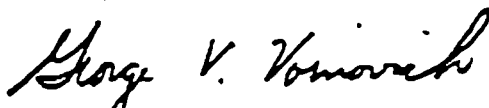
*Same letter sent to Senate Leadership, Senate Finance Committee
Committee, & House Ways & Means Committee*

Fast Track Authority

Page 2

We have shared our concerns with the President, and we are fully prepared to actively support efforts to achieve renewal of fast-track authority in this Congress.

Sincerely,



Governor George V. Voinovich
Chair



Governor Thomas A. Carper
Vice Chair

Attachment: Governors' Principles on International Trade

Expanding Trade Through Fast-Track Will Raise American Incomes

United States Treasury
Office of International Affairs

New trade agreements negotiated under fast-track will expand trade by reducing tariffs and other barriers to trade. They will cut the taxes that foreign governments impose on U.S. products, making our products more attractive to foreign consumers and fueling continued growth in American exports. By allowing the United States to maintain the momentum generated by previous trade liberalizations, new fast track agreements could contribute to an almost \$200 billion increase in U.S. merchandise exports, relative to what they otherwise would be, in the year 2010. Faster export growth is important. Studies show that jobs in export industries pay about 15% more on average than other jobs.

Fast-Track Cuts Taxes on U.S. Products

The benefits of fast-track agreements for the United States are clear. U.S. tariffs are already quite low—only about one-third of the average rates applied by the major countries in Latin America and Asia with whom we are most likely to attempt to negotiate trade liberalizing agreements over the next decade. Fast-track agreements will cut barriers to U.S. exports to these countries far more than our barriers to their products.

In 1996, foreign governments collected approximately \$31 billion from tariffs on U.S. exports. Countries in Latin America, who imposed an estimated \$6.2 billion tax on U.S. exports, and in APEC, whose Asian members imposed an estimated \$13.4 billion tax, account for most of these tariffs. *If an agreement had been in place to cut these foreign taxes on American products by even one-half, taxes on U.S. exports would have*

been reduced by nearly \$10 billion in 1996.

Effective Tariff Rates¹

Thailand	26.1%
China	23.0
Philippines	19.0
Peru	14.6
Uruguay	14.6
Venezuela	12.4
Brazil	11.7
Chile	11.0
Colombia	10.9
Indonesia	10.7
Argentina	10.3
Australia	8.9
Korea	7.7
New Zealand	6.8
Malaysia	6.4
Japan	2.8
Singapore	1.3
Hong Kong	0.0
Weighted Ave. of Above	7.5
United States	2.8

Agreements negotiated under fast-track authority will reduce trade barriers in some of the most rapidly growing markets in the world; they will also allow the negotiated reduction of trade barriers in sectors where the United States has a comparative advantage.

¹ World Bank. Effective average applied tariff rates on total merchandise imports. National average is weighted by 1996 U.S. bilateral exports to compute the weighted average. For China, the arithmetic average of tariff rates.

The United States hopes to negotiate agreements on a global basis in the many areas of export interest, including agreements: in agriculture, a global market of \$536 billion; in services, a market of \$1.2 trillion; in government procurement, a market estimated to be worth \$1 trillion in Asia alone in the next decade; in medical equipment; and in environmental technology. It also hopes to expand the scope of the successful information technology agreement.

1996 U.S. Exports (\$ billion)

Services	237
Agriculture	61
Chemicals	71
Wood and Paper	26
Medical Equipment	11

Focusing on the gains from reducing average tariffs understates the gains from fast-track agreements in many ways. Average effective tariff rates often mask higher tariffs in products where the United States is extremely competitive. For example, many Asian APEC countries impose tariffs on transportation equipment and electrical machinery that are nearly twice as high as their average tariffs. Many countries -- particularly countries in Latin America and Southeast Asia -- have the right to impose higher tariffs on U.S. goods than they currently proposing.² Fast-track agreements are needed to lower these tariffs.

² For example, Brazil, which currently only imposes an average tariff of 11.7%, could increase its tariffs to an average rate of 31% without violating any WTO rules. Similarly, Indonesia could increase its tariffs to produce an average tariff of 38.4% even though its current average tariff is 10.7%.

Plus, tariffs are not the only, or in many cases, the most important, barriers to trade. While non-tariff barriers are difficult to quantify, fast-track agreements clearly provide one of the most effective ways to address Non-Tariff Barriers (NTBs) as well as to reduce barriers to trade in services and to improve the protection of intellectual property rights.

Lower Barriers Mean More Trade

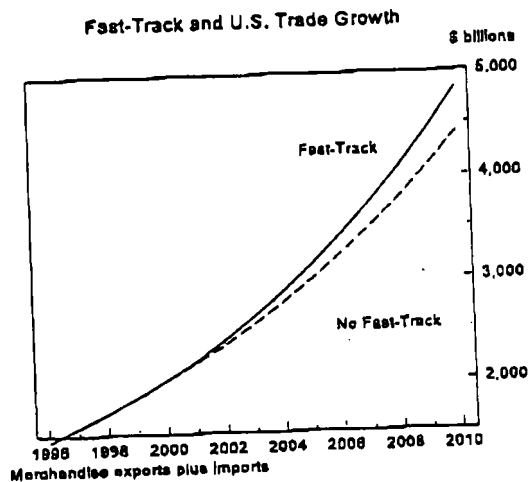
During the post-World-War-II period, trade has expanded rapidly--more rapidly, in fact, than overall economic activity. This expansion is not just a product of lower transportation costs and technological innovation. Trade as a share of economic activity actually fell when trade barriers rose sharply after World War I. Trade as a share of economic activity only recently returned to the levels experienced 100 years ago because of the reduction of trade barriers after World War II.

During the past 10 years global trade has grown at an average rate of 10% per year -- faster than global GDP, which has grown by 7% per year. The Uruguay Round agreement, the most recent set of tariff reductions negotiated under fast-track authority, has contributed substantially to the recent growth of trade. In addition to creating new GATT limits on barriers to trade in agricultural products and to trade in services, the Uruguay Round reduced average tariffs by around 30%.

Fast Track Needed to Sustain Momentum

In order to estimate the possible effects of new trade agreements on U.S. exports, we assume that U.S. trade will continue to grow by 9% per year--its average over the past 10 years -- between 1996 and 2000 because of the ongoing benefits from the Uruguay Round. Our calculations also assume that with new

fast track agreements to dismantle barriers to U.S. exports, U.S. trade will continue to grow at its 1986-1996 average rate between 2000 and 2010.³



Without continued U.S. leadership and fast-track agreements to assure that the U.S. captures a growing share of key export markets, U.S. trade will not be able to grow as rapidly. Since the content of future fast track agreements is not currently known, the magnitude of this slowdown remains uncertain.

We, making very conservative assumptions, estimate that fast track agreements could increase the total level of U.S. trade by almost 10% in the year 2010. Export and import growth rates over the past 10 years suggest that this would increase total U.S. merchandise exports by \$200 billion, or roughly 1.2% of estimated U.S. GDP in 2010.

³ The deadline for free trade in the proposed Free Trade Agreement of the Americas is 2005; for APEC industrial countries, 2010; and for APEC developing countries, 2020. 2010 was selected as an intermediate date.

More Trade Means Higher Incomes

Increased trade raises American incomes in many ways. Trade allows America to concentrate on producing the goods and services that we produce best. This increases the income of U.S. workers: studies show that jobs in export industries pay around 15% more than jobs in the rest of the economy.⁴ Trade provides workers with better jobs and lets consumers benefit from greater competition, lower prices, and a wider selection of products.

It is very difficult to quantify all of the beneficial impacts of expanded trade on U.S. income. However, a substantial body of statistical evidence does demonstrate that countries that trade more are better off than countries that trade less. The results of a recent study that takes into account other factors and influences in order to better isolate the impact of trade on income suggests that the extra trade associated with fast-track trade agreements will raise the average incomes of Americans substantially by the year 2010.⁵ In

⁴ David J. Richardson and Karin Rindahl (1996), Why Exports Matter: More! Institute for International Economics and Manufacturing Institute; Lester Davis (1996), U.S. Jobs Supported by Growth in Services Exports, 1983-94, Department of Commerce.

⁵ Jeffrey Frankel and David Romer, NBER Working Paper No. 5476; Jeffrey Frankel, David Romer and Teresa Cyrus, NBER Working Paper No. 5732. Frankel and Romer examined a cross section of a 100 countries and found that trade, along with investment in human and physical capital, is a key determinant of a country's growth rate.

terms of 1997 purchasing power, the additional trade from future fast track agreements is estimated to generate between \$800 and \$1600 in additional income for a typical American family of four in 2010.

This calculation -- which is based on the conservative assumption that future fast track agreements will only increase the the annual growth rate in U.S. trade by a little more than 12% -- understates the likely gains from fast-track agreements. It only looks at the benefits of liberalizing merchandise trade and thus does not incorporate the benefits associated with fast track agreements that will lower the barriers, particularly the non-tariff barriers, to trade in services. Plus, many countries still have the right to impose higher tariffs than they currently impose, so continued rapid trade growth in the absence of future trade agreements should not be taken for granted.

The Cost of Inaction

Many countries of the world, including many of the most dynamic emerging markets, are moving to expand trade in preferential agreements that do not currently include the United States. Canada already has reached an agreement with Chile -- an agreement which is causing U.S. firms, like the Quaker Fabric Company of Massachusetts, to lose business to Canadian competitors simply because U.S. products face a 11% tariff in Chile and Canadian products do not. The European Union is exploring a preferential deal with Mercosur, a customs union that includes both Argentina and Brazil, that would give European products an edge over American products in the two largest markets in South America.

dominant voice in the development of the global trading system. If we choose to sit on the sidelines, other countries will proceed without us, both undermining the world trading system that the U.S. has worked hard to create during the past 40 years and hurting U.S. exporters.

American leadership is needed to assure that the United States continues to exercise a

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KEY ASSUMPTIONS

"Expanding Trade Through Fast Track Will Raise American Incomes"

Estimated Tariffs Imposed on U.S. Exports

1/ Whenever possible, average applied tariff rates were taken from the country tables (Tables G1) in the World Bank 1996 publication Uruguay Round: Statistics on Tariff Concessions Given and Received by J. Michael Finger, Merlinda Ingco and Ulrich Reincke.

2/ World Bank data, which is based on information supplied during the Uruguay Round negotiations, does not exist for either China or Taiwan. Neither country is a member of the WTO. For China, Treasury used the arithmetic average of current Chinese tariffs supplied by USTR (23.0%). China has announced its intention to reduce these tariffs unilaterally to 17%, but USTR has not verified the implementation of the announced tariff reductions. For Taiwan, Treasury assumed that Taiwanese tariff rates are equal to the weighted average of East Asian APEC countries (6.8%).

3/ Data was also not available for many of the smaller Latin American countries. For these countries, we assumed that their tariff rates were equal to the average tariff rates applied by the larger Latin American countries (11.7%).

4/ The estimated tariff revenue governments in Latin America and East Asia obtained in 1996 from U.S. exports was calculated by multiplying the individual countries' average applied tariff rates on all merchandise trade by 1996 U.S. exports to these countries and then summing the resulting country estimates.

5/ The estimated overall tariffs on U.S. exports was calculated using 1996 trade data from IMF's Direction of Trade Statistics and tariff rates from the World Bank's The Uruguay Round: Statistics on Tariff Concessions Given and Received. U.S. exports to the high income countries excluding Canada (Western Europe, Japan, Hong Kong and Singapore), Latin America excluding Mexico, East Asia (excluding high income East Asia and China), China, South Asia, North Africa, Sub-Saharan Africa, Eastern Europe, Other European Countries (Turkey) and the Middle East were all calculated. For most of these regions, U.S. exports were multiplied by World Bank's average applied tariff rates for these regions. The regional results were then summed to produce an overall estimate.

6/ The estimated tariff revenue of Sub-Saharan Africa, the Middle East and China were all calculated using different means. For China, USTR's arithmetic average of Chinese tariffs was used. For sub-Saharan Africa, the World Bank published average applied tariff was based on a small and unrepresentative sample (Sierra Leone and Zimbabwe); instead of using this figure, Treasury used the World Bank's average applied tariff rate for low and middle income countries (13.3%). Since no World Bank data was available for the Middle East, Treasury assumed that

average tariffs in the Middle East were equal to the World Bank average for low and middle income countries (13.3%).

Estimated Benefits from Continued Fast Track Agreements

This calculation relies on a/ estimating the additional trade likely to stem from future "fast track" agreements and b/ linking the additional estimated trade to additional per capita income.

1/ Treasury calculations assume that U.S. trade will grow by 9%, its average growth rate over the past 10 years (1986-1996), in all cases through the year 2000 due to the progressive implementation of Uruguay Round agreements. With additional Fast Track agreements, trade is estimated to continue to grow by 9% after 2000; without fast track, trade is estimated to only grow by 8% after 2000.

2/ Between 1986 and 1996, the U.S. negotiated a range of agreements under fast track authority, notably the Free Trade Agreement with Canada, NAFTA and the Uruguay Round. It consequently seems reasonable to assume that with continued liberalization through additional agreements, trade will continue to grow at its 1986-96 average rate between 2000 and 2010.

3/ Without any additional trade agreements, Treasury assumed trade growth would slow by only 1%, to 8% per year. One might reasonably assume that without any additional liberalization, trade would grow by 6%. If the world's nominal dollar denominated GDP continues to grow at its 1986-96 annual average rate of 6%, this simply implies that U.S. trade expands in line with the overall expansion of the world economy. Between 1986 and 1996, however, U.S. trade expanded 3 percentage points more rapidly than the world economy. Treasury's projected 8% growth even without new fast track agreements effectively assumes that two thirds (2%) of the 3% discrepancy between the 86-96 growth of U.S. trade and the 86-96 growth of world dollar GDP is due to technology and only one third (1%) is due to fast track trade agreements to liberalize trade. Consequently, 6% of the 8% forecast trade growth without fast track stems from predicted expansion in the world economy and 2% stems from continued advances in technology.

4/ To link increased trade to higher per capita GDP, the level of trade likely to occur with and without fast track agreements was calculated. The difference between these two estimates was translated into a percentage of estimated 2010 nominal GDP. Treasury assumed that nominal GDP would continue to grow at its 1986-1996 average between 1997 and 2010.

5/ The increased trade as a percent of GDP is then multiplied by a coefficient derived from a cross country regression by Jeffrey A. Frankel, David Romer and Teresa Cyrus published in NBER Working Paper 5732, Trade and Growth in East Asia Countries, that links an increase in trade as a percent of GDP to an increase in GDP. Frankel, Romer and Cyrus estimate that 1% increase in trade increases GDP by 0.34%, with a standard error of .11%. Using the estimate of .34% plus or minus .11% produces a high end estimated coefficient of .45% and a low end of .23% (Table 2, NBER Working Paper 5732). Multiplying the increase in trade as a share of GDP by these coefficients produces estimated increase in GDP of between 0.58% and 1.14% due to

the projected increase in trade.

6/ Relating this increase in nominal GDP attributed to trade back to higher real per capita income requires an additional set of calculations. The percentage increase in nominal and real GDP due to the increase in trade should be the same. Treasury assumed that both real GDP and the U.S. population would continue to grow at its 10 year average rate. Using estimated real GDP and estimated population, Treasury estimate real U.S. per capita GDP in 2010. Between 0.58 and 1.14 of U.S. real GDP, according to Frankel, Romer and Cyrus estimates, can be attributed to the increased trade projected to stem from fast track. This translates into an increase of between \$200 and \$400 in U.S. real per capita GDP, measured in 1997 dollars, in 2010 due to higher levels of trade.

7/ To estimate the anticipated increase in the real income of a family of four, the estimated increase in per capita income was multiplied by four.

Key IMI data and assumptions

1986-96 Data

U.S. merchandise trade grew by 9% (IFS)
U.S. merchandise exports grew by 10.6%
U.S. merchandise imports grew by 8.0%
U.S. nominal GDP grew by 5.9% (IFS)
U.S. real GDP grew by 2.6% (IFS)
U.S. population grew by 1.0% (IFS)
World merchandise trade grew by 9.9% (IFS)
World economy grew by 7.0%, in nominal dollars (WEO)
1996 U.S. real per capita income was \$28,340
1996 U.S. merchandise exports and imports totaled \$1447 billion

2010 estimates

Total merchandise trade with fast track= \$4835 billion
Total merchandise trade without fast track=\$4425 billion
Merchandise trade as a share of nominal GDP with fast track, 2010= 28.6%
Merchandise trade as a share of nominal GDP without fast track, 2010= 26.2%
Increased merchandise trade due to fast track =\$410 billion
Increased trade due to fast track as a percentage of Nominal 2010 U.S. GDP= 2.28%
Frankel, Romer and Cyrus coefficient= 0.34, with standard error of .11.
Increased income due to fast track, as a percent of nominal GDP = .87% +/- .29%
Estimated 2010 real per capita income, in 1996 dollars = 34,980
Estimated 2010 real per capita income due to increased trade, in 1996 dollars= \$300+/- \$100

Measuring the Benefits of Trade Agreements

Aren't you overselling the benefits of future fast track agreements, just like you oversold the benefits of NAFTA?

- Treasury's study is conservative in the sense that it captures only some of the benefits of future fast track deals on the U.S. economy.
- The study assumes that trade will continue to grow rapidly without fast-track agreements -- though not quite as rapidly as it would with trade agreements. Our assumptions on the extra trade encouraged by fast-track agreements are very conservative.
- Even a small increase in the growth of trade could have a significant positive impact on the well-being of the average American family in 2010.
- The study examines the benefits of continued liberalization of merchandise trade only, and thus ignores the benefits of liberalized trade in services.
- The study does not quantify all of the costs of no action, particularly if other countries enter into agreements from which we are excluded.

Trade Barriers, Technology and Trade Growth

Why do you believe that failing to continue to reduce trade barriers will lead to a slow down in the growth of trade? Won't continued technological improvements continue to cause trade to grow regardless of future trade agreements?

- Some of the recent rapid growth in U.S. exports can no doubt be attributed to technological improvements and the overall expansion of the world economy. Improved telecommunications, for example, have allowed trade in a range of previously untraded services.
- However, the vast, ongoing reduction in trade barriers following World War II has also played a key role.
- How do we know? During the period between World War I and World War II we tried the opposite policy -- increasing rather than reducing trade barriers. Despite important technological advances, trade as a share of GDP fell sharply.
- Without continued reduction in trade barriers, we will not be able to take advantage of all the new trading opportunities created by a growing world economy and technological advances.

Doesn't the Treasury study overestimate the relative importance of the fall in trade barriers and underestimate the impact of technology?

- Determining the relative importance of improvements in technology and reduced trade barriers as factors behind the growth of trade is difficult.
- In the past ten years, U.S. trade has grown three percentage points faster than U.S. GDP. Treasury very conservatively assumes that only one-third of the extra trade growth is due to reduced trade barriers.
- If anything, Treasury probably has erred on the side of understating the possible impact of reducing trade barriers.

Trade and Real Income

Why do you think that increased trade increases income?

- Trade does a number of good things:
 - it allows the United States to specialize in the products it produces best;
 - it reduces the prices we have to pay for various goods;
 - it increases competition;
 - it encourages the rapid diffusion of best business practices and new technology.
- Determining that trade increases income is not difficult. Just look at countries like North Korea, Albania, and even China before Deng Xiaoping, that have tried to isolate themselves from the world economy.
- Quantifying the precise benefits of trade, however, is more difficult. Treasury's study relies on a paper by Frankel, Romer and Cyrus to estimate just how much increased trade might raise U.S. income by 2010.
- Frankel, Romer and Cyrus use a range of statistical techniques that take account of other factors and influences to better estimate the effect of trade on a country's income. Their study found that even when these other influences are eliminated, countries that trade more are consistently better off than countries that do not trade as much.

Background

Frankel, Romer and Cyrus's results are interesting because critics of earlier studies that linked high levels of trade to high levels of income noted that these studies had failed to adequately control for many other factors, including the tendency for rapid growth in income to increase the demand for imports. Some economists believed these considerations implied that the estimated benefits of trade were overstated. Frankel, Romer and Cyrus's study incorporates new ways of controlling for these other factors and sorting out the feedback of income on trade, and they still found a strong link between trade and income.

Foreign Barriers to U.S. Trade

Since world tariffs are already quite low, aren't you overestimating the gains that can be achieved from further reductions?

- An increasing share of U.S. trade is with developing and newly industrialized countries. Many of these countries still have high tariffs. Just look at countries like Thailand and China.
- Many countries, particularly countries in Latin America and Asia, do not currently apply high tariffs, but have the right under WTO rules to increase their tariffs because their tariffs are not "bound," or prevented from increasing, at current levels. Future trade agreements will "lock" in the benefits of these countries' initial steps towards liberalization.
- Tariffs among industrial countries remain too high in many products where the United States is extremely competitive. Agriculture is one example.
- Plus, many industrial countries still impose significant barriers to trade in services, another area where U.S. firms are extremely competitive.

Trade Deficits

What sort of predictions does the Treasury study make about the U.S. trade deficit?

- Treasury's study did not explicitly seek to predict future U.S. trade deficits. It focused on the growth in overall trade.
- That said, Treasury's study is consistent with the gradual reduction of the trade deficit over time, since we expect exports to grow slightly faster than imports.

Background

The study's results are based on the overall growth of merchandise trade, rather than the independent behavior of exports and imports. However, export growth is likely to exceed import growth over the long term, both because that is what has happened over the past 10 years and because the reduction in foreign barriers to U.S. exports is likely to be larger than the reduction in U.S. barriers to imports. Furthermore, no country can run a large trade deficit indefinitely. Consequently, it is reasonable to assert that the growth in trade will be distributed in a way that will reduce the U.S. trade deficit by 2010.