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FAST TRACK Q&A'S

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

- Fast track is about giving the United States the ability to open markets, create jobs and improve the standard of living of American companies and workers. The President's fast track authority will be used to negotiate sectoral agreements in key industries where the US is most competitive, like agriculture, medical equipment and services and environmental technologies and services. It will be used to continue opening markets in Latin America and Asia, the fastest growing markets in the world, and it will be used to reach global agreements in the World Trade Organization to reduce barriers in key areas. The Administration is asking for authority simply to negotiate these agreements: Congress would then have the right to approve or disapprove any fast track agreement once it is negotiated.

- These agreements can provide enormous benefits for American companies and workers. For example, last year's Information Technology Agreement eliminated tariffs and unshackled $500 billion of trade in semiconductors, computers, telecommunications equipment and software, amounting to a $5 billion tax cut in tariffs on American exports. With fast track authority, we can tear down more barriers to America's exports and create more high-skilled jobs

- More fundamentally, fast track is about maintaining America's competitive position and global leadership. If America does not break down foreign trade barriers, our competitors will--to their advantage, not ours. Since 1992, in Latin America and Asia alone, other countries reached more than 20 preferential trade agreements excluding the United States. These countries are busy leveling the playing field for their exports. Without fast track, America will lose its global leadership and risk being relegated to the sidelines.

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

- America's future prosperity is increasingly tied to the expansion of the global economy. In a world where over 96% of the world's consumers live outside the U.S. and the global economy is expected to grow at three times the rate of the U.S. economy, we must continue to export to be able to create more high-skilled American jobs. Without fast track, America's hands will be tied in its ability to negotiate these critical agreements and drastically slow down our job creating potential.

- Over the past four years, one-quarter of our economic growth came from trade. To take advantage of these opportunities, we must continue to open export markets for America's companies and workers. If we don't move forward, US workers and companies from telecommunications firms to agricultural producers will lose out in foreign markets. Fast track authority gives the President the tools to move America ahead to the 21st century.

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

- The fact is the U.S. economy is the strongest in the world and American workers are the best trained, most highly educated and productive work force in the world—they can certainly compete with workers from low wage countries.

- In the last 10 years, U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140%. Exports to low-wage countries now account for 42% of total U.S. exports. And these are high-skilled, high paying jobs. Wages for export-related jobs pay 13-16% more for non-management jobs than the national average.

- Competition from low-wage countries does create competitive pressures in industries where skills and productivity are lower, but most such jobs don't compete with imports. In fact, imports from non-oil developing countries account for only 4% of U.S. spending and have grown only 1.5% during the past decade. For those workers who are affected, we need to maintain our commitment to education and worker retraining. That's why the President is committed to making sure no American is left out of the global economy. Trade expansion must be part of a complete strategy to prepare the U.S. for global competition.

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

- We believe labor and environmental issues are an important part of the Administration's agenda and we are committed to progress in these areas. The Administration's record demonstrates that we have negotiated agreements related to labor and the environment at every opportunity. Our strategy maximizes our ability to open markets for US workers and companies and improve international environmental and labor standards. In fact, the Administration has made unprecedented progress in defining and advancing core labor standards—the right to organize and bargain collectively, freedom of association, a prohibition on exploitative child labor, a prohibition on forced labor, and a commitment to non-discrimination in employment—in such international arenas as the World Trade Organization, the International Labor Organization, and in the Organization of Economic Cooperation and Development.

- The recent "sweatshop" initiative is an example of the Administration's efforts to improve working conditions by establishing an industry-wide partnership with labor organizations and consumer interests on wage and workplace conditions for apparel industry manufacturers. The NAFTA side agreements can help address labor and environmental issues, particularly along our 2,000 mile border with Mexico. And, in the Free Trade Area of the Americas, the United States is pushing for a commitment across the Hemisphere to sustainable development practices.

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

- The record is good. NAFTA has provided many benefits, including expanded exports, creation of high-wage jobs and protection of those exports and jobs during Mexico's recession and peso crisis. With the phasing in of NAFTA, U.S. goods exports have risen to historic levels in the last three years (1993 to 1996), up 33% to Canada, up 37% to Mexico. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. Such export related jobs by exports pay 13% to 16% more for non-management jobs than the U.S. national average.

- The best information available indicates that NAFTA has had a positive effect on jobs, creating 90,000 to 160,000 jobs in trade with Mexico alone. A study by DRI estimates that NAFTA boosted real exports to Mexico by $12 billion in 1996, compared to a smaller increase in imports of $5 billion, which contributed to controlling Mexico's financial crisis. The agreement has also leveled our playing field with Mexico. Mexico's tariff cuts have been 5 times greater than our own. The agreement has helped American suppliers in key industries capture additional shares of Mexico's import markets. Since NAFTA went into effect, our share of Mexico's import market has grown from 69.3% to 75.5%.

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

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

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

- NAFTA has given us better progress and cooperation with Mexico on labor and environmental concerns than we would have had without it. The problems along the border are longstanding and will not be solved overnight. But there are clear signs of improvement:

    - From 1993 to 1996, Mexico's Secretariat of Labor and Social Welfare enforcement budget increased in real terms by nearly 250%.
    - The overall rate of occupational injuries and illnesses fell from 47 per thousand in 1994 to 33 per thousand in 1996.
    - Mexico has seen the number of environmental violations dropping; with a 72% reduction in serious violations in the maquiladora industry from 1993 to 1996; and a 43% increase in the number of maquiladora facilities in complete compliance.
    - The NAFTA institutions financing border cleanup projects have certified 16 projects, including infrastructure projects costing nearly $230 million.

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

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

- A: The fact is that NAFTA makes it more attractive to stay in the United States. Before NAFTA, U.S. exports faced an average 10% tariff when sending U.S.-made goods to Mexico. Mexico also had restrictions that basically forced US companies to locate car production in Mexico in order to sell to Mexicans. NAFTA eliminates these barriers on the Mexican side- and will eliminate only a 2% average tariff on products coming here.

- If we let other countries reach trade agreements, while we sit on the sidelines, it will make it even more attractive for companies to locate outside the United States. If other countries eliminate the barriers their exports face, while U.S. exports still face high barriers, there is that much more incentive to produce elsewhere. If we want to keep jobs in the U.S., we should eliminate trade barriers for U.S.-made products. To do that, the President needs fast track authority.

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

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

QUESTIONS & ANSWERS FOR FAST TRACK SOURCE BOOK
BASICS OF FAST TRACK

Q: Why do we need fast track? For what does the Administration plan to use this authority?

Fast track is about ensuring that America speaks with a united voice as we pursue our trade agenda. Our ~~immediate plan is~~ to use fast track to wrap up negotiations on a comprehensive trade agreement with Chile. But we will need fast track to pursue a range of other bilateral, regional, and ~~world-wide trade~~ initiatives that can expand export opportunities for our companies and workers. Already on the agenda of the World Trade Organization, for example, are negotiations that we can use to bring down barriers that keep our highly competitive agricultural products out of key markets around the world. We will also need fast track to initiate new negotiations to lower trade global barriers in other sectors where we are the world's leading producer -- like we did for computers and other electronic equipment through the recently concluded International Technology Agreement Fast track tells our trading partners that Congress and the President are working together to carry out America's trade agenda.

Q: **What are the risks if the Administration does not get renewed fast track authority?**

We have worked hard as a nation to regain our competitive position and to ensure that we continue to steer the global trade agenda for the advantage of our companies and workers. That work has paid off. **Unemployment is at a 23-year low, income levels are rising across-the-board, and exports are at an all-time high.** If we abandon our leadership role, if we do not have all the tools in place to bring down barriers to American products and services around the world, we will leave American companies and workers on the ~~sidelines~~.

Working to level trade conditions around the world presents a scenario of unilateral disarmament ? -- the rest of the world is going to continue to negotiate favorable terms around us. Our workers and companies will be disadvantaged by the privileged trading rights gained by others at our expense. This is not a theoretical possibility. Since 1992, our commercial rivals have concluded more than 20 regional trade agreements that leave the United States out. Every day, the world's trading nations are forging strategic and preferential alliances without us.

A recent example demonstrates that the costs of watching from the sidelines are real. In November 1996, Canada reached a free-trade agreement with Chile that eliminates Chile's 11 percent tariff on most Canadian products. Now all products Canada sells have an 11% cost advantage over U.S. goods. Northern Telecom -- a Canadian-owned producer -- recently won a nearly $200 million telecommunications equipment contract over three U.S. companies in part because Canada's trade deal with Chile gave Northern a $20 million cost advantage over its U.S. rivals. Recently, Canada has said that it wants to move beyond Chile and form a trade alliance with Latin America's common market countries -- Mercosur -- with or without the United States.

American companies have already begun to source their sales to Latin America from Mexico or other countries that have negotiated preferential trading arrangements with Mercosur. That means lost opportunities for workers and manufacturers in the United States.

Fast Track Policy Questions

Q: What is the Administration going to do about trade and environment linkage to trade agreements? Isn't that the only way Democrats will support the legislation?

Q: Will the Administration increase infrastructure funding along the border to address concerns of the Hispanic & Boder Caucuses'?

Q: Is Chile the only regional trade negotiating objective?

Q: What about agreements with South Africa, New Zealand or in the FTAA?

Q: Do you really need fast track for the sectoral trade agenda in the WTO?

TRADE GENERALLY

Q: Why should we reach trade agreements with low wage countries? How can U.S. workers compete in trade against workers in developing countries earning of small fraction of U.S. wages?

A: The fact is that wages for export-related jobs pay 13-16% more than the national average. Thus, creating additional export opportunities is clearly in America's interest. Our workers are able to compete with workers in low wage countries because they are the most productive in the world. They spend far less time to produce most anything than is required of workers in low wage countries. As a result, in many areas the United States has both higher wages and lower unit labor costs than our low wage trade partners.

Even state of the art facilities in developing countries are in fact far from operating as efficiently as in countries like the United States because of low productivity and frequent quality and availability problems in the domestic goods and service supplying sectors upon which the manufacturing facility depends.

The fact is that workers can and do compete successfully with low wage countries. In the last 10 years U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140% and domestic sales by 75%. Exports to low wage countries now account for 42% of total U.S. exports.

Additional evidence of the ability of the U.S. to compete in the industrial sector is the overall strong growth of U.S. industrial output, up 18% in real terms since 1992 (compared to an 8% rise for Japan and a 1% decline for Germany). The growth in manufacturing employment since 1992 (up roughly one-quarter million), has been due largely to strong U.S. productivity growth in the manufacturing sector (3% to 4% a year). Of course, competitive pressure from low wage countries may be felt greatest in U.S. industries where labor skills and productivity are lower than average. But most such jobs are not in industries that compete with imports. Indeed, imports from non-oil developing countries account for only 4% of U.S. spending and has grown only 1.5% during past decade.

We should be concerned when any part of our labor force lacks skills necessary for well-paying jobs. It is important, therefore, to maintain our commitment to education and worker retraining so that our workers can enjoy the benefits of America's increasing demand for a higher-skilled workforce.

Q: How do you respond to arguments that the trade deficit has hurt the U.S. economy and cost American jobs -- and that the growing deficit makes it more difficult to get fast track?

A: Trade <u>deficits, by themselves, do not necessarily cost U.S. jobs -- nor are they necessarily the product of trade policy</u>. Macroeconomic factors overwhelmingly today are the force behind the U.S. trade deficit. We are growing at a steady pace of about 3% per year over the past five years, unemployment is at a 23 year low, income levels are rising, and exports are at record levels. In the U.S., we have created more than twelve million new jobs over the last four years, the rest of the G-7 combined was less than a million. At 2.5% of GDP, last year's goods and services deficit was significantly below the 1987 peak of 3.4%.

The United States trade deficit and employment both tend to rise when the economy is growing rapidly and consumers and businesses increase their spending. For example, the U.S. current account (the broadest measure of trade) was nearly in balance in 1991, during the last major U.S. recession, yet the unemployment rate peaked at well over 7% in that year. Since 1992, the U.S. economy recovered earlier and has grown faster than those of many of our major trade partners. The relative strength of U.S. growth contributed to the current account deficit expanding to $165.1 billion in 1996; however, by the end of 1996, the unemployment rate was down to 5.4%.

We cannot lose sight of the fact that exports have created new, high-paying jobs. Today, more than 11 million American jobs are supported by exports, including one in five manufacturing jobs. These are good jobs; jobs supported by merchandise exports pay 13-16 percent more than the U.S. national average wage. Over the last four years, more than one-quarter of our economic growth came from exports -- and export growth has resulted in an additional 1.4 million export-supported jobs .

That said, the President and Congress working together over the last four years have reduced the federal budget deficit and strengthened the national saving rate. As a result, although the trade deficit has increased in dollar terms during this recovery, substantial progress has been made in that the trade deficit has been brought down substantially relative to the size of the overall economy (for goods and services, down from 3.3% of GDP at its peak in 1987 to 1.5% in 1996). In light of ~~the budget agreement between the President and Congress, this trend should continue~~ as we reduce the budget deficit.

RECORD ON NAFTA

Q: What benefits has NAFTA provided?

NAFTA has played a vital role in expanding markets for U.S. products in our first and third largest trade partners, Canada and Mexico. If current trends in 1997 continue, Mexico will in fact become our second largest trading partner. Over the first four months this year, Canada and Mexico have provided 53% of our overall export growth. U.S. goods exports have risen to historic records in the last 3 years (1993 to 1996): up 33% to Canada, reaching $134 billion and up 37% to Mexico, reaching $57 billion.

NAFTA also acted as a buffer against reduced access to these markets, particularly, Mexico during Mexico's recession and peso crisis.

The strength of U.S. exports to Mexico under NAFTA, even in the face of the peso crisis, is significantly in particular sectors areas. For example, U.S. agricultural exports to Mexico are up by 52% in 3 years, from $3.5 billion in 1993 to $5.4 billion in 1996. Exports of cereal, led by corn, are up 174% to $1.8 billion. Exports of electrical machinery are up by nearly 60% to $11 billion, and exports of paper are by one-third to $1.5 billion. Even the consumer goods category has shown strong growth, with exports up 34% to $6.5 billion. Similarly, NAFTA has translated into significant gains for the states' economic performance. While virtually every region in the country has benefited from NAFTA, the Midwest, in particular, has experienced an economic boom, in part, because of the increase in manufactured exports to Mexico.

These increased exports translate into job growth, jobs that pay high wages. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. These jobs have also increased since NAFTA began taking effect, up 122,000 for exports to Mexico (to an estimated 750,000 in 1996) and up 189,000 for exports to Canada. Such U.S. jobs supported by exports pay 13% to 16% more than the U.S. national average.

In addition to the direct benefits provided by NAFTA, NAFTA also shielded the U.S. from the potentially more serious consequences of Mexican recession. In 1995, a year in which Mexico experienced its worst recession in the 20th century (production and employment down 7%), that country continued to lower its trade barriers to U.S. and Canadian products (in line with its NAFTA obligations), while raising them in certain areas against products from the E.U. and Japan. Our share of Mexico's imports actually rose from 71% in 1994 to 76% in 1996.

In Mexico's previous international payments and peso crisis in 1981-82, U.S. exports were cut in half and took 7 years to recover. In contrast, in 1995 U.S. exports fell by 9% and had fully recovered in 18 months, helping to protect more than 700,000 good paying U.S. jobs supported by exports to Mexico. Also, while the recession did cause a deterioration in our trade balance with Mexico, NAFTA helped limit to some extent the size of the bilateral deficit growth. A recent study published by the Federal Reserve Bank of Dallas estimated that U.S. export growth to Mexico has been 7 percent higher than it otherwise would have been due to NAFTA, while U.S. import growth from Mexico was only 2 percent higher per year due to NAFTA.

Q: Hasn't NAFTA created a trade deficit with Mexico, resulting in the loss of thousands of U.S. jobs?

The best information available indicates that NAFTA has had a modest positive effect on jobs, creating 90,000 to 160,000 jobs in trade with Mexico alone. Today, more than 2.3 million U.S. jobs depend on our exports to Canada and Mexico.

The trade deficit with Mexico was caused by Mexico's recession and peso crisis, not NAFTA. Mexico experienced its worst economic downturn in modern history in 1995. As a result of the peso crisis, investment fled and interest rates jumped.. Mexican production fell by nearly 7 percent, making Mexico's recession about three times worse than the last U.S. recession in 1991-1992. Mexico's imports fell and the sharp decline in its domestic spending power made more of its remaining production available for export.

During that same period, the U.S. economy was growing, which contributed to the trade deficit with Mexico. Between 1994 and 1996, U.S. net employment rose by 4.8 million, the unemployment rate fell from 6.1 to 5.4 percent and U.S. industrial production rose by over 6 percent in real terms.

If anything, the trade deficit would have increased further if it were not for NAFTA. During the recession, Mexico continued to lower its trade barriers as required by NAFTA. Compare that behavior to the last economic crisis in 1981-1982, during which Mexico imposed 100% duties on American products and strict licensing requirements. In that crisis, U.S. exports were cut in half and jobs supported by exports fell by more than 50%; it took 7 years to recover to 1981 levels.

In this crisis, Mexico increased tariffs on certain products from our competitors. but not on our products. In this period, U.S. exports fell by 9% and fully recovered in 18 months, protecting the 750,000 jobs that depend on those exports. A Federal Reserve of Dallas study concluded that U.S. export growth was 7% higher than would have been absent NAFTA; import growth from Mexico only 2% higher because of NAFTA.

Q: How can you argue that trade with Mexico and Canada has not hurt U.S. workers when over 100,000 have been certified for assistance because they lost their jobs due to imports from those countries or plant relocations to those countries?

As we move farther towards a global economy, of which NAFTA is a part, we create new opportunities that require increasingly higher skill and education. Many such opportunities were created as evidenced by the more than 300,000 jobs created as a result of expanded exports to the NAFTA countries. For those workers ~~you~~ experience dislocation during this transition we must and do provide support.

It has to be appreciated, however, that from January 1994 through March 1997, approximately 10 million U.S. workers experienced involuntary job displacement. Of those 10 million, 72,646 were certified as having experienced dislocation as a result of imports from Mexico (or displacement to Mexico). The assistance available to workers so certified goes beyond that given to workers who otherwise experience job dislocation, ie., they receive unemployment compensation for longer than others if they cannot find a job. Of this 72,000, only about 5,000 actually did not find new jobs before normal unemployment benefits expired. They received extended benefits under the legislation passed as part of NAFTA.

any (claims) denied?

More generally, job growth in the United States has been strong during the entire time NAFTA has been in effect. In fact, all job displacement was offset and net employment actually increased by 9.3 million. In effect, for each job that was lost, a new one was created.

Q: We know that Trade Adjustment Assistance has not reached many of those that need it and that training has often been inadequate in equipping workers with the skills they need to be competitive?

We must be concerned anytime one of our workers does not have the skills necessary to take advantage of new opportunities. Therefore, the Administration is committed to creating expanded education and training opportunities. We will undertake an evaluation of TAA and seek program improvements ~~in~~ until Congress.

Q: Effect on peso crisis. What role did NAFTA play in the collapse of the peso in 1995 and the decline of the Mexican economy?

The sharp decline in the Mexican economy in 1995 and the peso crash had its roots in Mexico's exchange rate policy in the 1980s, long before the NAFTA was envisioned. The rise in interest rates, collapse of the Mexican financial markets and the 7% decline in production and employment, undermined the Mexican economy, and these events had little to do with the

NAFTA.

The NAFTA did force Mexico to meet market-opening obligations, and in spite of a recession three times worse than the U.S. recession of 1991, our exports to Mexico recovered in just 18 months. By contrast, after the peso crash of 1982, Mexico erected across-the-board trade barriers and U.S. exports took seven years to recover.

From the Mexican perspective, NAFTA can, in part, be credited with helping Mexico recover more quickly from this recession than the recession in the 1980's. It took the Mexican economy 4 years to recover from its early 1980s recession. In contrast, in 1996, just one year after the recession, the Mexican economy grew by better than 5% and recovered two-thirds of its production. Mexican growth is expected to exceed 5% again in 1997. In that event, Mexico will have recovered from a worse recession twice as fast as it did from recession in the 1980s.

Q: Didn't wages in maquiladora plants and in Mexico generally fall as a result of NAFTA?

Real wages throughout Mexico fell about 50% as a result of the peso crisis. However, this issue had nothing to do with NAFTA.

Q: Aren't maquiladoras responsible for the increase in Mexican exports to the United States?

Maquiladoras actually account for a decreasing share of U.S. imports from Mexico. Exports from maquiladoras have fallen from 43 percent of total Mexican exports in 1994 to 38 percent of total exports in 1996. This trend is likely to continue as cost advantage for maquiladoras will be eliminated in time. Under the NAFTA, not all tariffs on Mexican imports have been eliminated, thus providing some cost incentive for maquiladoras to export to the United States. After all tariffs have been eliminated under NAFTA, maquiladoras will lose their cost advantage. NAFTA also assures that, when fully phased in, Mexico will not be able to import non-NAFTA components duty free for assembly and re-export to the United States. Without NAFTA, such "duty drawback" provision in Mexico could have continued indefinitely.

Q: NAFTA was supposed to bring improvements in labor and the environmental conditions in Mexico. It does not appear to have done either. How do you respond?

With respect to labor and environmental, the NAFTA side agreements are working to improve conditions that existed long before NAFTA. The labor and environmental problems in Mexico are decades in the making; it is unrealistic to expect NAFTA to have remedied them in three years. There are continuing problems and they need to be addressed. The NAFTA agreements provide the vehicle for doing so, and have resulted in important progress on both fronts.

On the environmental front, we are not satisfied with the pace of progress but the NAFTA side agreement provides the means is to identify and fund new environmental projects and in Mexico's enforcement of its environmental laws. To date, 16 environmental restoration projects have now been authorized including a water treatment facility in Brawley, California and a water supply project in Mercedes, Texas.

On the labor front, there is an unprecedented degree of cooperation to address the difficult labor issues and the formal process allowing the submission of complaints about continuing problems has led to solutions, change, and increased attention to these issues. It is significant that between 1993 and 1996, Mexico's Secretariat of Labor and Social Welfare increased funding for enforcement of labor laws by almost 250%. We have also seen the NAALC submission process work to provide secret ballot union elections at two companies which previously rejected secret ballot elections.

With respect to labor and environment issues, progress is continuing. In fact, Presidents Clinton and Zedillo agreed to redouble their efforts in this regard and have asked their labor and environment ministers to identify specific issues requiring more focused attention, particularly along the border.

Q: NAFTA has not really solved the most pressing trade issues between U.S. and Mexico. Why go forward with new agreements if we are not solving existing problems?

While there remain trade issues to resolve with Mexico, no trading relationship is without such ongoing issues. Neither NAFTA nor any other trade agreement is a panacea; it provides increased opportunities and a process to address outstanding and emerging issues. Pursuant to the NAFTA, we are working to solve our trade issues with Mexico and with Canada.

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For example, we have made it clear that trucks entering the U.S. must comply with strict safety and environmental standards. With regard to food safety, the NAFTA imposes among the highest phytosanitary requirements of any trade agreement in the world, which must be complied with before food enters our market. With respect to labor and environment issues, progress is continuing. In fact, Presidents Clinton and Zedillo agreed to redouble their efforts in this regard and have asked their labor and environment ministers to identify specific issues requiring more focused attention, particularly along the border.

Again, withholding fast track authority will not improve these problems. Issues like this arise with all trading partners, whether we have special trade relations or not. Fast track is important so that we can create economic opportunity, exercise leadership to impose disciplines that minimize the kinds of problems to which you allude and establish processes to resolve problems when they arise.

More generally, we have backed up our trade agreements by insisting on full implementation through vigorous enforcement. We have made clear that agreements, if not implemented, will be enforced. In the past four years we have brought **more than 50** trade enforcement actions. We have filed **30** cases to enforce U.S. rights under the new dispute settlement procedures of the WTO, having filed more than **15** complaints in the last year alone. We see our commitment to vigorous enforcement as vital to continuing support for our trade policy, and we will continue to use every tool that Congress has given the Executive to carry out our trade policy.

FAST TRACK: WHY WE NEED IT

NOW, MORE THAN EVER, THE U.S. NEEDS AUTHORITY TO OPEN NEW MARKETS AND BREAK DOWN BARRIERS TO U.S. EXPORTS.

Trade negotiating authority is essential. Every President since Ford has had fast track authority for key periods ~~with bi~~partisan support. President Clinton needs fast track authority to open markets and ensure that U.S. workers and companies have the same access to foreign markets as our competitors.

Fast track authority is more important today than ever. The rapidly expanding global economy presents enormous opportunities for our companies and workers. Over the next decade, the global economy is expected to grow at three times the rate of the U.S. economy. Growth will be particularly powerful in the emerging markets - the fastest growing markets of the world. Our economic future will increasingly depend on tapping into these global opportunities. In a world where over 95 percent of the world's consumers live outside the United States, we must export to sustain economic growth at home.

Leadership in trade is critical to global leadership. The United States is now the most competitive economy in the world. We export more products and services than any other country in the world, and trade provided more than one-fourth of our economic growth over the past four years. Europe, China, Japan and others are forging preferential commercial alliances with emerging markets, which put American exports at a disadvantage. Those trade alliances also play a vital role in defining strategic relationships between countries and regions. Our commercial competitiveness is at stake, but so is our leadership role in the world.

Our trade agenda is built around areas where we are most competitive. In the just the last eight months the United States led the world to complete trade agreements in telecommunications and information technology products -- a trillion dollars worth of trade in areas where we lead the world. We are now building on this agenda with an internet trade initiative. We are working with our trading partners to open-up trade in agriculture, biotechnology, services, and energy. Over the last four years, our manufactured exports are up 42%, high technology exports jumped 46%, service exports climbed 26% and farm exports rose 43%. Fast track will strengthen our hand at opening foreign markets in all these areas.

Exports create American jobs. Today, more than 11 million American jobs are supported by exports, including one in five manufacturing jobs – good jobs, paying 13-16 percent more than non-trade-related jobs. Over the last four years, one-quarter of our economic growth came from trade -- and exports created 1.4 million new jobs. If we are to raise our standard of living, we must continue creating jobs through exports.

THE U.S. IS PERFECTLY POSITIONED TO SEIZE THESE OPPORTUNITIES.

The United States is the world's strongest competitor. We have enjoyed the longest period of sustained growth of all of our G-7 partners. Over the last four years, we have created 12 million new jobs, more than all of the other G-7 countries <u>combined</u>. We have the lowest budget deficit as a percent of GDP of all the G-7 nations. We are once again the world's largest exporter, the largest producer of semiconductors, the largest producer of automobiles. Independent studies, including the Institute for Management Development in Switzerland, have found America to be the most competitive economy in the world for the past five years. No country in the world is better positioned to compete.

Our market is already open. Others are not. The United States is the most open, major market in the world. When we reach trade agreements, we give up very little, while other countries give up far more. When the Uruguay Round is phased in, our tariffs will average 2.8 percent. Other countries are far higher: India (31%); Thailand and Turkey (26%); Chile and Indonesia (11%). It is not difficult to see that these deals make sense. It is difficult to understand why we should let these barriers stand.

THE POTENTIAL GAINS ARE GREAT, IF WE SEIZE THEM.

Multilateral. For over 50 years, the U.S. has led the world in opening global markets. Our persistent ~~leadership has~~ helped bring global tariffs down from an average of 40 percent at the end of World War II to about 5 percent today, leading to a 90-fold increase in global trade. We can continue that progress today. Because of our leadership, new WTO negotiations present the opportunity to reduce trade barriers further in key sectors, such as:

1999

* **Agriculture:** Negotiations to cut barriers in the $526 billion global agriculture market will attack such practices as export subsidies and domestic support programs.

* **Services:** A $1.2 trillion global market - where U.S. firms exported more than $220 billion in 1996 with a surplus of $74 billion. Talks will address a wide range of service sectors including health care, education, entertainment, tourism, business consulting and advertising.

Need fast track ??

Global negotiations will address other key areas like intellectual property, customs and government procurement rules. Talks in the OECD will ensure fair treatment for U.S. investors.
MAI

Sectoral. We would also use fast track to negotiate agreements in sectors where the U.S. is most competitive. ~~The recent~~ Information Technology Agreement, for example, eliminated tariffs and unshackled $500 billion of trade in semiconductors, computers, telecommunications equipment and software, amounting to a $5 billion tax cut in tariffs on American exports. With fast track authority, we can tear down more barriers in areas like medical equipment, environmental technology, and computer software, areas where America leads the world. ITA 2

Regional. Continuing regional initiatives present vast opportunities.

* **Latin America and the Caribbean.** This area was the fastest growing market for U.S. exports in 1996. If trends continue, Latin America and the Caribbean will exceed the EU as a destination for U.S. exports by 2000 and exceed Japan and the EU combined by 2010. We remain committed to conclude the Free Trade Area of the Americas by 2005. Chile would be our first step in this process.

FTAA

* **Asia.** Contains the fastest growing economies in the world, with nearly 3 billion people. Independent forecasters put 1996 GDP for the region at $2.8 trillion and expect real growth of 6% to 7% annually for the next 15 years.

APEC

We will also continue efforts with Europe, Africa and other regions.

IF WE DON'T ACT, OUR COMPETITORS WILL.

Other countries are breaking down barriers for their companies and workers. We talk a lot about leveling the playing field, but our competitors are leveling the field, while we sit on the sidelines. Since 1992, our competitors have negotiated 20 regional trade pacts in Asia and the Western Hemisphere. In every region of the world, this process will continue. MERCOSUR is a developing customs union with ambitions to expand to all of South America; the EU has begun a process to reach free trade with MERCOSUR (President Chirac recently declared "the future of the region rests with Europe, not the United States"); China's "strategic priorities" include Mexico, Argentina, Brazil, Chile and Venezuela; Japan has undertaken high-level efforts in Asia and Latin America. Five years ago, the question was whether countries would reach regional trading agreements. Today, the only question is whether the U.S. will be part of that process - or whether it will sit on the sidelines. and be left behind

The costs of inaction are high. For example, Canada has reached a free trade agreement with Chile that will eliminate Canada's across-the-board 11 percent tariff for Canadian products. Every time an American company competes to sell to Chile, it will face an immediate 11 percent cost disadvantage vis-a-vis its Canadian competitors. The costs are already being felt. Canada's Northern Telecom just won a $180 million telecommunications contract over three U.S. companies in part because it could avoid paying $20 million worth of duties. **(Are there more examples in this genre?)**

AS WE DEVELOP A FAST TRACK BILL, WE MUST DEVELOP A BIPARTISAN APPROACH TO THE ISSUES OF LABOR AND THE ENVIRONMENT.

We must address these issues. We cannot sustain support among American people for market opening policies without also addressing concerns about the effects of these agreements on labor and the environment. That is also necessary to build a bipartisan coalition for passage. The President has asked Ambassador Barshefsky to consult with both parties in Congress -- and the relevant interest groups -- to develop a bipartisan consensus. That process continues.

Sitting on the sidelines does not help workers or promote a cleaner environment. Opening foreign markets does not mean retreating from our commitment to labor and the environment. In fact, it makes it easier to engage these countries on these issues. Denying the President authority to negotiate trade agreements with them will not help advance their labor or environmental protections. It will simply make it more likely that these countries will remain oblivious to environmental issues, while crippling our export performance and denying job growth here at home.

WE FACE A CRITICAL CHOICE: WHETHER TO SEIZE THE INITIATIVE OR HAVE OTHERS SEIZE IT FROM US.

The choice is clear. We can recognize that the American economy is the model for the world, continue to open foreign markets and seize the initiative when it comes to international competition. Or we can convince ourselves - against the evidence - that we are on the wrong track, that we cannot succeed and that we should not move forward. Four years from now, we will either proudly recognize that we saw our opportunities and we took them. Or, we will have become paralyzed by indecision, squandered our strong competitive advantage and let others seize the initiative. The choice is that clear - and that important.

FAST TRACK
MAIN MESSAGE

NOW, MORE THAN EVER, THE U.S. NEEDS AUTHORITY TO OPEN NEW MARKETS AND BREAK DOWN BARRIERS TO U.S. EXPORTS.

Trade negotiating authority is essential. Every President since Ford has had fast track authority for key periods with bipartisan support. That is because Congress has consistently recognized the President must have the authority to break down foreign trade barriers and create good jobs.

Fast track authority is even more essential today. The rapidly expanding global economy presents enormous opportunities for our companies and workers. Over the next decade, the global economy is expected to grow at three times the rate of the U.S. economy. Growth will be particularly powerful in the emerging markets - the fastest growing markets of the world. Our economic future will increasingly rest on tapping into these global opportunities. In a world where over 95 percent of the world's consumers live outside the United States, we must export to sustain economic growth at home.

Commercial competitiveness is critical to our global leadership. Europe, China, Japan and others are forging preferential commercial alliances with emerging markets, which put American exports at a disadvantage. Those trade alliances also play a vital role in defining strategic relationships between countries and regions. Our commercial competitiveness is at stake, but so is our leadership role in the world.

Exports create American jobs. Today, more than 11 million American jobs are supported by exports, including one in five manufacturing jobs – good jobs, paying 13-16 percent more than non-trade-related jobs. Over the last four years, one-quarter of our economic growth came from trade -- and exports created 1.4 million new jobs. If we are to raise our standard of living, we must continue creating jobs through exports.

THE U.S. IS PERFECTLY POSITIONED TO SEIZE THESE OPPORTUNITIES.

The United States is the world's strongest competitor. We have enjoyed the longest period of sustained growth of all of our G-7 partners. Over the last four years, we have created 12 million new jobs, more than all of the other G-7 countries combined. We have the lowest budget deficit as a percent of GDP of all the G-7 nations. We are once again the world's largest exporter, the largest producer of semiconductors, the largest producer of automobiles. Over the last four years, our manufactured exports are up 42%, high technology exports jumped 46%, service exports climbed 26% and farm exports rose 43%. Independent studies, including the Institute for Management Development in Switzerland, have found America to be the most competitive economy in the world for the past five years. No country in the world is better positioned to compete.

Our market is already open. Others are not. The United States is the most open, major market in the world. When we reach trade agreements, we give up very little, while other countries give up far more. When the Uruguay Round is phased in, our tariffs will average 2.8 percent. Other countries are far higher: India (31%); Thailand and Turkey (26%); Chile and Indonesia (11%). It is not difficult to see that these deals make sense. It is difficult to understand why we should let these barriers stand.

THE POTENTIAL GAINS ARE GREAT, IF WE SEIZE THEM.

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COMPETING AGAINST COUNTRIES WITH LOW WAGES

Issue: How can U.S. workers compete in trade against workers in developing countries earning of small fraction of U.S. wages?

- **Because American workers are highly productive, trading with low wage countries does not, as a general matter, depress wages in the U.S.** The labor cost of producing a product is a function of both wages and worker time spent producing the product. U.S. workers total compensation is $17 to $18 an hour, while wages are $7 or $5 or even $2 an hour in foreign competitors. American workers, however, are highly productive spending far less time to produce most anything than is required of workers in low wage countries. As a result, in many areas the United States has both higher wages and lower unit labor costs than our low wage trade partners.

  - A recent study published by the Federal Reserve Bank of San Francisco examining several Asian developing countries illustrates this point. According to its estimates, worker in the Philippines and Malaysia earned less than 20% of the compensation of their U.S. counterparts in 1990, yet unit labor costs in those countries were much higher than in the United States because of productivity differentials. In Korea and Thailand, the study showed that productivity differentials significantly, though not completely, offset wage differentials in 1990. Perhaps even more significantly, the study showed that unit labor cost differentials favoring the four Asian countries examined had shrunk significantly, or turned into disadvantages between 1970 and 1990.

  - The authors concluded, **"Contrary to the sweatshop labor argument, low wages are a symptom of low productivity, not an independent source of international competitiveness ...This analysis indicates that fears about unfair competition from low-wage NICs are greatly exaggerated and should not stand in the way of free international trade, which benefits both the U.S. and developing countries."**

  - **The fact is that workers can and do compete successfully with low wage countries.** In the last 10 years U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140%. Exports to low wage countries now account for 42% of total U.S. exports.

- **U.S. companies compete successfully with state of the art manufacturing facilities in low wage countries.**

  - The competitiveness of output from such facilitites is influenced significantly by the quality, cost and availability of inputs into its production -- everything ranging from telecommunication, transportation, financial services to purchased parts and components. Thus even state of the art facilities in developing countries are in fact far from operating as efficiently as in countries like the United States because of low productivity and frequent quality and availability problems in the domestic goods and service supplying sectors upon which the manufacturing facility depends. The role of these purchased inputs can be large. For example, only one quarter of the factory price of a new U.S. auto actually pays for work done by U.S. auto companies.

  - **The U.S. has competed successfully in the industrial sector.** U.S. industrial output is up 18% in real terms since 1992 (compared to an 8% rise for Japan and a 1% decline for Germany). Manufacturing employment since 1992 is up roughly one-quarter million due largely to strong U.S. productivity growth in the manufacturing sector (3% to 4% a year).

- **Imports from low wage countries are relatively minor.** Imports from non-oil developing countries account for only 4% of U.S. spending, and spending of such imports has grown only 1.5% during the past decade.

- **Real U.S. wages have increased by 1.6% from 4th quarter 1994 to 4th quarter 1996.**

- **Expanded education opportunities and worker training.** Competitive pressure from low wage countries is greatest in industries where labor skills and productivity are relatively low. The answer for U.S. workers, however, is not to cut off imports, but rather to improve the quality and availability of educational and worker retraining opportunities.

  - **The Administration's commitment to expanded education opportunities is evident in the recently-concluded budget agreement.**

    [*Points from 2-pager on education in budget.*]

Fast Track

Policy

Strategy

Why "Fast Track" Legislation is Important

We have achieved a great deal in the last four years and are poised to build on our efforts. With existing trade legislation and policies we can accomplish more, but the absence of fast track authority to implement trade agreements is the most important factor limiting our capacity to open markets. Fast track is a prerequisite to U.S. negotiating credibility and success on virtually all major trade fronts. This is not just about Chile. Every President since Ford had fast track, but the economic and global strategic reasons for it now are more compelling than ever.

Leadership, Strategic Positioning and National Security

Trade alliances now play a critical role in defining strategic relationships between countries and regions, and this will be even more the case as we enter the next century. Effective leadership now requires us to have the ability to implement trade agreements. In addition, our trade alliances are more important to our national security than ever before.

The movement towards more open and dynamic economies has engendered greater interest in Europe, China, and to some degree in Japan, in forging new political and commercial alliances with emerging markets. Their efforts hold out not only the potential to seriously disadvantage both our commercial competitiveness in these regions, but also could jeopardize our traditional role as the broker of last resort in these regions on key foreign policy questions. Sustaining this role is even more important to our national security in a world of new alliances and transboundary threats.

The Dangers of Inaction

We are the most prepared, and best positioned, to move ahead in the transition to more dispersed centers of global growth. Our continued success, though, is not automatic. In every region of the world, governments are forming relations around us, rather than with us, and creating new exclusive trade alliances to our detriment. In fact, our competitors would like nothing better than to see us debate NAFTA, but primarily our relations with Mexico, so they can continue forging new alliances in our absence. Provided below are some examples of this:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) has ambitions to expand its agreements to all of South America from its current agreements with Chile and Bolivia, and ongoing negotiations with the Andean Pact and the Caribbean.

- The EU pursuing a free trade agreement with MERCOSUR and Chile. President Chirac just said that Latin America's "essential economic interests... lie not with the United States but with Europe."

- China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities" in Latin America. Latin America is its second fastest growing export market.

- ASEAN is forming a trade area that will include 400 million people. President Menem recently suggested a MERCOSUR-ASEAN FTA - an agreement that would encompass over 600 million people, and disadvantage key U.S. export sectors, such as agriculture.

- In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region.

The Uses for the Legislation

On the bilateral and regional agenda, fast track authority will position us to conclude the agreement with Chile, thus taking the first concrete step in building the Free Trade Area of the Americas (FTAA) - the U.S. inspired key result from the Summit of the Americas in Miami. Whether we get fast track and conclude a deal with Chile is viewed as a litmus test of our commitment to the region. This will be clear during your Latin American visits this year. Fast track will put us in a good position, going into the March 1998 Summit of the Americas in Santiago, to launch the actual multilateral FTAA negotiations. It would also position us to explore a comprehensive trade agreement with MERCOSUR and others.

Fast track will catalyze the APEC process, ensuring we are competitive and strategically positioned in the region. We could pursue comprehensive agreements with Australia, New Zealand and possibly others (e.g. if politically feasible, Singapore), and - similar to MERCOSUR - launch a process that may lead to a comprehensive trade agreement with ASEAN.

There is a compelling foreign policy interest in strengthening ties with key African countries. Our share of Africa's import market is less than 7 percent. . There is also Congressional interest in an African initiative. Fast track would position us to put forth a convincing policy towards this region, particularly South Africa.

With respect to Europe, we have agreed to create a new "Transatlantic Marketplace," with barriers to trade and investment substantially reduced or eliminated. Fast track ensures our credibility in this effort.

On the multilateral front under the WTO's "built-in" agenda, a substantial number of the Uruguay Round agreements are scheduled to be reviewed, improved and possibly amended or renegotiated. In addition, in 1999-2000, broad-based negotiations will resume on services and agriculture, respectively global markets of $1.2 trillion and $526 billion. Without fast track this year, the WTO work program will languish, countries will not engage in any serious negotiations and we will surrender our competitive advantage and leadership to others. In addition, we are negotiating a Multilateral Agreement on Investment (MAI) in the OECD. Fast track authority would provide important flexibility in how we implement such a deal (as opposed to a treaty which the states are more concerned about).

Furthermore, fast track would enable us to build on our sectoral successes like the Information Technology Agreement (ITA) and the Agreement on Basic Telecommunications. We are considering global, or regional, sectoral initiatives in a number of areas where the U.S. is highly competitive. Possibilities include not only the expansion of the ITA, but also such sectors as medical equipment, agriculture, autos, environmental technology and global electronic commerce. These are only some among many possibilities, none of which have been explored in great detail.

DANGERS OF INACTION: AGREEMENTS REACHED WITHOUT US

America's trade agenda has focused on reaching trade agreements designed to ~~focused on~~ open~~ing~~ foreign markets. This agenda has resulted in increased export opportunities to benefit American companies and workers, which has contributed to the economic prosperity America has been experiencing. In addition, by shaping and concluding enduring trade relationships, we promote America's longer-term economic security and the stability in foreign markets that results from increased prosperity and opportunity.

Our failure to participate further in shaping trade arrangements will not stop new negotiations ~~relationships from forming~~. To the contrary, as we have been sitting on the sidelines, trade agreements are being negotiated every day without our participation. Our competitors are determined, sophisticated, strategic and focussed. In every region of the world, but particularly Asia and Latin America, the two fastest growing regions of the world, other governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements, forming relations around us, rather than with us, and creating new exclusive trade alliances. These new alliances are to the detriment of U.S. prosperity and leadership. Examples already abound:

- In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- have set 2001 as the target for the creation of a free trade. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. Indifference to its development can only harm our economic security.

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

- Canada has negotiated a trade pact with Chile and has started discussions with MERCOSUR.

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

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with a GDP of over $1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and has a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela) as well as countries within the Caribbean Basin. The MERCOSUR ambition is in part driven by the decades old vision of a Latin American free trade area, but also by a clear strategic objective regarding commercial expansion and a stronger position in world affairs.

- The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR. They have also concluded a framework agreement with Chile that ~~is set up~~ was to lead to a free trade agreement.

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

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

- ASEAN -- the Southeast Asian free trade area -- will include 400 million people and some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. As noted earlier, Argentina's President Menem recently suggested a MERCOSUR -ASEAN free trade area -- an agreement that would encompass over 600 million people.

- Countries within this hemisphere are equally aggressive. Mexico wants to be the commercial hub between North and South America, and also serve as a venue in which to enter North, Central and South America from Asia and Europe. It is jointly pursuing a free trade area with Europe and is reaching out to Asia. President Zedillo and his Cabinet have undertaken numerous missions to Asia and have been well received. ~~It~~ Mexico has reached trade agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua. It has initiated talks with MERCOSUR.

- Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela and Ecuador. It intends to start similar negotiations with Central America and has an eye toward agreements with Asia. Japan is its largest export market, but Chile sees itself as a bridge from MERCOSUR to Asia and back, and is positioning itself with its MERCOSUR neighbors for that purpose.

- In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region. Competition within Asia is the most intense. Japan has been ahead of the U.S. in East Asia in terms of corporate presence, and especially in the past decade, in terms of the amount of overseas development assistance (ODA) it is willing to spend to advance its commercial interests. In more recent years, Korean conglomerates have likewise pursued an aggressive strategy to both invest and attain market share in dynamic East Asian economies, ranging from textiles to steel to autos.

DANGERS OF INACTION: COSTS TO U.S. COMPANIES AND WORKERS

Many U.S. firms are experiencing the competitive disadvantage resulting from preferential agreements that do not include us and for which no comparable agreement exists. 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 either lose export opportunities or have to service these markets from countries other than the U.S., which will cost U.S. jobs.

- **Chile - Canada FTA:** In November 1996 Canada reached a comprehensive trade agreement with Chile that will eliminate Chile's 11% across-the-board tariff starting this year. Canadian firms will now have access to the Chilean market (a U.S. export market larger than Indonesia, Russia or India in 1996) tariff free on a range of goods and services, as well as preferential access to invest in Chile. As a result of this FTA *and other typical competition factors*, Northern Telecom recently won a nearly $200 million contract over U.S. firms given the nearly $20 million in cost savings they derive from the elimination of the 11 percent tariff that U.S. goods face.

- **Chile-FTAs**: U.S. apple producers, among others, are concerned about the potential loss of 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.

  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**: 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.

U.S. firms *not located and producing within* MERCOSUR face a competitive disadvantage not only with respect to MERCOSUR producers, but also Chilean and Bolivian producers through MERCOSUR's association agreements. This puts all U.S. based producers, including agricultural producers ~~which~~ that compete with Chilean fruit, MERCOSUR wheat, etc., at a competitive disadvantage in these markets, and the scope of this disadvantage will grow as MERCOSUR expands its association agreements.

- **ANDEAN Pact**: Venezuela, Colombia, Ecuador, Peru and Bolivia comprise a market of 100 million people and a GDP of over $260 billion (although Peru is now negotiating its withdrawal from the pact). As part of the effort to develop a common external tariff, the import tariff on textile goods, for example, was raised from 5 to 15 percent, thus inhibiting the export of U.S. textiles to this growing market.

  In addition, as part of its integration effort the ANDEAN PACT negotiated common intellectual property rights (IPR) disciplines (Decision 344) that have now been utilized to block the Ecuadorian implementation of a bilateral IPR agreement with the United States, thus depriving U.S. IPR owners of the best legal protection possible in Ecuador.

- **ASEAN**: Brunei, Indonesia, Singapore, Thailand, Malaysia, the Philippines have been joined by Vietnam (more countries are joining) thus expanding the number of countries in the most dynamic economic region in the world that are benefitting from tariff preferences in trade with each other. As tariffs come down within ASEAN, more and more U.S. based exporters will face an increasing price based competitive disadvantage in the booming ASEAN market of over 400 million consumers and a GDP over $700 billion with growth rates that have generally averaged over twice the U.S. growth rate of the U.S.

- **EU - Association Agreements**: EU tariff preferences for Poland and Hungary's pork and poultry allow these countries to gain better access than U.S. exports to these markets. Likewise, U.S. exporters of agricultural equipment and mining equipment have complained that their sales into Central Europe have been adversely impacted.

Testimony of Ambassador Charlene Barshefsky
before the House International Relations Committee
June 10, 1997

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

I appreciate this opportunity to set forth the Administration's views on the direction of trade policy. When I entered the field of international trade twenty two years ago, trade was really the province of a relatively few academics, trade technicians, and a relative handful of interested members of Congress. Those days are long past. As trade has become more central to our economic health and security, it has understandably become a matter of great importance to virtually all members of Congress and to people in all walks of life across our country. This Administration, and any future Administration, bears the responsibility of explaining our trade policy clearly and building broad political support for it.

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

Trade and Domestic Prosperity

We should begin by recognizing that our economy is the strongest in the world; that expanded trade has played an important role in building that strength; and that no country in the world is better positioned to take advantage of the enormous opportunities presented by a growing global economy. In fact, we are at a unique moment and we need to seize it now.

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

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

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

Since the beginning of this Administration, exports have accounted for fully one-fourth of the increase in our GDP. Today, exports account for 30% of our GDP, compared to 13% in 1970. Increases in GDP combined with a 70% reduction in the federal budget deficit over the last four years, and the balanced budget agreement recently announced, lay the foundation for continued economic expansion, but only if we continue to use all the tools necessary to compete in and shape the global economy.

THE TRADE RECORD

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

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

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

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

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

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

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

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

- We have led the multilateral effort in this hemisphere to build the Free Trade Area of the Americas (FTAA) by 2005, with concrete progress by 2000, deepening our commitment to our own hemisphere, recognizing the extraordinary progress of open markets and democracy throughout the region. At the recent ministerial meeting of the Free Trade Area of the Americas in Belo Horizonte, Brazil, the Trade Ministers of the participating nations agreed that FTAA negotiations should be launched at the Santiago Summit of the Americas in March 1998. To this end, the Trade Ministers established a formal Preparatory Committee which will take all the necessary steps to prepare for comprehensive negotiations early next year addressing a full range of issues from tariff reductions to agriculture to structural issues such as IPR and government procurement.

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

- We took the lead in combating bribery and corruption in government procurement. **[Add info from DD.]**

- We took the lead insisting on the respect for core labor standards, and in pursuing the agenda to make trade and environmental policies mutually supportive.

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

- Over the past several months, we have completed the Information Technology Agreement (ITA) and the Agreement on Basic Telecommunications---two far-reaching multilateral agreements reducing trade barriers around the world for our high technology industries. The information technology market is a $500 billion market, in which the United States is the largest single exporter. The ITA covers more than 93% of global trade in information technology products and includes 42 countries. Under the agreement, global tariffs will be reduced to zero on all goods associated with the information superhighway -- such products as semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of $5 billion annually.

- The telecommunications agreement ensures that U.S. companies can compete against and invest in all existing carriers. Before this agreement, only 17 percent of the top 20 telecom markets were open to U.S. companies; now they have access to nearly 100 percent of these markets. Our international long distance industry will gain access to serve markets accounting for over 95% of global revenue in Europe, Asia, Latin American and Africa, gaining the right to use their own facilities and to work directly with their customers everywhere their customers go. The agreement also offers important opportunities for American investors and entrepreneurs who will be able to acquire, establish or hold a significant stake in telecom companies around world. Telecommunications is a $600 billion industry; under the agreement revenues are expected to double or even triple over the next ten years. We expect the agreement will lead to the creation of approximately one million U.S. jobs in the next ten years -- not only in communications companies but also in high-tech equipment makers and in a range of industries such as software, information services, and electronic publishing that benefit from telecom development. This agreement will also save billions of dollars for American consumers. We estimate that the average cost of international phone calls will drop by 80% -- from $1 per minute on average to 20 cents per minute over the next several years.

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

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

never more competitive

in a tough global economy. As we consider what comes next, we can take pride, for a moment, in what we, together, have accomplished.

A Moment of Choice; The Dangers of Inaction

But only for a moment. This is not the time for resting on our laurels. As we contemplate the next three and one-half years in trade, we face a very clear choice.

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

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

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

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

The choice is also very real. With all we have accomplished in the past four years, the world has continued to change in ways that are critically important to understand. We must recognize the dangers of inaction. In every region of the world, but particularly Asia and Latin America, the two fastest growing regions of the world, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements, forming relations around us, rather than with us, and creating new exclusive trade alliances to the potential detriment of U.S. prosperity and leadership. • Examples already abound:

In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- just announced that they were accelerating their target date for the creation of free trade area, setting a deadline of 2001.

SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. Indifference to its development can only harm our economic security.

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

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

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

In addition:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with a GDP of over $1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and has a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela) as well as countries within the Caribbean Basin. The MERCOSUR ambition is in part driven by the decades old vision of a Latin American free trade area, but also by a clear strategic objective regarding commercial expansion and a stronger position in world affairs.

- The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR. They have also concluded a framework agreement with Chile that is set up to lead to a free trade agreement.

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

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

- ASEAN -- the Southeast Asian free trade area -- will include 400 million people and some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. As noted earlier, Argentina's President Menem recently suggested a MERCOSUR -ASEAN free trade area -- an agreement that would encompass over 600 million people.

- Countries within this hemisphere are equally aggressive. Mexico wants to be the commercial hub between North and South America, and also serve as a venue in which to enter North, Central and South America from Asia and Europe. It is jointly pursuing a free trade area with Europe and is reaching out to Asia. President Zedillo and his Cabinet have undertaken numerous missions to Asia and have been well received. It has reached trade agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua. It has initiated talks with MERCOSUR.

- Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela and Ecuador. It intends to start similar negotiations with Central America and has an eye toward agreements with Asia. Japan is its largest export market, but Chile sees itself as a bridge from MERCOSUR to Asia and back, and is positioning itself with its MERCOSUR neighbors for that purpose.

- In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region. Competition within Asia is the most intense. Japan has been ahead of the U.S. in East Asia in terms of corporate presence, and especially in the past decade, in terms of the amount of overseas development assistance (ODA) it is willing to spend to advance its commercial interests. In more recent years, Korean conglomerates have likewise pursued an aggressive strategy to both invest and attain market share in dynamic East Asian economies, ranging from textiles to steel to autos.

Ninety five percent of the world's consumers live outside our boundaries, and 85 percent of them reside in developing countries. These are the large growth regions. Last year, the developing world imported over $1 trillion in manufactured goods from the industrialized countries, and this is the tip of the iceberg. The infrastructure needs alone of the developing world are estimated to be enormous. For example, in just 8 of the large developing countries, traditional infrastructure needs (telecommunications, power, transportation and petroleum infrastructure) are estimated to be over $1.6 trillion.

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

A recent example illustrates the dangers. In November 1996 Canada reached a comprehensive trade agreement with Chile that will eliminate Chile's 11% across-the-board tariff starting this year.

Northern Telecom recently won a nearly $200 million telecommunications equipment contract over U.S. companies in part because to buy from a U.S. producer meant an additional $20 million in costs (duties) relative to purchasing from Canada.

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

Our Global Trading Agenda

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

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

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

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

Multilateral Efforts

Within the next three and one-half years, major WTO negotiations will occur in a number of areas where the United States is a top global competitor; of particular note, agriculture, services, and the rules for intellectual property rights. This year we have also resumed WTO negotiations on financial services, a sector where U.S. companies excel. These are the very goods and services that the fastest growing economies need most, and in which America does best. American workers, farmers, engineers and manufacturers will increasingly be just within reach of new markets that are measured in billions of dollars, but they will never get a secure hand on them if the United States cannot negotiate from a position of unequivocal strength, as it should.

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

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

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

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

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

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

We also have a full agenda of accession negotiations regarding the WTO. As always, we are setting high standards for accession in terms of market access and adherence to the rule of law. Accessions offer an opportunity to help ground new economies in the rules-based trading system and promote sustainable development including environmental protection. The Administration believes that it is in our interest that China become a member of the WTO; however, we have been steadfast in leading the effort to insure that China's accession to the WTO will occur only on commercial, rather than political, grounds. The pace of China's accession negotiations depends very much on Beijing's willingness to improve its offers.

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

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

[Anything about MRAs?]

Sectoral Efforts

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

The recent ITA and telecom agreements discussed earlier demonstrate the opportunities such market access initiatives provide for American companies, workers and consumers. We should build on these recent successes, and the commitments we have now obtained from key trading

Other sectors e.g.

partners to maintain the momentum.

Specifically, the Information Technology Agreement has set a new standard such that the 18 nations of the Asia-Pacific Economic Cooperation forum (APEC) agreed last month in Montreal to explore other sectors for similar market opening treatment. The APEC Ministers also agreed to follow up the ITA by pursuing an "ITA II" trade agreement, which would go beyond tariffs to encompass non-tariff trade barriers, increased product scope and broadened country participation. Our Quad partners have concurred in the goal of negotiating an ITA II.

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

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

Regional Efforts

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

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

As indicated, at the recent ministerial meeting of the Free Trade Area of the Americas in Belo Horizonte, Brazil, the Trade Ministers of the participating nations agreed that FTAA negotiations should be launched at the Santiago Summit of the Americas in March 1998. To this end, the Trade

Ministers established a formal Preparatory Committee which will take all the necessary steps to prepare for comprehensive negotiations early next year addressing a full range of issues from tariff reductions to agriculture to structural issues such as IPR and government procurement.

A comprehensive trade agreement with Chile is our first step in the FTAA process. It will be viewed as a bellwether for our plans in the region. Chile is symbolic of both the opportunities in the region and the region's rising strategic significance to our longer-term economic interests. U.S. exports to Chile are up 148 percent since 1990. Chile is a leading reformer in Latin America. Without fast track, the United States will not be positioned to conclude an agreement with Chile, and the longer our promise remains unfulfilled, the more likely that Chile, as many countries in our hemisphere will form alternative alliances in place of the U.S.

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

The Asia Pacific region is enormous in its scope and has major implications for the future of the United States in many ways. It contains the fastest growing economies in the world, largely emerging economies with a total population nearing 3 billion people. Within the Asia Pacific Economic Cooperation (APEC) forum, reaching the goal of open markets would increase U.S. goods exports significantly. In addition, as a step towards the ultimate APEC goal, market-opening agreements with key economies (or key sectors) of the Asian Pacific rim would provide U.S. exporters with a strategic advantage over U.S. competitors in the region. It would also provide the United States with a strong economic anchor in Asia, a key step in this region bursting with vitality and opportunity.

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

Africa is a region rich in resources and potential, which we should engage with determination to ensure its effective and sustainable development and democratic governance. We recently

completed preparation of a report to Congress on the Administration's trade and development policies for Sub-Saharan Africa. There is an urgent need to integrate Sub-Saharan Africa into the international trading system. We also believe the achievement of this goal lies in African countries reforming their own economies and in our encouraging this process. [Update ?]

Bilateral agreements

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

The Importance of Fast Track Authority

We can pursue portions of our agenda with our existing tools. But, to seize the opportunities in the global economy and to fully meet the competition, the President needs a new grant of trade agreement implementing authority, or fast track. Fast track is a key component of our trade arsenal. The President will seek a new grant of authority to implement global, sectoral and regional trade agreements -- fast track authority. In consultation with the Senate and House leadership, we have determined that proceeding with fast track legislation in September provides the best opportunity for proper consideration and passage of this legislation by year end. Between now and September, we will work with Congress towards developing legislation that will allow us to continue our important agenda.

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

There is no substitute for our ability to implement comprehensive trade agreements. The absence of agreed procedural authority to do so is the single most important factor limiting our capacity at this time to open markets and expand American exports and trade opportunities in the new global economy. Such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts.

Fast Track and NAFTA in Context

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

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

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

Our competitors would like nothing better than for us to sideline ourselves, debating NAFTA and our relationship with Mexico for several more years while they move ahead. It would be a serious, self-inflicted wound. America is poised to seize great opportunities. Our competitors cannot beat us; we can only lose by removing ourselves.

Labor and Environment

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

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

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

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

Conclusion

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

FAST TRACK: HISTORICAL BACKGROUND

Constitutional Authority

- The Constitution gives Congress exclusive authority to set tariffs and enact other legislation governing international trade.

- The President negotiates international agreements under his own Constitutional authority.

- If the President negotiates a trade agreement that calls for a change in tariffs or in other domestic laws, the President must submit the trade agreement to the Congress -- or have Congress' advance approval of such changes.

Tariff Proclamation Authority

- Tariffs were the major source of revenue for the federal government for well over 100 years. Congress enacted a number of across-the-board tariff changes -- the last of which was the increases of the 1930 Smoot-Hawley Tariff Act.

- During the Roosevelt Administration, Congress began moving away from protectionism four years later.

- Congress gave the President the authority in 1934 to "proclaim" up to 50 percent reductions in U.S. tariffs in return for "reciprocal" commitments from other countries -- without further action by Congress. This was the original "fast track" -- although it was not called that then.

- Proclamation authority was to last for three years, but was renewed over the following six decades.

  - By 1945, Cordell Hull had negotiated tariff reductions with 27 countries -- lowering U.S. tariffs by an average 44% on covered products.

  - The President used his proclamation authority to carry out U.S. tariff commitments under the first world-wide trade agreement, GATT, in 1947.

  - The President used his 50 percent tariff cutting powers again to implement U.S. tariff commitments under several subsequent GATT negotiating rounds -- including the "Kennedy Round" cuts, completed in 1967.

Non-tariff Barriers

- Once the early GATT rounds were completed, tariffs had dropped in the United States and other developed countries to the point where other -- non-tariff -- trade barriers became equally or more important. These included product design standards and customs rules designed to exclude foreign goods.

- Although the President had authority to lower tariffs further, he did not have the power to change federal law in order to put "non-tariff" agreements into effect.

Genesis of Fast Track

- Congress rejected two important agreements concluded by the Johnson Administration to close the Kennedy Round (a GATT "dumping" code and a change in U.S. tariff appraisal methods) in 1967. The rejection was a major embarrassment for the United States, which had sought the two agreements.

- The Nixon Administration recognized that the United States could not negotiate and carry out future market-opening deals unless the President and the Congress worked together. President Nixon asked the Congress for proclamation authority to make changes in U.S. law necessary to implement "non-tariff barrier" agreements -- subject to a possible Congressional veto.

- The House went along, but the Finance Committee objected -- Senator Talmadge, in particular, wanted to retain the power to approve trade agreements, not just veto their implementation.

- The compromise was a "fast track" procedure, inserted in the 1974 trade act, for obtaining Congressional approval on an "up or down" vote within a limited period. (The idea was drawn from a procedure common to budget resolutions.)

- The procedures required the Administration to consult closely with the Congress both before and during negotiations. They were crafted with the next GATT negotiating round -- the Tokyo Round -- in mind.

Agreement on Drafting Implementing Bills

- Towards the close of the Tokyo Round, the Ways and Means and Finance committees -- which had principal jurisdiction over trade bills -- insisted on further guarantees from the Carter Administration. They insisted that the implementing legislation for the Round would be drawn up collaboratively with the Congress, in advance of actually submitting a bill, through pre-hearings and pre-markups.

- That format was used repeatedly thereafter. The pre-hearing and -markup procedure largely recreates the legislative process in advance of the bill's submission.

- Congress overwhelmingly approved the Tokyo Round legislation, together with a partial extension of fast track through 1988.

Inclusion of FTA Negotiations

- In 1984, Congress wrote a specific three-year fast-track bill for free-trade agreements with individual countries -- which the Reagan Administration used to negotiate and obtain Congressional approval for FTAs with Israel (1985) and Canada (1988).

The Uruguay Round and NAFTA

- In 1988, Congress enacted the first "omnibus" trade act since Smoot-Hawley, which it used to extend fast-track for both FTA's and the GATT "Uruguay Round" until March 1991.

- The Uruguay Round negotiations broke down in Brussels in December 1990, by which time the NAFTA negotiations had gotten under way.

- The 1988 statute allowed the Administration to request a two-year extension of fast track -- unless either House disapproved. The Bush Administration waged a fierce and successful fight to overcome opposition to the extension.

- During the debate, the Bush Administration attempted to address questions that had been raised by spelling out in advance its NAFTA negotiating objectives and implementing proposals. An Administration statement to the Congress also stressed Mexico's labor and environment efforts.

- The House overwhelmingly approved a resolution endorsing the Bush Administration's NAFTA labor and environment objectives.

- The NAFTA was signed by President Bush in December 1992 and approved by the Congress under fast track procedures in the 1993. At the same time, Congress provided for the implementation of supplemental agreements on labor and the environment.

- Congress extended fast track procedures for a final time in 1993 for the Uruguay Round agreement. That agreement, which replaced the GATT with the World Trade Organization, was approved by large Congressional margins in late 1994.

Key Fast Track Components

- Under fast track, Congress maintains substantial control and oversight over our most important trade negotiations. In return, Congress commits to refrain from re-negotiating agreements that the President brings back for consideration.

- Under fast track rules, Congress has exerted authority in a variety of ways, including by:

- -- requiring the President to meet extensive consultation, reporting and notification requirements in connection with fast track trade negotiations;

- -- creating a special, rapid procedure for Congress to retract fast track if the President fails to consult adequately;

- -- empowering the Ways and Means and Finance committees to veto particular free-trade negotiations in advance;

- -- providing that either House may disapprove the extension of fast-track procedures;

- -- insisting on Congressional participation in drafting the implementing bill through the use of pre-hearings and -markups;

- -- requiring the President to spell out precisely how he will use his existing regulatory authority to carry out fast track trade agreements; and

- -- reserving the right to vote an agreement down if it is unacceptable.

o Other key components of fast track have been:

- -- a commitment by the Congress to vote "yes or no" -- with no amendments -- on the implementing bill within several months after it is introduced. As a practical matter, Congress has typically taken only a few weeks because issues involving the agreement are worked out during the lengthy pre-hearing and -markup period that precedes submission of the bill.

- -- a provision limiting the types of provisions that can be included in implementing legislation to those "necessary or appropriate" to carry out the agreement. This requirement has helped keep non-trade matters out of fast track legislation, but provides enough flexibility to help ensure passage.

- -- a provision in the 1988 version of fast track allowing for an extension of fast track if the President meets certain reporting requirements and if the Congress does not disapprove.

Uses of Fast Track

o Since 1974, five significant trade agreements have been brought to the Congress under "fast track" procedures.

o These are the Tokyo and Uruguay Round agreements, our bilateral free-trade arrangements with Israel and Canada, and the NAFTA.

- Future uses of fast track are likely to include multilateral agreements, in particular the WTO built-in agenda, which includes global negotiations on lowering barriers to trade in agricultural products or in other sectors where the United States is the world's leader; sectoral agreements, like the recently concluded ITA; and the long-delayed free-trade agreement with Chile.

FAST TRACK
MAIN MESSAGE

NOW, MORE THAN EVER, THE U.S. NEEDS AUTHORITY TO OPEN NEW MARKETS AND BREAK DOWN BARRIERS TO U.S. EXPORTS.

Trade negotiating authority is essential. Every President since Ford has had fast track authority for key periods with bipartisan support. That is because Congress has consistently recognized the President must have the authority to break down foreign trade barriers and create good jobs.

Fast track authority is even more essential today. The rapidly expanding global economy presents enormous opportunities for our companies and workers. Over the next decade, the global economy is expected to grow at three times the rate of the U.S. economy. Growth will be particularly powerful in the emerging markets - the fastest growing markets of the world. Our economic future will increasingly rest on tapping into these global opportunities. In a world where over 95 percent of the world's consumers live outside the United States, we must export to sustain economic growth at home.

Commercial competitiveness is critical to our global leadership. Europe, China, Japan and others are forging preferential commercial alliances with emerging markets, which put American exports at a disadvantage. Those trade alliances also play a vital role in defining strategic relationships between countries and regions. Our commercial competitiveness is at stake, but so is our leadership role in the world.

Exports create American jobs. Today, more than 11 million American jobs are supported by exports, including one in five manufacturing jobs – good jobs, paying 13-16 percent more than non-trade-related jobs. Over the last four years, one-quarter of our economic growth came from trade -- and exports created 1.4 million new jobs. If we are to raise our standard of living, we must continue creating jobs through exports.

THE U.S. IS PERFECTLY POSITIONED TO SEIZE THESE OPPORTUNITIES.

The United States is the world's strongest competitor. We have enjoyed the longest period of sustained growth of all of our G-7 partners. Over the last four years, we have created 12 million new jobs, more than all of the other G-7 countries <u>combined</u>. We have the lowest budget deficit as a percent of GDP of all the G-7 nations. We are once again the world's largest exporter, the largest producer of semiconductors, the largest producer of automobiles. Over the last four years, our manufactured exports are up 42%, high technology exports jumped 46%, service exports climbed 26% and farm exports rose 43%. Independent studies, including the Institute for Management Development in Switzerland, have found America to be the most competitive economy in the world for the past five years. No country in the world is better positioned to compete.

Our market is already open. Others are not. The United States is the most open, major market in the world. When we reach trade agreements, we give up very little, while other countries give up far more. When the Uruguay Round is phased in, our tariffs will average 2.8 percent. Other countries are far higher: India (31%); Thailand and Turkey (26%); Chile and Indonesia (11%). It is not difficult to see that these deals make sense. It is difficult to understand why we should let these barriers stand.

THE POTENTIAL GAINS ARE GREAT, IF WE SEIZE THEM.

Multilateral. For over 50 years, the U.S. has led the world in opening global markets. Our persistent leadership has helped bring global tariffs down from an average of 40 percent at the end of World War II to about 5 percent today, leading to a 90-fold increase in global trade. We can continue that progress today. Because of our leadership, new WTO negotiations present the opportunity to reduce trade barriers further in key sectors, such as:

- **Agriculture:** Negotiations to cut barriers in the $526 billion global agriculture market will attack such practices as export subsidies and domestic support programs.

- **Services:** A $1.2 trillion global market - where U.S. firms exported more than $220 billion in 1996 with a surplus of $74 billion. Talks will address a wide range of service sectors including health care, education, entertainment, tourism, business consulting and advertising.

Global negotiations will address other key areas like intellectual property, customs and government procurement rules. Talks in the OECD will ensure fair treatment for U.S. investors.

Sectoral. We would also use fast track to negotiate agreements in sectors where the U.S. is most competitive. The recent Information Technology Agreement, for example, eliminated tariffs and unshackled $500 billion of trade in semiconductors, computers, telecommunications equipment and software, amounting to a $5 billion tax cut in tariffs on American exports. With fast track authority, we can tear down more barriers in areas like medical equipment, environmental technology, and computer software, areas where America leads the world.

Regional. Continuing regional initiatives present vast opportunities.

- **Latin America and the Caribbean**. This area was the fastest growing market for U.S. exports in 1996. If trends continue, Latin America and the Caribbean will exceed the EU as a destination for U.S. exports by 2000 and exceed Japan and the EU combined by 2010. We remain committed to conclude the Free Trade Area of the Americas by 2005. Chile would be our first step in this process.

- **Asia.** Contains the fastest growing economies in the world, with nearly 3 billion people. Independent forecasters put 1996 GDP for the region at $2.8 trillion and expect real growth of 6% to 7% annually for the next 15 years.

We will also continue efforts with Europe, Africa and other regions.

IF WE DON'T ACT, OUR COMPETITORS WILL.

Other countries are breaking down barriers for their companies and workers. We talk a lot about leveling the playing field, but our competitors are leveling the field, while we sit on the sidelines. Since 1992, our competitors have negotiated 20 regional trade pacts in Asia and the Western Hemisphere. In every region of the world, this process will continue. MERCOSUR is a developing customs union with ambitions to expand to all of South America; the EU has begun a process to reach free trade with MERCOSUR (President Chirac recently declared "the future of the region rests with Europe, not the United States"); China's "strategic priorities" include Mexico, Argentina, Brazil, Chile and Venezuela; Japan has undertaken high-level efforts in Asia and Latin America. Five years ago, the question was whether countries would reach regional trading agreements. Today, the only question is whether the U.S. will be part of that process - or whether it will sit on the sidelines.

The costs of inaction are high. For example, Canada has reached a free trade agreement with Chile that will eliminate Canada's across-the-board 11 percent tariff for Canadian products. Every time an American company competes to sell to Chile, it will face an immediate 11 percent cost disadvantage vis-a-vis its Canadian competitors. The costs are already being felt. Canada's Northern Telecom just won a $180 million telecommunications contract over three U.S. companies in part because it could avoid paying $20 million worth of duties.

AS WE DEVELOP A FAST TRACK BILL, WE MUST DEVELOP A BIPARTISAN APPROACH TO THE ISSUES OF LABOR AND THE ENVIRONMENT.

We must address these issues. We cannot sustain support among American people for market opening policies without also addressing concerns about the effects of these agreements on labor and the environment. That is also necessary to build a bipartisan coalition for passage. The President has asked Ambassador Barshefsky to consult with both parties in Congress -- and the relevant interest groups -- to develop a bipartisan consensus. That process continues.

Sitting on the sidelines does not help workers or promote a cleaner environment. Opening foreign markets does not mean retreating from our commitment to labor and the environment. In fact, it makes it easier to engage these countries on these issues. Denying the President authority to negotiate trade agreements with them will not help advance their labor or environmental protections. It will simply make it more likely that these countries will remain relatively poor (keeping wages low and discouraging better environmental practices), while crippling our export performance and denying job growth here at home.

WE FACE A CRITICAL CHOICE: WHETHER TO SEIZE THE INITIATIVE OR HAVE OTHERS SEIZE IT FROM US.

The choice is clear. We can recognize that the American economy is the model for the world, continue to open foreign markets and seize the initiative when it comes to international competition. Or we can convince ourselves - against the evidence - that we are on the wrong track, that we cannot succeed and that we should not move forward. Four years from now, we will either proudly recognize that we saw our opportunities and we took them. Or, we will have become paralyzed by indecision, squandered our strong competitive advantage and let others seize the initiative. The choice is that clear - and that important.

QUESTIONS & ANSWERS FOR FAST TRACK SOURCE BOOK

BASICS OF FAST TRACK

Q: ~~For what~~ How does the Administration plan to use this authority?

A: Fast track is about ensuring that America speaks with a united voice as we pursue our trade agenda. Our immediate plan is to use fast track to wrap up negotiations on a comprehensive trade agreement with Chile. But we will need fast track to pursue a range of other bilateral, regional, and world-wide trade initiatives that can expand export opportunities for our companies and workers. Already on the agenda of the World Trade Organization, for example, are negotiations that we can use to bring down barriers that keep our highly competitive agricultural products out of key markets around the world. We will also need fast track to initiate e.g., new negotiations to lower trade global barriers in other sectors where we are the world's leading producer -- like we did for computers and other electronic equipment through the recently concluded International Technology Agreement Fast track tells our trading partners that Congress and the President are working together to carry out America's trade agenda.

Q: **What are the risks if the Administration does not get renewed fast track authority?**

A: We have worked hard as a nation to regain our competitive position and to ensure that we continue to steer the global trade agenda for the advantage of our companies and workers. That work has paid off. **[Econ stats current as of time of use.]** If we abandon our leadership role, if we do not have the tools in place to bring down barriers to American products and services around the world, we will leave American companies and workers on the sidelines while our competitors set the world's trade policies and give each other privileged trading rights. This is not a theoretical possibility. Since 1992, our commercial rivals have concluded more than 20 regional trade agreements that leave the United States out. Every day, the world's trading nations are forging strategic and preferential alliances without us.

fall behind

A recent example demonstrates that the costs of watching from the sidelines are real. In November 1996, Canada reached a free-trade agreement with Chile that eliminates Chile's 11 percent tariff on most Canadian products. Northern Telecom -- a Canadian-owned producer -- recently won a nearly $200 million telecommunications equipment contract over three U.S. companies in part because Canada's trade deal with Chile gave Northern a $20 million cost advantage over its U.S. rivals. Recently, Canada has said that it wants to move beyond Chile and form a trade alliance with Latin America's common market countries -- Mercosur -- with or without the United States. and wouldn't Brazil love that American companies have already begun to source their sales to Latin America from Mexico or other countries that have negotiated preferential trading arrangements with Mercosur. That means lost opportunities for workers and manufacturers in the United States.

RECORD ON NAFTA

Q: What benefits has NAFTA provided?

NAFTA has played a vital role in expanding markets for U.S. products in our first and third largest trade partners, Canada and Mexico. NAFTA also acted as a buffer against reduced access to these markets, particularly, Mexico during Mexico's recession and peso crisis.

U.S. goods exports have risen to historic records in the last 3 years (1993 to 1996): up 33% to Canada, reaching $134 billion and up 37% to Mexico, reaching $57 billion.

The strength of U.S. exports to Mexico under NAFTA, even in the face of the peso crisis, is significantly in particular sectors areas. For example, U.S. agricultural exports to Mexico are up by 52% in 3 years, from $3.5 billion in 1993 to $5.4 billion in 1996. Exports of cereal, led by corn, are up 174% to $1.8 billion. Exports of electrical machinery are up by nearly 60% to $11 billion, and exports of paper are by one-third to $1.5 billion. Even the consumer goods category has shown strong growth, with exports up 34% to $6.5 billion. Similarly, NAFTA has translated into significant gains for the states' economic performance. **[Stats on state exports.]** While virtually every region in the country has benefited from NAFTA, the Midwest, in particular, has experienced an economic boom, in part, because of the increase in manufactured exports to Mexico.

These increased exports translate into job growth, jobs that pay high wages. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. These jobs have also increased since NAFTA began taking effect, up 122,000 for exports to Mexico (to an estimated 750,000 in

1996) and up 189,000 for exports to Canada. Such U.S. jobs supported by exports pay 13% to 16% more than the U.S. national average.

In addition to the direct benefits provided by NAFTA, NAFTA also shielded the U.S. from the potentially more serious consequences of Mexican recession. In 1995, a year in which Mexico experienced its worst recession in the 20th century (production and employment down 7%), that country continued to lower its trade barriers to U.S. and Canadian products (in line with its NAFTA obligations), while raising them in certain areas against products from the E.U. and Japan. Our share of Mexico's imports actually rose from 71% in 1994 to 76% in 1996.

In Mexico's previous international payments and peso crisis in 1981-82, U.S. exports were cut in half and took 7 years to recover. In contrast, in 1995 U.S. exports fell by 9% and had fully recovered in 18 months, helping to protect more than 700,000 good paying U.S. jobs supported by exports to Mexico. Also, while the recession did cause a deterioration in our trade balance with Mexico, NAFTA helped limit to some extent the size of the bilateral deficit growth. A recent study published by the Federal Reserve Bank of Dallas estimated that U.S. export growth to Mexico has been 7 percent higher than it otherwise would have been due to NAFTA, while U.S. import growth from Mexico was only 2 percent higher per year due to NAFTA.

Q: How has NAFTA helped the agricultural sector?

NAFTA has ensured U.S. agriculture products exporters increasing access to Mexico, their third largest export market; they enjoyed a $1.3 billion trade surplus with Mexico in FY1996 (up 37% from FY1993).

In 1996, U.S. farm and food exports to Mexico soared by $1.9 billion to reach another record level of $5.4 billion. A range of agricultural sectors enjoyed significant export growth and a larger share of Mexico's market. For example, the U.S. market share of Mexico's pork market went from 77% in 1994 to 95% in 1996.Exports of corn, grains, soybeans, wheat, cotton and rice all set new value records in 1996.

Because of Mexico's commitments under NAFTA, U.S. agricultural exports were able to recover fully in 1996 after the Mexican recession in 1995.Despite its recession, Mexico maintained its commitment to reduce tariffs thereby limiting the effect of the recession. Thus, while exports to Mexico declined in FY1995 due to the recession, they increased dramatically by 35% in FY1996 to regain any shortfalls in FY1995 and reach record levels.

Q: Hasn't NAFTA created a trade deficit with Mexico, resulting in the loss of thousands of U.S. jobs?

The trade deficit with Mexico was caused by Mexico's recession and peso crisis, not NAFTA. Mexico experienced its worst economic downturn in modern history in 1995. As a result of the peso crisis, investment fled and interest rates jumped.. Mexican production fell by nearly 7 percent, making Mexico's recession about three times worse than the last U.S. recession in 1991-1992. Mexico's imports fell and the sharp decline in its domestic spending power made more of its remaining production available for export.

During that same period, the U.S. economy was growing, which contributed to the trade deficit with Mexico. Between 1994 and 1996, U.S. net employment rose by 4.8 million, the unemployment rate fell from 6.1 to 5.4 percent and U.S. industrial production rose by over 6 percent in real terms.

If anything, the trade deficit would have increased further if it were not for NAFTA. During the recession, Mexico continued to lower its trade barriers as required by NAFTA. Compare that behavior to the last economic crisis in 1981-1982, during which Mexico imposed 100% duties on American products and strict licensing requirements. In that crisis, U.S. exports were cut in half and jobs supported by exports fell by more than 50%; it took 7 years to recover to 1981 levels.

In this crisis, Mexico increased tariffs on certain products from our competitors, but not on our products. In this period, U.S. exports fell by 9% and fully recovered in 18 months, protecting the 750,000 jobs that depend on those exports. A Federal Reserve of Dallas study concluded that U.S. export growth was 7% higher than would have been absent NAFTA; import growth from Mexico only 2% higher because of NAFTA.

Issue: How can you argue that U.S. workers have benefited from NAFTA?

NAFTA has increased exports, supporting and creating U.S. jobs. Under NAFTA, U.S. goods exports have increased. Exports to Canada increased 33 percent from 1993 to 1996, reaching $134 billion. Exports to Mexico rose 37 percent during the same time period, totaling $57 billion. Increased exports to the NAFTA countries supported the expansion of high wage jobs in the United States. Goods exports to Mexico and Canada supported 2.3 million jobs in the United States last year. These jobs pay 13 to 16 percent more than the national average. NAFTA has created 122,000 new jobs supported by exports to Mexico and 189,000 new jobs supported by exports to Canada.

NAFTA also insured that the jobs that rely on exports, particularly to Mexico, were protected during Mexico's financial problems. Notwithstanding Mexico's worst recession in the 20th century, it continued to lower its trade barriers to U.S. and Canadian products.

Q: **How can you argue that trade with Mexico and Canada has not hurt U.S. workers when over 100,000 have been certified for assistance because they lost their jobs due to imports from those countries or plant relocations to those countries?**

As we move farther towards a global economy, of which NAFTA is a part, we create new opportunities that require increasingly higher skill and education. Many such opportunities were created as evidenced by the more than 300,000 jobs created as a result of expanded exports to the NAFTA countries. For those workers you experience dislocation during this transition we must and do provide support.

It has to be appreciated, however, that from January 1994 through March 1997, approximately 10 million U.S. workers experienced involuntary job displacement. Of those 10 million, 72,646 were certified as having experienced dislocation as a result of imports from Mexico (or displacement to Mexico). The assistance available to workers so certified goes beyond that given to workers who otherwise experience job dislocation, ie., they receive unemployment compensation for longer than others if they cannot find a job. Of this 72,000, only about 5,000 actually did not find new jobs before normal unemployment benefits expired. They received extended benefits under the legislation passed as part of NAFTA.

More generally, job growth in the United States has been strong during the entire time NAFTA has been in effect. In fact, all job displacement was offset and net employment actually increased by 9.3 million. In effect, for each job that was lost, a new one was created. **[Rebut that it is a less desirable job.]**

That said, we must be concerned anytime one of our workers does not have the skills necessary to take advantage of new opportunities. Therefore, we remain committed to creating expanded education opportunities. **[Budget and expanded education.]**

Q: Effect on peso crisis. What role did NAFTA play in the collapse of the peso in 1995 and the decline of the Mexican economy?

A: The sharp decline in the Mexican economy in 1995 and the peso crash had its roots in

Mexico's exchange rate policy in the 1980s, long before the NAFTA was envisioned. The rise in interest rates, collapse of the Mexican financial markets and the 7% decline in production and employment, undermined the Mexican economy, and these events had little to do with the NAFTA.

The NAFTA did force Mexico to meet market-opening obligations, and in spite of a recession three times worse than the U.S. recession of 1991, our exports to Mexico recovered in just 18 months. By contrast, after the peso crash of 1982, Mexico erected across-the-board trade barriers and U.S. exports took seven years to recover.

From the Mexican perspective, NAFTA can, in part, be credited with helping Mexico recover more quickly from this recession than the recession in the 1980's. It took the Mexican economy 4 years to recover from its early 1980s recession. In contrast, in 1996, just one year after the recession, the Mexican economy grew by better than 5% and recovered two-thirds of its production. Mexican growth is expected to exceed 5% again in 1997. In that event, Mexico will have recovered from a worse recession twice as fast as it did from recession in the 1980s.

Q: Didn't wages in maquiladora plants and in Mexico generally fall as a result of NAFTA?

Q: Aren't maquiladoras responsible for the increase in Mexican exports to the United States?

Maquiladoras actually account for a decreasing share of imports from Mexico. Exports from maquiladoras have fallen from 43 percent of total Mexican exports in 1994 to 38 percent of total exports in 1996. This trend is likely to continue as cost advantage for maquiladoras will be eliminated in time. Under the NAFTA, not all tariffs on Mexican imports have been eliminated, thus providing some cost incentive for maquiladoras to export to the United States. After all tariffs have been eliminated under NAFTA, maquiladoras will lose their cost advantage. NAFTA also assures that, when fully phased in, Mexico will not be able to import non-NAFTA components duty free for assembly and re-export to the United States. Without NAFTA, such "duty drawback" provision in Mexico could have continued indefinitely.

Q: NAFTA was supposed to bring improvements in labor and the environmental conditions in Mexico. It does not appear to have done either. How do you respond?

With respect to labor and environmental, the NAFTA side agreements are working to improve conditions that existed long before NAFTA. The labor and environmental problems in Mexico are decades in the making; it is unrealistic to expect NAFTA to have remedied them in three years. There are continuing problems and they need to be addressed. The NAFTA agreements provide the vehicle for doing so, and have resulted in important progress on both fronts.

On the environmental front progress is being made to identify and fund new environmental projects and in Mexico's enforcement of its environmental laws.

On the labor front, there is an unprecedented degree of cooperation to address the difficult labor issues and the formal process allowing the submission of complaints about continuing problems has led to solutions, change, and increased attention to these issues.

With respect to labor and environment issues, progress is continuing. In fact, Presidents Clinton and Zedillo agreed to redouble their efforts in this regard and have asked their labor and environment ministers to identify specific issues requiring more focused attention, particularly along the border.

Q: NAFTA has not really solved the most pressing trade issues between U.S. and Mexico. Why go forward with new agreements if we are not solving existing problems?

While there remain trade issues to resolve with Mexico, no trading relationship is without such ongoing issues. Neither NAFTA nor any other trade agreement is a panacea; it provides increased opportunities and a process to address outstanding and emerging issues. Pursuant to the NAFTA, we are working to solve our trade issues with Mexico and with Canada.

For example, we have made it clear that trucks entering the U.S. must comply with strict safety and environmental standards. With regard to food safety, the NAFTA imposes among the highest phytosanitary requirements of any trade agreement in the world, which must be complied with before food enters our market. With respect to labor and environment issues, progress is continuing. In fact, Presidents Clinton and Zedillo agreed to redouble their efforts in this regard and have asked their labor and environment ministers to identify specific issues requiring more focused attention, particularly along the border.

Again, withholding fast track authority will not improve these problems. Issues like this arise with all trading partners, whether we have special trade relations or not. Fast track is important so that we can create economic opportunity, exercise leadership to impose disciplines that minimize the kinds of problems to which you allude and establish processes to resolve problems when they arise.

More generally, we have backed up our trade agreements by insisting on full implementation through vigorous enforcement. We have made clear that agreements, if not implemented, will be enforced. In the past four years we have brought **[48]** trade enforcement actions. We have filed **[23]** cases to enforce U.S. rights under the new dispute settlement procedures of the WTO, having filed **[15]** complaints last year alone. We see our commitment to vigorous enforcement as vital to continuing support for our trade policy, and we will continue to use every tool that Congress has given the Executive to carry out our trade policy. **[Jane Bradley to update]**

RECORD ON SIDE AGREEMENTS

Q: What did they do?

[Summary of agreements and a little about dispute resolution]

Q: We hear concerns about the Mexican worker rights situation, and that the NAFTA labor cooperation agreement is of no value. How do you respond?

It is useful to put the status of Mexico's labor situation in context. First, Mexico's labor laws are as good and comparable to labor legislation in the United States and other industrialized countries. The NAFTA labor cooperation agreement is contributing to the progress Mexico has made in enforcing those labor laws. Second, the enforcement regime in Mexico existed long before NAFTA and reflects the historic realities of this emerging economy. It is unrealistic to expect that after three years of operation, the NAFTA labor cooperation agreement would correct the these historic problems. If the question is has there been progress and is it continuing, the answer is an unequivocal yes. That progress has come notwithstanding the worst economic downturn in Mexico's modern history.

Progress is in the form of increased cooperation to address transnational labor issues and a submission process so that citizens are able to seek enforcement of the worker rights provisions in the agreement. As a result of the side agreement, significant initiatives are underway to educate and upgrade skills and policy implementation across North America, including in Mexico. Such initiatives include trinational study tours to evaluate practices to improve working conditions; sponsorship of labor law, worker rights, and industrial relations conferences and seminars; hosting conferences, including on "Child and Youth Labor in North America" focused on eliminating inappropriate participation of children in the workplace.

The side agreements also resulted in a submission process so that complaints about labor practices would receive formal attention. The submission process is playing a catalytic role in "spotlighting" important worker rights issues and bringing them to the attention of the public and before decision makers in Mexico (and the U.S. and Canada). It has led to concrete results. For example, it recently resulted in the registration in Mexico of a newly-formed independent union in a Maxi-Switch production facility. This significant development grew out of the Communications Workers of America (CWA) complaint about Mexico's failure to enforce its obligations allowing the freedom of association and the right to organize and bargain collectively. As a result of the complaint, the registration of the Union was accepted as well as the regularization of the procedure in the request for the reinstatement of the workers. The complaint was withdrawn because the union's objectives had been achieved, which the CWA credited to the operation of the NAFTA procedures.

It has also resulted in a commitment by the Mexican Secretary of Labor and major labor and business organizations to address concerns about union registration and internal union democracy, in legislative and regulatory reform, and an internal review of certain labor laws and practices, commissioned by the Mexican Department of Labor.

Q: Even though the NAFTA has been in effect for three years, the environmental situation -- particularly in the U.S.-Mexico border region -- has not improved, and may even have deteriorated. Why has the NAFTA not been more effective in addressing these problems?

Again, the environmental problems that exist in the U.S.-Mexico border region precede the NAFTA and were decades in the making. To expect that after three years the environmental problems in that region would be resolved is simply unrealistic. The question is whether progress is evident; the answer to that question is yes.

The NAFTA environmental side agreements (the North American Agreement on Environmental

Cooperation and the U.S.-Mexico Border Environment Cooperation Agreement) have led to new environmental initiatives along the border and increased enforcement by Mexico of relatively good environmental laws.

Environmental Initiatives: The three environmental institutions created by NAFTA are already taking concrete steps to address the region's environmental problems. (These institutions include The Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank), as well as the Commission for Environmental Cooperation (CEC).) They have certified and arranged financing for numerous infrastructure projects designed to reduce pollution and improve the environment in the U.S.-Mexico border region. Of those certified, the NADBank has approved financing for four water treatment and wastewater projects, with more in the pipeline for approval. The first project to break ground, in Brawley, California, will provide much needed clean drinking water.

Mexico has generally good environmental legislation. The NAFTA side agreement is resulting in improved enforcement of those laws. Pursuant to these agreements enforcement actions have increased from 3,119 in 1991 to between 12,000 and 13,000 annually during 1993-96; 3500 per year alone occur along the border. The number and sophistication of its environmental inspectors has also increased, with more than 600 inspectors having been trained by USG authorities. In addition, environmental auditing programs have been established, along with an environmental crimes unit in the Attorney General's office.

This increased enforcement has resulted in a significant decrease in the number of serious violations. For example, Mexico estimates that maquiladora industry compliance with Mexican hazardous waste laws has climbed from 25% to over 90% from 1992 to 1996. EPA data supports Mexico's estimates. The amount of maquiladora-generated hazardous waste entering the U.S. for proper disposal (as opposed to illegal disposal in Mexico or the United States) has risen from an average of 6,000 tons in 1991-1922 to 12,288 tons, reflecting maquiladora compliance with applicable laws.

<u>ADMINISTRATION'S LABOR AND ENVIRONMENT INITIATIVES</u>

What is Administration's record?

[This will come from the Statement of Policy once completed.]

What will Administration propose?

[This will come from the Statement of Policy once completed.]

<u>DOMESTIC SUPPORT PROGRAMS</u>

What does Administration do for people who lost their jobs?

[Spell out general assistance provided and assistance provided for NAFTA dislocation.]

What education initiatives is the Administration advancing?

A cornerstone of this Administration's economic plan has been to prepare our children for the ever increasing challenges of the global economy and equip our workers with the tools to win in that global economy. As evidenced by the recent budget agreement this Administration will not accept a balanced budget agreement that does not expand educational opportunities for all Americans.

We are opening the doors to college.

Pell Grants: We increased the grant to $3,000 in FY 1998 -- the largest increase in two decades. An additional 348,000 students will receive grants -- 130,000 young people from moderate income families and 218,000 low income students over 24.

Tax Deduction for Higher Education: $10,000 tax deduction is available for anyone taking courses to acquire or improve job skills. $17.6 billion from 1997-2002 is expected to help 8.1 million middle income students.

Work study: Continue to expand the availability of work-study jobs, including an increasing number of community service positions, working closer to 1 million work-study jobs by 2000.

Also of critical importance is preparing our children to take advantage of the opportunities our economic and trade agenda are creating.

Head Start: Working with Congress we have increased funding 43 percent from FY 1993 to FY 97 from $2.8 billion to $4 billion. The FY1998 budget will bring 86,000 more children into a program serving 800,000 in 1997.

America Reads Challenge: A $2.75 billion effort to recruit and train more than a million volunteer tutors to ensure all children can read well by the third grade.

Charter Schools: $100 million -- about double the 1997 level -- to support planning and start-up costs for 1100 schools.

Goals 2000: FY 1998 budget increases funding 26 percent to $620 million, supporting standards based reform in 16,000 public schools in all 50 states.

Technology Literacy Challenge: Double funding to help ensure that all children are technologically literate by the dawn of the 21st century. Funds state-wide plans to wire schools, train teachers, and purchase educational software and on-line resources.

CHILE QUESTIONS

Q. What are the benefits to the U.S. of concluding a trade agreement with Chile?

Concluding an agreement with Chile is of both strategic and economic importance to the U.S. Chile is a litmus test of our commitment not only to Chile (two Presidents have committed to an agreement with Chile), but to the FTAA. A failure to proceed will undermine our leadership in the region. More generally, an agreement with Chile is strategically important to ensure that the FTAA ultimately reflects U.S. inspired rules, and will be viewed in some respects as precedent for the FTAA.

Chile is a leader of economic reform in Latin America. Its average economic growth rate has been 6 percent or more for over 10 years and it has a per-capita GDP of $5,000 and growing (higher than a number of European countries), and it has dramatically reduced the number of people living below the poverty line. It has the highest savings and investment rate as a percent of GDP of any country in Latin America. U.S exports to Chile in 1996 were greater than our exports to Russia, India and Indonesia. Our exports to Chile 1990 - 96 were up 148 percent to $4.1 billion, while imports were up 72 percent in the same time frame to $2.3 billion. **[What about going forward?]**

Q. What is Chile's record on labor laws and the enforcement of those laws?

Chile's labor laws and regime are respectable, and in some ways are more advanced than those in the U.S. (i.e., maternity leave, etc.). It has a significant labor union movement and has signed more ILO conventions than the U.S. Chile recognizes core labor standards. Its workers have the legal right to associate, organize and bargain collectively. It prohibits forced or compulsory labor (and no instances of this practice are known). There is a minimum age for the employment of children (14) and restrictions on the kind of labor in which they can engage. Children ages 15-18 must obtain the permission of their parents (guardian) and may only be employed in certain sectors. Child labor is virtually non-existent in the export sector and the child labor laws are well enforced in commercial agriculture. Chilean law also provides rules regarding acceptable conditions of work, including minimum wages, hours of work, and occupational safety and health standards. The legal work week is a maximum of 48 hours. The maximum work day is 10 hours. As general matter, the stepped up enforcement of Chilean labor law has been a priority since the return to democracy as has labor law reform.

One area where critics see a weakness in the Chilean regime regards temporary workers (typically agriculture, construction, port workers and entertainers). Their right to collective bargaining remains dependent on employers agreeing to negotiate with unions of temporary workers. The Frei Administration proposed labor reform legislation in 1995 that would, among other things, provide rules for seasonal workers to bargain collectively with employers. The lower House of Congress passed the legislation, but there is still significant opposition in the Senate.

Q. What is Chile's record on environmental law and its enforcement?

Chile is a country that is increasingly focused on the need for protecting the environment and sustainable development. The Frei Administration passed a landmark Basic Framework Law on the Environment in 1994 which provides for central policy planing by the National Environment Commission which reports to the Minister of the Government. The legislation is forming a more comprehensive basis for governmental enforcement of Chile's environmental laws and policies, including the use of mandatory environmental impact assessments, which all industrial and mining projects, both pubic and private, must undergo. Chile is also taking important steps to address the air pollution problems in Santiago through a variety of regulatory and enforcement actions.

At the same time, Chile's natural resource extraction based economy has proven extremely successful. As is typical of countries in this situation, Chile's approach to environmental protection historically has not been as advanced as it could be. However, the Frei Administration, precisely because of Chile's natural resource based economy, is also extremely interested in sustainable development. Therefore, it is working closely with the United States and others to ascertain the best technical assistance and policy advice available.

Q: Will Chile agree to do what Mexico agreed to in the NAFTA labor and environment agreements?

A: Chile has indicated that it would assume the responsibilities of the existing NAFTA environment and labor agreements. In fact, in its agreement with Canada, Chile adopted the Canadian approach to the side agreements. **[Specify approach]**

Q: Chile maintains some significant sanitary and phytosanitary (SPS) barriers to U.S. exports and seems to be moving slowly to address them for fear of losing negotiating leverage in anticipation of negotiating the trade agreement. Are you pressing Chile to address our concerns?

A: Yes. We believe SPS measures should be based solely on science, and not as disguised barriers to trade. The President raised our general concerns with President Frei earlier this year, and we continue to raise them at every opportunity. USDA has forcefully presented our concerns to the Chileans. The Chileans committed to address our concerns on wheat, for example, and we are pressing them to fulfill that commitment. Furthermore, we have made concrete progress on some other products (lemons, kiwi, grapes, oranges and grapefruits). As to the general notion of holding back on solving outstanding concerns in anticipation of upcoming negotiations, we should not be surprised if this occurs. However, such a posture will not preclude the Administration from pressing Chile.

Q: Chile maintains a discriminatory tax regime with respect to imported spirits. Are you pressing them on this issue? We understand the EU may be considering a WTO dispute settlement case to try to resolve the issue with Chile.

A: We have informed Chile of our concerns with its regime, and its proposed revision of the current regime. We will continue to point out our concerns, particularly if we believe the tax system is inconsistent with the WTO.

TRADE GENERALLY

Q: Why should we reach trade agreements with low wage countries? How can U.S. workers compete in trade against workers in developing countries earning of small fraction of U.S. wages?

A: The fact is that wages for export-related jobs pay 13-16% more than the national average. Thus, creating additional export opportunities is clearly in America's interest. Our workers are able to compete with workers in low wage countries because they are the most productive in the world. They spend far less time to produce most anything than is required of workers in low wage countries. As a result, in many areas the United States has both higher wages and lower unit labor costs than our low wage trade partners.

Even state of the art facilities in developing countries are in fact far from operating as efficiently as in countries like the United States because of low productivity and frequent quality and availability problems in the domestic goods and service supplying sectors upon which the manufacturing facility depends.

The fact is that workers can and do compete successfully with low wage countries. In the last 10 years U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140% and domestic sales by 75%. Exports to low wage countries now account for 42% of total U.S. exports.

Additional evidence of the ability of the U.S. to compete in the industrial sector is the overall strong growth of U.S. industrial output, up 18% in real terms since 1992 (compared to an 8% rise for Japan and a 1% decline for Germany). The growth in manufacturing employment since 1992 (up roughly one-quarter million), has been due largely to strong U.S. productivity growth in the manufacturing sector (3% to 4% a year).

Of course, competitive pressure from low wage countries may be felt greatest in U.S. industries where labor skills and productivity are lower than average. But most such jobs are not in industries that compete with imports. Indeed, imports from non-oil developing countries account for only 4% of U.S. spending and has grown only 1.5% during past decade.

We should be concerned when any part of our labor force lacks skills necessary for well-paying jobs. It is important, therefore, to maintain our commitment to education and worker retraining so that our workers can enjoy the benefits of America's increasing demand for a higher-skilled workforce.

Q: How do you respond to arguments that the trade deficit has hurt the U.S. economy and cost American jobs?

A: Trade deficits, by themselves, do not necessarily cost U.S. jobs. Trade deficits and employment both tend to rise when the economy is growing rapidly and consumers and businesses increase their spending. For example, the U.S. current account (the broadest measure of trade) was nearly in balance in 1991, during the last major U.S. recession, yet the unemployment rate peaked at well over 7% in that year. Since 1992, the U.S. economy recovered earlier and has grown faster than those of many of our major trade partners. The relative strength of U.S. growth contributed to the current account deficit expanding to $165.1 billion in 1996; however, by the end of 1996, the unemployment rate was down to 5.4% and over 11 million net jobs had been created in the U.S. economy in just four years. Today unemployment is at its lowest level in a quarter century.
We cannot lose sight of the fact that exports have created new, high-paying jobs. Today, more than 11 million American jobs are supported by exports, including one in five manufacturing jobs. These are good jobs; jobs supported by merchandise exports pay 13-16 percent more than the U.S. national average wage. Over the last four years, more than one-quarter of our economic growth came from exports -- and export growth has resulted in an additional 1.4 million export-supported jobs .

That said, the President and Congress working together over the last four years have reduced the federal budget deficit and strengthened the national saving rate. As a result, although the trade deficit has increased in dollar terms during this recovery, substantial progress has been made in that the trade deficit has been brought down substantially relative to the size of the overall economy (for goods and services, down from 3.3% of GDP at its peak in 1987 to 1.5% in 1996). In light of the budget agreement between the President and Congress, this trend should continue as we reduce the budget deficit.

SECTORAL AGREEMENTS

Q: What gives you reason to believe that this Administration would be able to conclude additional sectoral agreements if you had fast track authority?

As you know, we recently concluded the Information Technology Agreement (ITA). The ITA now covers 41 countries that account for 93% of trade in the covered products. The agreement reduces tariffs on a broad range of products of significance to U.S. businesses, including producers of semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of $5 billion.

The ITA could not have been negotiated without the residual tariff proclamation authority the Administration had in the URAA. We believe more could have been accomplished if the Administration had broader authority, the kind of authority we are seeking in our fast track legislation. Specifically, we believe we could have included products beyond those currently covered, as well as addressed certain non-tariff barriers.

Our optimism about additional sectoral opportunities is real, not theoretical. At the recent APEC Ministerial, the APEC countries, which account for more than 50% of world trade, agreed to use the ITA as the model for launching new market-opening sectoral initiatives. In some cases a commitment among the APEC countries alone to reduce tariffs and non-tariff barriers can provide significant benefits to U.S. companies and workers. Where additional countries are necessary to cover the bulk of trade in a particular sector, the APEC countries agreed to collectively seek inclusion of other countries in such an agreement. This commitment is unprecedented. The APEC countries have agreed to a process for identifying and pursuing new sectoral market opening initiatives. Specifically, the APEC Ministers agreed to have their staffs identify candidates by July 15, discuss those further in August, and present to the Ministers in November those on which negotiations could commence. Among the sectors already being considered are many in which the U.S. is a market leader. [Some of these sectors include environmental technology and services, medical equipment, .

Q: It is my understanding that the Administration already has residual tariff proclamation authority under the URAA for other products. Why isn't that authority sufficient to achieve the Administration's objectives?

The tariff authority that exists under the URAA is limited to certain sectors and products within those sectors. Thus, while that authority is important for addressing important sectors like chemicals, non-ferrous metals, wood and paper products, _____, even within those sectors, it may not allow for the full product coverage that would be desirable and it does not allow us to address non-tariff barriers. For example, the ITA was concluded using that residual authority. Had we had broader authority, we could have covered additional products and addressed non-tariff barriers. [Specifics] ITA-II, which the APEC Ministers agreed to pursue, would pursue those objectives.

More generally, for many other sectors in which the U.S. is a global leader. e.g., environmental technologies, medical equipment, _____, no such authority exists. Only a new grant of fast track authority will allow us to pursue fully these sector initiatives.

Q: I understand that environmental technology and services is among the sectors being considered for a market opening initiative. Can you comment and, if so, why is this in the U.S. interest?

Environmental technology and services is one of the sectors that was mentioned at the APEC Ministerial in Montreal, [and we are currently considering whether it is a sector that we will recommend for such an initiative.] Such an initiative would not only benefit U.S. business and workers, but contribute to exporting to the world the technology and know-how to improve environmental conditions.

The United States is the largest producer of environmental goods and services in the world, accounting for approximately forty percent of the global market. The global market is growing rapidly; today it is estimated at between $250 to $420 billion and is expected to reach $600 billion by the year 2010. [Currently, this industry employs 1.3 million Americans or 1.7% of the U.S. workforce and projected growth over the next few years is expected to be between 3 and 4 percent. [Growth of 3-4% or growth to 3-4%? Does this assume increased export opportunities?] Even though the U.S. is a market leader, the U.S. continues to lag well behind in exports from this sector to other countries. Currently, only six percent of U.S. environmental industry revenues are from international markets, while our major competitors, Germany and Japan, derive 20% of their revenues from exports.

The U.S. environmental technologies market, although one of the most advanced in the world, is facing a fiercely competitive global market. Numerous countries, including Japan, Germany and France spend billions of dollars to promote and finance their environmental technologies exports. In addition to tariff barriers, an agreement would address environment-related service barriers. [What other barriers exist?]

Q: I have heard the among the sectors that might benefit from renewed fast track authority is the medical equipment sector. How so?

The U.S. holds the strongest position in the global medical goods industry and is responsible for almost one-half of total global production. Due to the increasingly innovative U.S. medical device industry, the U.S.'s closest competitors with regards to total global production are Europe with 30% and Japan with 18%. The United States, along with Japan and Europe, is a market leader in exporting medical equipment to countries attempting to develop their health care infrastructure.

Further trade liberalization in this sector is in the U.S. interest. For example, growth markets in Latin America, Eastern Europe and to some extent Asia are critical to U.S. exporters. In most cases though, the tariff rates in these growth markets are high and unbound. We envision expanding the Uruguay Round zero/zero in medical equipment to include additional countries and any remaining products that are not already contained in the UR agreement. Although most medical equipment in these growing markets is currently procured by governments, which waive duties, their participation in the existing zero/zero tariff initiative would bind zero tariffs as health care is privatized.

In addition, we would pursue non-tariff barriers and procurement practices, which pose the major obstacles to U.S. export growth. For example, we would seek to obtain commitments from countries that are not currently signatories to the Government Procurement Agreement (GPA) with respect to procurement of medical equipment by government-owned hospitals.

The U.S. is also a market leader in "exporting" services that use the equipment around the world. Hospitals, clinics, and testing and analysis facilities are examples of such services. The U.S. exports these services through investment, by electronic means ("telemedicine"), or by foreigners traveling to the United States for health care. To complement the goods market access commitments, therefore, we would seek commitments to remove barriers to services that use the equipment.

In addition to the economic benefits that such a sectoral agreement would reap, the human dimension is noteworthy. By exporting the equipment and know-how, we help increasing access to high-quality medical care and provide access to millions of people in developing and developed countries.

MULTILATERAL AGREEMENTS

What multilateral agreements is the Administration considering?

Why are these good/important for America?

<u>HOW WOULD FAST TRACK HELP</u>

Farmers

Service industries

Hi-tech industries

Manufacturing industries

Environmental technology

1991

FAST TRACK IS ESSENTIAL

Historical Background

For the better part of this century, Congress and the Executive have recognized that the negotiation and implementation of trade agreements require special cooperation.

In the aftermath of the record-high rates of the Smoot Hawley Tariff Act of 1930 and the subsequent Depression, both Congress and the Executive recognized that only by working closely together could the two branches effectively bring down barriers to foreign trade and open international markets for U.S. products and services.

This new partnership was reflected in the Reciprocal Trade Agreements Act of 1934 which gave the President authority not only to conclude tariff-cutting agreements but also to implement them without the need for subsequent legislation.

As countries began to rely less on tariff protection and more on non-tariff trade barriers, the scope of trade negotiations broadened, and the "fast track" procedures were created by Congress as the necessary complement to this broader trade agenda.

Fast track procedures for approval of trade agreements were included by Congress in trade legislation in 1974, in 1979, and again in the 1988 Trade Act.

Fast Track Is Essential to Successful Trade Negotiations

While assuring Congress meaningful participation throughout the negotiation process, fast track provides two guarantees essential to the successful negotiation of trade agreements: (1) a vote on implementing legislation within a fixed period of time, and (2) no amendments to that legislation.

These negotiations are complex and involve balance. Special interest amendments introduced after negotiations have been finalized can unravel the most carefully crafted agreements. Whether the balance of benefits contained in any trade agreement is in the overall interest of the United States can only be determined by looking at the whole package.

Through the fast track, Congress gave the President the same bargaining power possessed by his counterparts: the ability to ensure that the agreement reached internationally would be the agreement voted on at home.

Without fast track, the President cannot assure our negotiating partners that the deal they strike is the deal that will be voted on by Congress. Without that assurance, foreign governments are reluctant to negotiate with the United States. No trading partner will give its bottom line knowing that the bargain could be re-opened.

Using fast track, the United States has negotiated and implemented three remarkable agreements which were each approved by an overwhelming majority in both houses of Congress. These agreements--the results of the Tokyo Round in 1979, the FTA with Israel in 1985, and the FTA with Canada in 1988--have reduced barriers to trade and contributed to growth in the United States and the global marketplace.

The United States has much to gain from trade agreements that open markets and provide rules for free and fair trade. Maintaining the fast track will preserve our ability to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements.

Congress Is an Essential Part of the Fast Track Process

Fast track procedures preserve Congress' role during the negotiation, approval, and implementation of trade agreements.

To ensure congressional and private sector input, the fast track statute contains extensive notification and consultation requirements. At each step along the way, from initiation through implementation, Congress is an active partner.

To use the fast track for any agreement, bilateral or multilateral, the President must notify Congress 90 calendar days before signature. By the time the President gives his 90-day notification of the completed agreement, the many private sector advisory committees must report their views on the agreement both to Congress and the President.

For bilateral agreements, Congress must be given advance notice of the negotiations; during the following 60 legislative working days, either the Senate Finance or House Ways & Means Committee can vote to deny fast track treatment.

Once an agreement is reached, Congress and the Administration work in close consultation to formulate implementing legislation. The process has involved the full participation of all committees of jurisdiction, and not only those committees traditionally consulted in setting trade negotiating objectives.

There are no time deadlines for preparing the agreement's implementing legislation. If the agreement and its implementing legislation are still not acceptable to Congress, they can be rejected by majority vote of either house.
Today the United States is engaged in bilateral and multilateral trade initiatives that hold unprecedented promise for the advancement of the nation's economic objectives. It is clearly in the national interest to continue a partnership that has proved its worth for almost sixty years.

Use of Fast Track if Extended

By incorporating the fast track in the 1988 Trade Act, Congress expressly contemplated that an extension might be necessary and appropriate in order for the President to pursue effectively the trade policy goals set out in the law.

If extended, the fast track would be available until June 1, 1993, and would be used to implement trade initiatives such as completing the Uruguay Round, negotiating a North America FTA with Mexico and Canada, and pursuing the trade objectives of the Enterprise for the Americas initiative.

Supporting fast track will allow these important initiatives to go forward without in any way detracting from Congress' ability to assess each agreement on its merits when presented for approval.

A Vote Against Fast Track for Any Reason Denies the Fast Track for All Agreements

Current fast track authority would have expired on June 1 if the President had not requested an extension by March 1. The requested extension is granted automatically unless either house passes a statutorily-prescribed disapproval resolution before June 1.

The language of the disapproval resolution, which is set out in the statute, makes clear that disapproval eliminates all fast track authority, multilateral and bilateral.

If a disapproval resolution is passed by either house, the fast track is gone for all purposes and the President's ability to successfully negotiate any trade agreement requiring congressional approval, bilateral or multilateral, is severely crippled and perhaps eliminated.

Continuing Fast Track Is Essential to Securing Economic Gains

As the world's largest trader, the United States has an enormous stake in the future of the global trading system. Exports have become a vital source of strength to the U.S. economy. In 1990, the 8.3 percent growth in U.S. exports accounted for 88 percent of U.S. economic growth.

In order to sustain the expansion of exports and consequent growth, the United States must continue its efforts to open world markets. The United States must maintain its active leadership role.

Maintaining fast track procedures -- and the partnership between Congress and the Executive Branch which fast track represents -- will keep on course our joint efforts to liberalize trade and open markets through the GATT, through other multilateral agreements, and through bilateral agreements. No country stands more to gain from those efforts than the United States.

As the beginning of a new century approaches, we must not hesitate to pursue the opportunities for expanded economic growth and prosperity presented by successful trade negotiations.

In order to turn those opportunities into realities, Congress and the Executive must continue to work together in the manner envisioned by the fast track.