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THE WHITE HOUSE

WASHINGTON

December 1, 1997

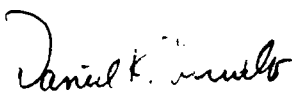
MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
UNITED STATES TRADE REPRESENTATIVE
CHIEF OF STAFF TO THE PRESIDENT
DIRECTOR OF CENTRAL INTELLIGENCE
CHAIRMAN OF THE JOINT CHIEFS OF STAFF

SUBJECT: Fast Track Talking Points and Q&As

Attached are Administration talking points and Q&As for use in the aftermath of this Fall's fast track effort. If you have any questions, please call Bob Kyle at 456-9281.


for Samuel R. Berger
Assistant to the President
for National Security Affairs


for Gene Sperling
Assistant to the President
for Economic Policy


Daniel K. Tarullo
Assistant to the President
for International Economic Policy

Attachment
Tab A

Fast Track Talking Points and Q&As

cc:

Mack McLarty
Anne Lewis

ADMINISTRATION TALKING POINTS FAST TRACK

THE PRESIDENT REMAINS COMMITTED TO OPENING MARKETS AND CREATING OPPORTUNITIES FOR AMERICAN WORKERS AND BUSINESS. From the beginning of his Administration, President Clinton has been committed to a three-part economic strategy: reduce the deficit, invest in the training and education of our people and open foreign markets to American goods. The President continues to believe in the importance of breaking down trade barriers. That is why he fought so hard for fast track, even though we knew it would be a tough fight from the start.

DESPITE THE DELAY IN THE HOUSE, WE DID MAKE SIGNIFICANT PROGRESS THIS YEAR. Both the House Ways & Means and Senate Finance Committee reported out fast track bills with bipartisan support. That is something many thought was impossible. We also secured a strong bipartisan majority in the Senate. Those achievements should not be taken for granted. They represent important steps forward in this tough effort. Remember, it took the Reagan Administration four years to secure fast track authority. In light of that, our achievements this fall are significant.

ONE IMPORTANT REASON THIS YEAR'S HOUSE EFFORT DID NOT SUCCEED IS THAT THE PRESIDENT WAS NOT WILLING TO COMPROMISE HIS PRINCIPLES. House passage required both Republican and Democratic support. Speaker Gingrich fought admirably and in good faith, but there was a block of Republicans necessary for passage who were intent on linking the policy on international family planning to the fast track legislation. The President was not willing to compromise his principles on that issue. Those Republican members would have made the difference. There were many factors at play, but their insistence on linkage was decisive at the end.

THE ADMINISTRATION WILL CONTINUE ITS EFFORT NEXT YEAR. In the days and weeks ahead, we will be discussing within the Administration and consulting with Congress to determine the best way to proceed. It would be premature to speculate how we will move forward. The important point is that we will continue to seek support for legislation that can attract bipartisan majorities in both Houses.

IN THE INTERIM, THIS SETBACK DOES NOT PREVENT US FROM CONTINUING EFFORTS TO OPEN MARKETS FOR AMERICAN WORKERS. To the extent our trading partners see this delay as a temporary phenomenon, we do not believe it undermines our capacity to engage these countries to lower their barriers. To the extent they see it as a longer-term problem, we believe it would have serious implications for our capacity to open foreign markets and for American global leadership generally. Without fast track, we can continue negotiations, but a continued failure to grant fast track authority would prevent those talks from maturing into agreements. That is why fast track authority is so important.

USTR Responses to Questions from Senator McCain
Senate Commerce Committee
Hearing on Fast Track
held 9/30/97

Question #1

My colleague, Senator Hollings, frequently argues that most trade agreements have been enacted without fast track. How do you justify, then, that fast track is necessary for future agreements?

Answer:

Fast track is needed only for trade agreements that call for changes in U.S. law. The vast majority of day-to-day trade agreements can be implemented under previously delegated authority from the Congress, or under the President's constitutional powers, without the need for further action by the Congress.

Fast track is vital for some of the most important agreements that the President negotiates -- those where the President must agree to make changes in U.S. tariffs or other domestic legislation in return for concessions from our trading partners. This is the type of agreement that fast track was designed to address.

Congress has repeatedly enacted fast track procedures in order to ensure that the United States can negotiate major trade agreements from a position of strength and unity. It tells our trading partners that the Congress and the President speak with one voice at the negotiating table. Fast track also addresses the concern of our trading partners that Congress will pick and choose those provisions of the agreement it wants to accept, delay implementation, or condition U.S. participation in the agreement in a manner incompatible with agreement the President strikes with them.

This concern is not hypothetical. In 1967, Congress used the legislative process to reject key components of two trade agreements concluded by President Johnson in the Kennedy Round -- including an antidumping agreement that the United States itself had proposed.

Both Congress and the President understood that this situation should not be repeated. Congress enacted fast track in 1974, and has renewed it repeatedly thereafter, to ensure that there would be a partnership between the Congress and the President in trade matters -- both in negotiating trade agreements and once they are concluded. Fast track makes certain -- through extensive consultations and give-and-take throughout the negotiations -- that the President works together with the Congress in fashioning trade agreements that serve the interests of the United

States.

Question # 2:

What is the impact of not passing fast track this year?

Answer:

There are serious and immediate consequences if we do not renew fast track. Our competitors around the world are seizing trade opportunities as they arise, cementing commercial relationships and forming new trade alliances that leave our workers and firms at a disadvantage. In Latin America and Asia, for example, the two fastest growing regions of the world with millions of new consumers, governments are pursuing strategic trade policies and concluding preferential trade arrangements with each other and countries outside their regions. Our competitors are not waiting for us to pass a bill. In Latin America and Asia, over 20 such agreements have been negotiated since 1992. The United States is party to only one.

Argentina, Brazil, Paraguay, and Uruguay, for example, have formed a common market, MERCOSUR, which has a gross domestic product of approximately \$1 trillion and a population of over 200 million and ambitions to expand to all of South America. The combined economy of the MERCOSUR countries is the largest in Latin America. MERCOSUR has recently put in place preferential trade agreements in place with Chile and Bolivia, and is aiming to conclude agreements with Colombia and Venezuela, as well as countries in the Caribbean Basin. There are recent reports that Canada is also in discussions with MERCOSUR.

Chile, with one of South America's leading economies, has signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and MERCOSUR. Indeed, Chile has preferential trading relationships with every major trading country in our hemisphere but one -- the United States. Mexico has concluded market opening agreements with Colombia, Venezuela, Ecuador, Costa Rica, Guatemala and Chile and is negotiating an agreement with MERCOSUR and others in Central America.

Our failure to enact fast track disadvantages us in comparison with our industrialized competitors as well. Canada's new trade agreement with Chile, gives Canadian exporters substantial advantages over our companies. The European Union, already the world's largest trading bloc, has secured for its exporters significant advantages in the transition economies of Central and Eastern Europe. The EU is also determined to expand its trade relationships in Latin America and has agreed to pursue preferential tariff agreements with MERCOSUR, Chile and Mexico. Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial

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Access to the world's fastest-growing markets -- particularly those in Asia and Latin America, which are projected to grow at rates as much as three times the U.S. growth rate -- is especially important to America's economic future. More than 95 percent of the world's consumers reside outside the United States. Of the more than 30 million people who join the world's middle class annually, an estimated three-quarters are in emerging markets and other low and middle-income countries. These are the markets of the future. Our competitors understand that and are moving rapidly to position themselves to ensure preferential access to these fast growing markets.

- the American Chamber of Commerce in Chile estimates the United States will lose this year \$500 million in exports sales in Chile alone due in large measure to Chile's recent preferential trade agreements with others;
- U.S. apple producers are at risk in the key Latin American markets because their Chilean competitors face no duties, or very low duties, for their apple exports to those markets due to preferential tariff deals that Chile has negotiated with these countries. By contrast, U.S. producers often confront significant tariff walls when they sell into Latin American markets.
- U.S. corn producers are facing competition in Chile from Argentinean producers who enjoy a 3.3% tariff preference -- which will grow to 11% over time. U.S. corn producers could lose half their market share in Venezuela to Argentina because of Venezuela's relationship with MERCOSUR.

As the President has said, fast track "is about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity." American leadership has helped bring about an unprecedented

movement towards democracy, stability, and economic security in our hemisphere and around the world. Our sustained efforts to bring about fair and open trade worldwide have been a major reason for our success.

The President is committed to pursuing not only more open markets, but more open societies that encourage respect for core labor standards and for the environment. Failing to renew fast track will not promote any of these objectives. Fast track is vital if we want to continue our success and sustain American leadership over the years to come.

Question #3

Can you tell us the status of the Free Trade of the Americas Agreement? Is this agreement at threat if Fast Track is not enacted?

Answer:

At the third Free Trade Area of the Americas (FTAA) Ministerial held in Belo Horizonte, Brazil, in May 1997, the 34 Trade ministers responsible for trade agreed that sufficient progress had been made since the Miami Summit of the Americas that they would recommend that the Western Hemisphere presidents and prime ministers initiate the FTAA negotiations at the Santiago Summit of the Americas next April. The ministers established a Preparatory Committee (PrepCom), constituted by the vice ministers, to make recommendations on how the negotiations will proceed, i.e. on the objectives, approaches, structure and venue of the negotiations, in preparation for decisions on these issues at the next ministerial meeting in San Jose, Costa Rica, in March 1998.

The PrepCom has held one meeting, in July 1997, at which the vice ministers discussed possible outlines for the San Jose Declaration, which would establish a negotiating plan for the FTAA. The 12 working groups are in the process of preparing reports on possible issues and negotiating approaches in their respective disciplines, which are to be provided as input to the Vice Ministers before the second PrepCom meeting at the end of October.

Without fast track, we will have less credibility with and influence on the other 33 governments in seeking to achieve our FTAA goals for the San Jose Ministerial and Santiago Summit. We are seeking to reach consensus on a commitment at the Santiago Summit to **simultaneously initiate the FTAA negotiations on all issues** identified by Hemispheric leaders in Miami, and any other issues agreed upon by the ministers. Both publicly, and during the 34-country FTAA meetings, MERCOSUR has questioned whether we will be able to initiate FTAA negotiations next year without fast track. Other countries have questioned how the U.S. can push to

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have the FTAA negotiations initiated and to achieve a comprehensive state-of-the-art trade agreement without fast track. At a bare minimum, the absence of fast track has tended to diminish U.S. standing in meetings and delayed important work aimed at laying the foundation for a strong start to the negotiations. Fast track gives the United States the credibility to negotiate tough trade deals because our partners know any agreement will not be reopened provision-by-provision by the Congress. We also are seeking to reach consensus on agreement to implement a very significant package of interim agreements by the year 2000, to meet the mandate established in Miami to achieve concrete progress by the end of the century. Our definition of "concrete progress" also would include full implementation of all FTAA countries' WTO and Uruguay Round commitments, and implementation of concrete business facilitation measures. Having fast track would be a strong signal to the hemisphere of our seriousness in meeting our deadline of concluding the FTAA negotiations by 2005, at the latest.

Question #4

Has any foreign leader stated directly that they will not negotiate trade agreements without fast track?

Answer:

President Frei of Chile said in October 1995 "we are not going to negotiate as long as we do not have fast track". Chile is the one country to which the United States has committed to negotiate a comprehensive free trade agreement. President Frei's public remarks on fast track came after the negotiations to conclude such an agreement with Chile were halted in October 1995 because Chile was not willing to make the commitments necessary to conclude an agreement in the absence of U.S. fast track authority. As indicated in the response to Question 3 above, other leaders in the region have questioned how we can initiate formal FTAA negotiations without fast track.

Question #5

What is the current status of talks with Chile concerning NAFTA? Do you find that the Chileans are becoming tougher negotiating partners because they already have, or are in the process of negotiating, trade agreements with MERCOSUR, Canada, and Mexico?

Answer:

Please see response to Question 4. The Administration has not engaged in negotiations with Chile in regards a comprehensive free trade agreement since October 1995 when negotiations broke down. However, a lot has happened since

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then.

For example, Chile's 1996 agreement with MERCOSUR has led to a greater degree of coordination between Chile and MERCOSUR in regard to trade negotiation with other governments. Similarly, the Canada - Chile free-trade agreement was crafted as both an interim step towards possible NAFTA accession and as a bilateral arrangement with characteristics unique to the Canada-Chile relationship. The Chile-Mexico negotiations are ongoing. The objective of those negotiations, as we understand it, is the expansion of the scope of their 1992 bilateral tariff elimination agreement to include further disciplines modeled on those contained in the NAFTA. Similarly, the EU and Chile have agreed to pursue a reciprocal trade agreement in the context of increased cooperation on a variety of fronts. The agreed target date for an accord is 1999.

Given what has occurred since 1995, it is likely that Chile's position on some issues may be revised when it returns to the bargaining table with the U.S. However, we will only know the Chilean position on relevant issues once we resume the negotiations.

Question #6

Question #7

The Administration has argued that their fast track proposal would vastly expand the role of Congress in the negotiating of new trade agreements. What will this include? Specifically, how will a committee such as this one be involved in future trade agreements?

Answer:

The two fast-track bills currently pending in Congress contain what would be the most comprehensive notice and consultation requirements ever included in fast-track. They create a strong partnership between the Congress and the President in choosing negotiating partners, setting priorities, and receiving and implementing completed agreements.

Both bills specify that, at least 90 days before initiating negotiations on an agreement subject to fast-track procedures, the President must provide Congress with written notice of his intention to enter into such negotiations. The notice must state the date on which negotiations are to begin, the specific U.S. objectives for the negotiations, and whether the President intends to seek a new agreement or changes to an existing agreement.

Importantly, the bills add the requirement that, before initiating negotiation, the

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President would be obligated to consult with any congressional committees that the President believes appropriate or (in the Senate bill) that request such consultation in writing. The Administration supports this additional Senate language. As a practical matter, this would mean that wherever the subject matter of an agreement falls within the purview of the Commerce Committee, the President will consult with the Committee prior to and throughout the course of negotiations. In these consultations, the President would not only share with the Committee his strategy and objectives for negotiations, but he also would keep the Committee informed of developments as negotiations progress.

Under the Senate bill, the President would have to inform Congress during the course of negotiations of any contemplated side-agreements he intends to enter into with the country or countries in question, and he must notify Congress 90 days in advance of entering into an agreement whether implementing legislation not subject to fast-track procedures may be necessary. Both bills also call for closer consultations between the President and congressional advisers to negotiating delegations.

Before entering into a trade agreement, the President must again consult with congressional committees having jurisdiction over matters that would be affected by it. And, at least 90 days in advance of entering into an agreement, the President must notify the House and the Senate of his intention to do so. Both bills also adopt the previous requirements that the President obtain advice from the International Trade Commission, the general public and congressionally-mandated advisory committees.

In addition, both bills provide that no agreement subject to fast-track procedures may enter into force unless, within 60 calendar days after signing an agreement, the President submits to Congress a description of changes to existing laws needed to bring the United States into compliance with the agreement. And, both bills enhance the role played by the advisory committees by requiring that the appropriate committees provide Congress and the President with their views on a proposed agreement at least 60 days before the President enters into it.

Thus, the House and Senate bills make plain that, from the time the President determines that he will enter into negotiations to the culmination of the agreement, Congress -- specifically including the Commerce Committee for negotiations and agreements subject to the Committee's jurisdiction -- will be a full partner in trade negotiations.

Question #8

The Administration's draft would effectively waive the requirement for congressional consultations in ongoing Information Technology Agreement. What level of consultations can this committee expect as part of the second phase of the

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Information Technology Agreement?

Answer:

Section 6(a) of the Senate bill and section 106(a) of the House bill provide that the requirement for the President to give pre-negotiation notice to, and engage in pre-negotiation consultations with, the Congress, does not apply with respect to certain negotiations that are currently underway, or that will have commenced prior to time fast-track procedures are renewed. The provision is necessary because it will be impossible for the President to meet advance notice and consultation requirements for negotiations that began before a final bill is enacted.

The purpose of the grandfather clause is only to exempt agreements designated in sections 6(a) and 106(a) of the respective bills from those notice or consultation requirements that are triggered prior to the initiation of negotiations. All other notice and consultation provisions would apply. Thus, such agreements will remain fully subject to the requirements that the President consult with relevant congressional committees during negotiations and prior to entering into an agreement; work closely with official congressional advisers in formulating strategy and developing bargaining terms; receive advice from the general public, private sector advisory committees, including the labor and environmental advisory committees, and the International Trade Commission; provide Congress with at least 90 days notice before entering into an agreement; explain to Congress how the agreement is to be implemented; and supply Congress with extensive supporting materials about the agreement.

The bills make clear that the only negotiations that will qualify for the limited exemption are those: 1) regarding information technology products under the auspices of the World Trade Organization; 2) initiated under the World Trade Organization; and 3) Chile. The WTO negotiations currently underway are those regarding the rules of origin and financial services.

Question #9

Senator Gramm asked during the Finance Committee hearings whether the President could, and intended to, override State government right to work laws. Ambassador Barshefsky indicated that she would look into that issue. Do you have an answer today?

Answer:

The Administration does not intend to use fast track implementing legislation to make changes in State right to work laws.

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Question #10

In the "Principal Trade Objectives" section of your proposed legislation, you list promoting

"respect for internationally recognized worker rights" through the WTO, and [the] establishment [within] of the International Labor Organization as "a mechanism for the systemic examination of, reporting on, and accountability for the extent to which member governments promote and enforce core labor standards."

Does the Administration have plans to use the WTO and ILO to open up negotiations on labor issues as part of its major trade agenda?

Answer:

The Administration's proposed legislation sends a clear message about our enduring commitment to promote respect for internationally recognized worker rights. Within an agreement, we can address those aspects of foreign government policies and practices regarding labor, that are *directly related to trade* and decrease market opportunities for United States exports or distort United States trade. The question focuses on the activity envisioned in the WTO and the ILO.

With respect to the WTO, the Administration remains committed to pursuing within the WTO the establishment of a working party to examine the relationship of internationally recognized worker rights to GATT and WTO Articles, objectives and related instruments. Specifically, we are to explore the linkage between international trade and internationally recognized worker rights, taking into account differences in the level of development among countries; to examine the effects on international trade of the systematic denial of such rights; to consider ways to address such effects, and to develop methods to coordinate the work program of the working party with the International Labor Organization.

Successive Administrations, working closely with the Congress and the private sector have pressed to begin a dialogue in the GATT, and now WTO, on this important issue. Despite continued U.S. efforts, there as yet has not been the needed consensus to pursue formally this issue on the WTO's agenda. Opposition to consideration of this issue has focused on the concern of many countries that efforts to link trade and labor standards is being pursued for protectionist purposes. The United States continues to reject such claims.

U.S. efforts to pursue the relationship between trade and labor formally within the GATT have a long history. The Omnibus Trade and Competitiveness Act of 1988 established negotiating objectives for the United States in this area. Lack of a consensus within the GATT to pursue this issue has been the major obstacle to

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beginning a formal dialogue within the WTO as part of the Uruguay Round result. At the Marrakesh Ministerial Meeting in April 1994, labor standards was again identified as one of the possible issues for the WTO's future agenda.

The United States will continue its efforts to build the needed consensus to establish the Working Party mandated in the URAA. At the WTO's first ministerial-meeting in Singapore, the United States WTO Ministers at Singapore said: "We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of [core labor] these standards. We reject the use of labor standards for protectionist purposes, and agree that the comparative advantages of countries, particularly low-wage developing countries, must in no way be put into question." With this as background, we believe that the WTO can contribute to work underway internationally, and that WTO members should address the perception that continues to persist that enforcement of core labor standards is incompatible with trade liberalization and economic growth. Starting with a working party is merely a necessary first step to determining what, if any, contribution the WTO can make in this area. The working groups now examining trade and competition policy and investment, are examples of WTO Members studying, but not necessarily negotiating, new issues.

With respect to the ILO, our intention is to foster greater cooperation between the ILO and WTO. Obviously, consensus on beginning the work outlined above will be a very important first step. We have been encouraged by the serious effort underway within the ILO about the possible development of a mechanism that would promote enforcement of labor standards.

Question #11

Another "principal trade objective" of your proposed legislation is to promote "sustainable development." How does the Administration define "sustainable development," and how will you apply this definition to U.S. environmental laws during these negotiations?

Answer:

The concept of "sustainable development" does not imply any specific policy commitments, but rather a particular approach to policy making. A widely embraced concept, it has been included in numerous international agreements to which the United States is a party, including the 1992 Rio Declaration and the NAFTA (both signed and negotiated by President Bush) and the WTO Agreements. The UN's Brundtland Commission definition is widely used:

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development which "meet[s] the needs of the present without compromising the ability of future generations to meet their own needs."

-- The World Commission on Environment and Development (The Brundtland Commission), *Our Common Future* (Oxford: Oxford University Press, 1987).

Agenda 21, the Plan of Action of the 1992 Rio Summit, identifies trade liberalization as an important component of sustainable development.

This concept is incorporated into the Preamble to the WTO Agreement (in which parties commit to conducting their trade and economic relations so as to ". . . allow[] for optimal use of the world's resources in accordance with the objective of sustainable development. . ."). Similarly, in creating the WTO Committee on Trade and Environment (CTE), WTO members, at U.S. insistence, committed to promoting sustainable development and the aim of making international trade and environmental policies mutually supportive.

The Administration's bill envisions pursuing this negotiating objective by carefully taking into account the relationship between trade and environment both in formulating negotiating positions and in the course of the negotiations themselves. The Administration will work to ensure that trade protectionism in the guise of environmental protection is not countenanced, while at the same time ensuring that trade rules do not threaten the ability of the United States -- or that of other governments -- to protect domestic environmental policy interests. In addition, the Administration will look for situations where trade liberalization can enhance environmental protection and vice versa.

Question #12

Some special interest groups claim that one way to protect American workers is to prevent the passage of fast-track legislation. Is there any way in which not passing fast track legislation will help the American worker?

Answer:

Economic prospects for American workers will be hurt, not helped, if fast track legislation is not passed.

Over the last six decades the U.S. market has become largely open to imports while others -- particularly in now strong growing middle and low income countries -- remain more restricted. Fast track is about Congress and the President working together to close differentials in market access between the United States and our major trade partners in order to expand the benefits of international trade for U.S.

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workers.

Growth in real compensation for American workers depends on growth in average productivity -- output per hour worked -- with more rapid productivity growth setting the stage for faster real compensation growth. The removal of foreign trade barriers helps enhance productivity growth and thus real labor compensation, by expanding production for export of America's most productive industries. U.S. non-supervisory jobs supported by goods exports pay wages that are 13% to 16% above the U.S. national average, reflecting the higher labor productivity in U.S. exporting sectors. Academic studies have found that jobs in predominantly import-competing sectors pay wages significantly below the U.S. national average and frequently have lower than average output per hour worked. Agreements that to open foreign markets have the effect of gradually shifting the composition of U.S. job growth over time toward more productive, more remunerative forms of employment. More open markets, in other words, help U.S. workers work "smarter" and earn more, by allowing the nation to expand output of the goods and services that it produces better than other countries around the world.

If fast track legislation is not enacted, U.S. workers -- current workers and young people not yet in the labor force -- will lose opportunities for higher paying jobs, and the country will lose an important opportunity for enhancing economic growth.

While U.S. workers overall benefit from agreements to open foreign markets further to U.S. exports, not every individual worker in the country is on the right side of this economic change. By far the largest source of job displacement in the U.S. economy is not trade, but, rather, technological advance -- be it automation on the factory floor or information technologies in the office. Some, not all, imports displace U.S. jobs, but academic studies agree that trade is a much smaller source of displacement than other factors. In trade agreements, the Congress and this Administration have been particularly sensitive to any job loss from imports. That is why the market opening elements of trade agreements are always phased in over time, with the most sensitive sectors for individual workers usually in the longest time frame. Also, special adjustment provisions such as the NAFTA-TAA also seek to provide the best available level of public assistance to those U.S. workers seeking retraining, new jobs, and/or interim income support because of job loss associated with imports.

From the national economic interest point of view, the situation is clear. Market opening agreements, enabled by fast track procedures, expand U.S. average labor productivity, average labor compensation, living standards and economic growth rates. For those individual workers who do not benefit from market-opening agreements, due to trade, technology or the shifting composition of U.S. consumption due demographic shifts, the best answer is not to inhibit the sources of change, but rather to assist individuals in acquiring the skills and knowledge to

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succeed in the evolving and increasing skill-oriented U.S. labor market.

Question #13

According to your proposed fast-track legislation, all environmental and labor provisions of the trade agreements must be negotiated through the WTO or ILO.

- (a) Does this mean that future trade agreements will not establish independent organizations on labor and the environment, such as the North American Development Bank and Commission for Environmental Cooperation?**
- (b) It has been reported that Chile has already agreed to include labor and environmental provisions in a NAFTA expansion agreement. How would passage of fast-track legislation with the current language on environment and labor issues affect these negotiations?**

Answer:

The Administration's proposal on fast track authority does not undermine the President's commitment, or capacity, to encourage other countries to both respect the rights of workers and to protect the environment. Specifically, the Administration's fast track proposal does not limit the President's capacity to pursue international labor or environmental initiatives consistent with his longstanding commitment to these objectives, and for which we plan to continue our efforts. These include efforts in the WTO, the ILO, the OECD and in both the Americas and Asia to encourage cooperation with respect to workers rights and the environment.

As to whether the Administration will seek to establish "independent" organizations on labor and the environment in the context of negotiating a trade agreement, as a general matter the Administration will consult closely with the Congress with respect to its objectives in regards particular trade agreements where the President will seek to utilize the fast track procedures to implement the accord. More specifically, should the President determine it appropriate to negotiate the creation of such institutions in the context of negotiating a trade agreement with a country(s), the Administration will consult the Congress in advance before making any decisions to pursue such a course of action, particularly if the approach has implications for U.S. law.

In regards Chile and how the Administration plans to proceed, the Administration's proposal does not legally preclude the Administration from reaching agreements like the NAFTA labor and environment agreements with Chile. In fact, Chile has indicated its willingness to conclude labor and environment agreements with the

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U.S. as it did with Canada.

Suggested Questions on New Finance Committee Bill

Question #1:

On Wednesday, the Finance Committee is scheduled to mark up their own fast track bill, which was just made public a couple hours ago. I would like to ask you about the Administration's support for that bill, specifically:

- **The President's authority would be strictly limited regarding negotiations on a range of issues including labor and environmental standards. If negotiations result in an agreement that would alter U.S. law in any of these areas, the President would not be entitled to use fast track authority.**

Would the Administration support this restriction on its authority?

Answer:

Certain types of foreign government regulation and practices, including those relating to labor and the environment, can be used to provide a competitive advantage to local producers, services providers, and investors. Measures of this type may have an important impact on U.S. exports and on investment flows, and thus are the proper subject of fast track trade agreement negotiations. Government regulation in the environmental or labor areas that discriminates against U.S. goods, services, or investment, or whose object is to attract investment or inhibit U.S. exports -- such as by lowering or derogating from existing environmental or labor standards -- fall within this category.

The bill reported out of the Senate Finance Committee recognizes that these areas are the proper subject of fast track trade agreement negotiations. At the same time, the bill also makes clear that fast track negotiations and implementing legislation should not be used to bind U.S. Government discretion in setting labor and environmental or labor policy. The Administration agrees with this approach, and would expect to address more general international labor and environmental matters, where appropriate, through other negotiations and legislation.

- **Congress could disapprove negotiations under two circumstances:**

(1) the Finance or Ways and Means Committee could disapprove of the President's negotiations with 60 days of notification from the White House that negotiations are set to begin, or

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(2) the full Congress can disapprove of ongoing negotiations, based on the failure of the President to consult Congress.

Similar provisions are included in the 1988 act. Would the Administration accept this provision?

Answer:

The Administration supports the bipartisan legislation reported by the Senate Finance Committee on October 1 and looks forward to working with the Senate and the House of Representatives to complete work on a fast track bill that will meet our shared objective of retaining leadership in international trade.

With respect to your inquiries regarding specific provisions in the Senate Finance bill relating to labor and the environment, we believe this language is consistent with the Administration's objectives with regard to labor and the environment. We do not believe that the provisions in the Senate bill relating to labor and the environment restrict the ability of the President to pursue his environmental and labor goals.

With respect to the disapproval options, the Administration supports the provision regarding disapproval for failure to consult, but does not support the provision regarding disapproval of negotiations once they have been initiated. As indicated above, the Senate Finance bill contains extensive notice and consultation requirements, which the Administration believes are appropriate to reflect the important partnership of the Administration and Congress in this area.

In light of the extensive requirements, we believe Congress' role in shaping the negotiations, agreements, and implementing legislation obviate the need for disapproving negotiations before they commence. Moreover, as a practical matter, Congress retains the ability to vote an agreement down once its full contours are developed; we believe this is a more appropriate time to consider the merits of a negotiation than before the negotiations even commence.

The Congressional fast-track withdrawal provision referred to in paragraph (2) is largely the same as it was under prior law, with the exception that under the bill reported by the Finance Committee it applies both to tariff and non-tariff negotiations and covers a failure by the President to notify as well as a failure to consult.

Question #2

In your written testimony, you each mention the importance of American leadership

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on global labor and environmental standards, but neither of you mention a specific agenda to negotiate labor or environmental agreements.

--Does the Administration have specific goals to negotiate labor or environmental agreements?

--Will these plans be altered by the Finance Committee bill?

Answer:

The Administration remains committed to encouraging respect for core labor standards on a global basis and to encouraging sustainable development. We are pursuing these objective through a variety of means. The Finance Committee bill would not alter the Administrations plans in these areas.

For example, with respect to core labor standards, the Administration will, among a range of initiatives on this topic: 1) continue to pursue the creation of a working group in the WTO to examine trade and labor standards; 2) continue to seek the establishment in the ILO of a mechanism for the systematic examination of and reporting on the extent to which ILO members promote and enforce core labor standards; 3) build on the 1995 Inter-American Conference of Ministers of Labor at the 1998 labor ministerial meeting by seeking progress on encouraging respect for core labor standards in the Americas; and 4) seek to conclude labor and environmental cooperation agreements with Chile modeled on the NAFTA supplemental agreements.

The principal negotiating objective on labor and environment included in the President's proposal states that the U.S. we will, through the WTO, "promote sustainable development." This and the other environmental objective in principal negotiating objective 7 ("seek to ensure that trade and environmental protection are mutually supportive") were included to highlight the importance of continuing the ongoing efforts among WTO members to make trade liberalization consistent with the optimal use of the world's resources and environmental protection, and to clarify the relationship between trade and environmental policies -- a process that was begun with the creation of a Committee on Environmental Measures and International Trade in the early 1970s and institutionalized by the WTO in 1994 with the creation of the WTO Committee on Trade and Environment (CTE).

The Administration intends to pursue the environmental objectives by carefully taking into account the relationship between trade and environment both in formulating negotiating positions and in the course of the negotiations themselves. The Administration will work to ensure that trade protectionism in the guise of environmental protection is not countenanced, while at the same time ensuring that trade rules do not threaten the ability of the United States -- or that of other

governments -- to protect domestic environmental policy interests. In addition, the Administration will look for situations where trade liberalization can enhance environmental protection and vice versa.

**USTR Responses to Question from Senator Gorton
Senate Commerce Committee
Hearing on Fast Track
held 9/30/97**

Question:

Ambassador Barshefsky, as you know, Mexico imposed a 101.1 percent prohibitive duty on all red delicious and golden delicious apple imports from the United States on September 1. This action has effectively shut the U.S. apple industry out of its number one export market and has literally stranded shipments of apples at the U.S.-Mexico border.

At a time when the Administration is seeking Congressional approval of fast track trade negotiating authority, this arbitrary action on the part of Mexico raises serious questions about the benefits of free trade agreements. We have a free trade agreement with Mexico, yet Mexico has chosen to ignore its obligations under NAFTA and the WTO to protect a small group of apple growers.

When I travel back to my home state of Washington, the largest producer of apples in the U.S., many people ask me how Mexico can shut our apples out of their market when Mexico is a signatory to NAFTA. I tell them that under NAFTA, we do have some recourse, but that the process is long and arduous. That is why I have written letters signed by my colleagues in other apple producing states to you, Secretary Daley, and the President asking for some immediate action. I know that you are committed to resolving this problem, but I am concerned that a resolution of this issue through NAFTA and WTO channels will be too long in coming. It seems to me that the best way to fix the problem is for the President to speak personally with the President of Mexico.

Can you tell me what actions the administration has taken or plans to take to restore U.S. apple exports to Mexico? Would you recommend that the President himself step in on behalf of U.S. apple growers?

Answer:

The Administration shares your concerns both about the potential serious impact of Mexico's actions to date on U.S. apple exports and the importance of doing everything necessary to ensure that Mexico is abiding by its international obligations. Shortly after learning of this development and after hearing from the U.S. apple industry and from interested Members of Congress, the Special Negotiator for Agriculture for Agriculture at USTR raised this issue at senior levels in the Government of Mexico. In addition, the Acting Assistant U.S. Trade Representative for North American Affairs traveled to Mexico on October 8 to spell

out our concerns in detail with senior Mexican officials. We have made clear to Mexico that we find this situation unjustifiable. We will continue to press Mexico at every opportunity and will pursue additional high level efforts in this regard.

We will also continue to work cooperatively with industry to carry out a strategy to accomplish our shared objective -to resolve this issue as quickly as possible. We will keep your office and other interested Congressional offices informed of developments as we proceed.

USTR Responses to Question from Senator Inouye
Senate Commerce Committee
Hearing on Fast Track
held 9/30/97

Question:

There are some recent, promising developments in the World Trade Organization (WTO) that should help demonstrate the value of trade agreements for U.S. commerce. Two U.S. agricultural cases against the European Union--one involving bananas, the other involving beef hormones-- have received favorable WTO rulings. If the United States can obtain full and prompt compliance from the European Union, won't this go a long way towards building confidence in the WTO and trade agreements generally? In this regard, is the United States taking all necessary measures to ensure full compliance by the European Union in these two highly watched, precedent-setting cases?

Answer:

Compliance with trade agreements is key to building confidence in those agreements. When we brought the cases you mention, we predicted that each would be a massive undertaking requiring months of effort by USTR litigators and negotiators, and our predictions proved correct. In the hormones case we have benefited from the wisdom and analysis of legal and scientific experts in other agencies of the U.S. government. Fortunately, the results so far have helped vindicate our efforts to build a fair and impartial dispute settlement regime in the WTO.

On September 25 the WTO Dispute Settlement Body (DSB) adopted, and the EU unconditionally accepted, the WTO Appellate Body and panel reports on the EU banana regime. As a result of that adoption, the rulings and recommendations of these reports have become rulings and recommendations of the WTO, and the EU is now answerable to the WTO as a whole for their implementation.

Throughout the bananas dispute, the United States has urged the EU, as well as its member States, to comply with the results of the dispute settlement process. We have sent USTR teams to several member States and our embassies in key European capitals have stressed the importance we place on EU compliance with the WTO reports. We have reiterated our willingness to work with the EU on a reformed banana regime that is consistent with WTO rules and that remedies the discriminatory conditions imposed on U.S. banana distribution companies. At the same time, we believe that changes to the EU regime should provide vulnerable Caribbean nations the ability to continue to export bananas to the EU market.



The panel report in the hormone case confirms the value of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures in distinguishing legitimate food safety requirements from unscientific and unjustified barriers to the exports of other WTO members. The panel agreed that the EU has no scientific basis for blocking the sale of American beef in Europe. This is a sign that the WTO dispute settlement system can handle complex and difficult disputes where a WTO member attempts to justify trade barriers by disguising them as health measures. The panel affirmed the need for food safety measures to be based on science, as they are in the United States.

On September 24 the EU appealed the panel reports in the hormones cases brought by the United States and Canada. The notice of appeal began another phase in this dispute, which will involve more briefs and an appellate hearing in Geneva. The Appellate Body is now scheduled to issue its report by November 23, but could extend this deadline by up to 30 days.

USTR officials meet with EU representatives on many occasions and at many levels every year. We have underlined to the EU the importance of both the bananas and hormones disputes to the United States and to the effectiveness of the WTO dispute settlement system-- a system which the United States and the EU more than any other WTO members. We will continue to remind the EU that we expect the EU to bring its bananas and hormones regimes into full conformity with its international obligations.

21

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

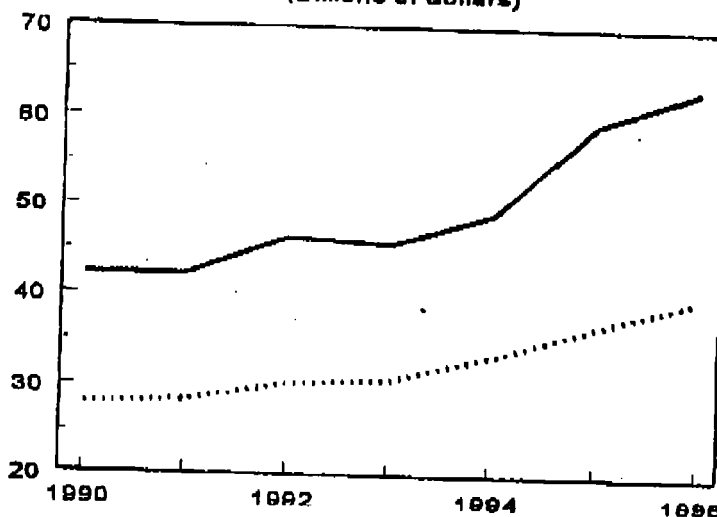
The United States has the world's highest safety standards and is the undisputed leader internationally in assuring its consumers of a safe, diversified and abundant food supply. Trade agreements such as the NAFTA and Uruguay Round Agreement did not strip U.S. regulatory bodies of their authority to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

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

WHY TRADE MATTERS

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

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



Ag. Exports* Ag. Imports*

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

THE FACTS

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

ENSURING FOOD SAFETY: HOW IT IS ACHIEVED

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

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

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

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

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

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

- **Statistical Sampling and Inspection:**

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

TRADE AGREEMENTS FOSTER TRANSPARENCY AND PROMOTE HIGHER FOOD SAFETY STANDARDS INTERNATIONALLY

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

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

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

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

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

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

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

OVERALL:

- **Family Income Up 10 Percent -- \$1,000 -- In Last 2 Years For Poorest 20%.** Since the 1993 Economic Plan passed, the real average income of the poorest 20 percent of families has increased \$994 -- or 9.7 percent -- from \$10,275 in 1993 to \$11,271 in 1995. Over the same time period, the incomes of wealthy American households -- the top 20 percent -- increased 2.0 percent, from \$117,086 in 1993 to \$119,453 in 1995.
- **The Largest Decline In Income Inequality In 27 Years.** In 1995, household income inequality fell, as every income group -- from the poorest to the most well-off -- experienced a real increase in their income for the second straight year. One measure of inequality -- the Gini coefficient -- dropped more in 1995 than in any year since 1968.
- **The Number Of People In Poverty Fell By 1.6 Million -- Largest Drop In 27 Years.** The number of people in poverty dropped 1.6 million, from 38.06 million in 1994 to 36.43 million in 1995 -- that's the largest one-year decline since 1968.
- **Poverty Rate Fell To 13.8 Percent -- Biggest Drop In Over A Decade.** In 1995, the poverty rate dropped from 14.5 percent in 1994 to 13.8 percent -- that's the largest one-year fall in the poverty rate since 1984. Since President Clinton's Economic Plan was signed into law, the poverty rate has declined from 15.1 percent in 1993 to 13.8 percent last year -- that's the biggest two-year drop in the poverty rate since 1973.

BY RACE:

These statistics show clearly that African-Americans have benefitted from the recent economic growth. However, the African-American poverty and unemployment rates remain far above that for all workers. And while the increase in African-American median family income has out paced the rise for all families, African-American median family income level is still just 64 percent of overall median income. For Hispanics, the current prosperity has provided both good and bad news. The good news is that Hispanic unemployment and poverty have fallen. The bad news is that Hispanic median family income has declined too.

- **The African-American Poverty Rate Dropped To It Lowest Level On Record.** In 1995, the African-American poverty rate declined from 30.6 percent to 29.3 percent -- that's the first time it dropped below 30 percent and its lowest level since data were first collected in 1959. However, the African-American is still more than twice the overall poverty rate of 13.8 percent.
- **A Higher Share of African-Americans Are Working Today Than Any Time In History.** A larger percentage of African-Americans are now employed -- 59.6 percent -- than at any time in history.
- **Under President Clinton, The Typical African-American Family's Income Is Up \$3,000.** Since 1992, the median income of African-American families has increased from \$22,923 to \$25,970 -- that means their income was \$3,047 higher in 1995 than the year before President

Clinton took office. This compares to a \$1,631 increase for *all* families. However, the African-American median family income is still 64 percent of the median income for all families, which was \$40,611 in 1995.

- **Lowest African-American Unemployment Rate in 24 Years.** The unemployment rate for African Americans has dropped from 14.1 percent in January 1993 to 9.3 percent today -- that's the lowest the African-American unemployment rate has been in 24 years. The African-American unemployment rate, though, still remains at nearly twice the overall rate of 4.9 percent.
- **African-American Teen Unemployment Rate Is Down.** In January 1993, the African-American teenage unemployment rate was 37.0 percent. Today, it is down to 29.4 percent. But this is still significantly higher than the current overall teen unemployment rate of 16.4 percent.
- **Home Mortgage Lending and African-American Homeownership Have Increased.** Since 1993, home-mortgage lending to African-Americans has increased by 70%. And the homeownership rate for African-Americans has increased from 42.6 percent in 1992 to 44.9 percent in the second quarter of 1996. This is significantly below the overall homeownership rate of 65.7 percent.
- **Highest Share of Hispanics Working In Two Decades.** The share of the Hispanic population working as high today -- 63.3 percent -- as any other month in the last two decades (when data were first collected).
- **Lowest Hispanic Unemployment Rate in 8 Years.** The unemployment rate for Hispanics has dropped from 11.3 percent in January 1993 to 7.2 percent today -- that's the lowest it's been since 1989. The Hispanic unemployment rate is still nearly 50 percent higher than the overall unemployment rate.
- **Income DOWN for Hispanic Families.** The median family income for Hispanics fell from \$25,007 in 1994 to \$24,570 in 1995. This fall follows a slight increase in median Hispanic family income between 1993 and 1994 (from \$24,947 to \$25,007).
- **Poverty Down for Hispanics.** In 1995, the Hispanic poverty rate fell slightly from 30.7 percent to 30.3 percent. NOTE: In 1994, the Hispanic poverty rate increased from 30.6 to 30.7 percent.

PROGRAMS:

- **Minimum-Wage Increase.** The minimum wage increase directly benefited nearly 10 million workers. For someone working full-time at the old minimum wage of \$4.25, the 90-cent an

hour increase means an additional \$1,800 per year. The increase directly benefitted 1.3 million African-American workers.

- **Increased Earned Income Tax Credit.** The expanded Earned Income Tax Credit provided tax relief for 15 million working families -- the average family with two kids who received the EITC got a tax cut of \$1,026. *In 1995, the EITC lifted over 810,000 African Americans, including almost 450,000 African American children, out of poverty.*
- **AmeriCorps College Support.** The AmeriCorps program has enabled 70,000 volunteers to earn money for college by serving their communities and their country, with African Americans comprising *one-third of all participants.*
- **Increased WIC Nearly \$1 Billion.** President Clinton increased funding for WIC -- which provides nutrition packages, nutrition education and health referrals to low-income pregnant women, infants, and children -- by nearly \$1 billion or 34% to \$3.83 billion in FY97. The program's participation has expanded by 1.7 million since 1993, from 5.7 to 7.4 million women, infants, and children.
- **Expanded Head Start -- \$1 Billion Higher Each Year.** President Clinton has increased funding for Head Start by 43%, from \$2.8 billion in FY93 to \$4.0 billion in FY97. He also created the Early Head Start program in 1994 to support zero-3 year olds and their families. And the Balanced Budget agreement increases funding so that 1 million kids will be enrolled in 2002.
- **Doubled Dislocated Worker Funding.** The funding for dislocated workers has been doubled, from \$651 million in FY93 to \$1,286 million in FY97. This year, the dislocated worker program will assist 580,000 workers, up about 300,000 since President Clinton took office.
- **Largest Pell Grant Increase in Two Decades.** The Balanced Budget agreement boosts the maximum 1998 Pell grant from \$2,700 to \$3,000, and expands the program to more poor independent students -- that's the largest increase in two decades.
- **Fought for Child Tax Credit That Benefitted Low-Wage Workers.** When congressional Republicans tried to deny the child tax credit to as many as 7.5 million* children from families with incomes below \$30,000, President Clinton fought to ensure that they benefitted. *Comparison to House passed bill; vs. Senate bill: 5.9 million.

EXAMPLES OF HOW HYPOTHETICAL LOW-INCOME FAMILIES ARE BETTER OFF SINCE 1993:

- **Mother With Two Kids -- \$3,094 Better Off.** A mother with two kids earning the minimum wage. This family would have benefitted from both the increased minimum wage and the expanded Earned Income Tax Credit. The increased minimum wage the President fought for will raise the mother's earnings by \$1,800 per year, while the expanded EITC provides a \$1,294 larger tax credit than the family would have received under previous law. Thus, this family is \$3,094 better off today than they would have been without President Clinton's economic strategy.

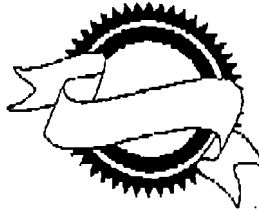
• **Rookie Police Officer With Two Kids -- \$3,119 Better Off.** A family of four with two children; the father is a rookie police officer making \$23,000, and the mother has chosen to stay at home. Both congressional bills would have denied this family, and millions of others, the child tax credit. Under tax bill signed into law, this family will receive a child tax credit of \$675. Income for families such as this one have experienced a \$1,286 increase in their family income, adjusted for inflation, since 1993. In 1992, this family would have not qualified for the Earned Income Tax Credit. In 1996 -- as a result of the expansion signed into law by President Clinton -- this family received an EITC of \$1,158. In total, therefore, this hypothetical family is approximately \$3,119 better off now than when President Clinton took office.

cc: Sylvia Mathews
Michael Waldman
Terry Edmonds

*Transmittal
memo*

FDI ABROAD

- The stock of U.S. FDI abroad totaled \$711.6 billion in 1995, up 14.6% from 1994. Nearly three-quarters of the stock (72.1%) were invested in industrial countries. Manufacturing investment accounted for 36.2% of the total U.S. FDI abroad. Nearly 80% of this amount (77.4%) are invested in industrial countries.
- U.S. FDI outflow abroad increased by \$93.4 billion in 1995. 73.5% were invested in industrial countries. U.S. FDI invested in manufacturing industries accounted for 46.6 percent (\$43.5 billion) of the total outflow abroad. Of this amount, 73 percent was invested in the manufacturing industry in industrial countries.
- Increase in U.S. FDI abroad (stock up 15% in 1995) was concentrated in developed, high wage countries rather than in developing, low wage countries. U.S. direct investors seem to be motivated for access to major markets than by search for low cost sources of supply. [July 1996 Survey of Current Business]
 - Nearly 3/4 of the increase in stock abroad occurred in industrialized countries of Western Europe, Canada, Japan, and Australia.
 - The change in the geographical composition of the stock of U.S. foreign investment between 1982 and 1995 reflected a decline in Canada and an increase in Europe.
- U.S. firms do not establish affiliates in low-wage countries primarily to produce for the U.S. market (SCB Mar 1995, p. 46)
- Increased investment in low-wage countries has not led to pronounced decline in U.S. parent's share of MNC's world-wide production and employment. (SCB, July 1993, p. 47. and Feb 1994, pp. 54 and 55).
- In 1992, 65% of employment by manufacturing Majority Owned Foreign Affiliates (MOFA) was in relatively high-wage countries.
- The popular notion that manufacturing affiliates are established abroad in low-wage countries to produce for U.S. markets appears unfounded. In 1992, only 12% of sales by manufacturing MOFA's were to U.S. customers.



FACSIMILE COVER SHEET

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE U.S. TRADE REPRESENTATIVE
600 17th Street, N.W.
Washington, D.C. 20508

OFFICE OF ECONOMIC AFFAIRS

PHONE: (202) 395-3583

FAX: (202) 395-9668

DATE: 8/12 NUMBER OF PAGES (including cover) 2TO: L. A. C. BRAINARDAGENCY/COMPANY: NECPHONE NUMBER: 55104 FAX NUMBER: 56853FROM: Bill ShippertSUBJECT: Investment Facts for Fast Track Paper

Why Have Real Wages Declined in NAFTA Trade Sectors

Question: In the eleven sectors treated in detail in the President's report, real earning increases do not seem to have kept up with inflation between 1993 and 1996. What does this tell us about the NAFTA?

Answer:

- The earnings data in the sectoral section reveal nothing about the effect of the NAFTA. They are simply descriptive data for all employment in U.S. sectors selected for detailed analysis with respect to changes in trade flows with Mexico since 1993.
- Because of the many difficulties involved in isolating the NAFTA's specific effects on individual sectors, we did not find it possible to reach conclusions about the effect of NAFTA on wages in individual sectors. Nevertheless, the NAFTA, by shifting the U.S. job growth over time somewhat more toward high productivity, higher-paying U.S. exports sectors, should be expected to contribute positively to increases in U.S. average labor productivity and real compensation.
- In response to a request by the USTR, the ITC looked at the question of the NAFTA and real wages, by sector. It reported finding only one sector in which the Commission was able to identify such a linkage: the Commission argued that the NAFTA probably moderately increased real wages in the U.S. apparel sector, by shifting the composition of apparel employment toward more productive fabric cutting jobs.
- With respect to the sectoral earnings data reported in the President's report, they were for the period 1993 to 1995, not 1996. The Commerce Department does not yet have available detailed, sectoral earnings data for 1996.
- Between 1993 and 1995, measured consumer prices rose by just over 5.4 percent. Three of the eleven sectors reported on recorded wage increases over 5.4 percent in these two years: automotive at 5.6 percent, computers and software at 6.2 percent and telecommunications equipment at 7.7 percent. The other 8 ranged from a low of a 1.7 percent earnings increase in the printed materials sector, to a high of 5.0 percent for recreational equipment. To the extent that the current consumer price index overstates the rate of inflation, real earnings performance would have been better than implied above.
- More recent data are likely to show better performance for U.S. real earnings performance at the sectoral level. While such data for 1996 and 1997 are not currently available at the sectoral level, they are at the more aggregated level. For example, Commerce Department data show that while real (inflation adjusted) compensation per hour worked for all U.S. business sector workers declined between 1993 and 1995 (down 0.4 percent), but that this decline was more than offset by increases in real earnings, which expanded significantly between 1995 and the first quarter of 1997 (up 1.7 percent).
- With the U.S. labor productivity pick up in 1996 and 1997, U.S. real earnings are widely expected to continue growing. U.S. output per hour worked grew at an annual rate of 0.3 percent between 1993 and 1995, but at a rate of 1.5 percent from the 4th quarter of 1995 to the 1st quarter of 1997.

USTR/7/7/97



Fast Track - 97

August 5, 1997

Dear Friend:

The attached materials were distributed to all members of Congress last week before they left for the August recess. We thought you would like to have a copy. We will continue to develop further information throughout the upcoming debate on fast track trade negotiating authority.

Please let us know how we can be helpful. I can be reached at 202-546-0007.

Sincerely,


Edith R. Wilson
Trade Project Director



Dear Member of Congress:

August 1997

Now that the budget has been passed, an important public debate about the future of U.S. international leadership begins as Congress takes up President Clinton's request for renewed fast track negotiating authority. As every President since FDR has known, expanding trade is essential to creating economic opportunity for ordinary Americans.

As you head home for the August recess, we hope you will find these materials helpful in explaining these issues to your constituents. We have included:

- ▶ America and the World Economy: What Every American Needs to Know
- ▶ Fast Track: Myths and Realities Talking Points
- ▶ Fast Track Negotiating Authority: What It Is and How It Works
- ▶ Expanding the Winners Circle: A New Social Compact
- ▶ Key Facts About U.S. and World Trade
- ▶ Key Facts About NAFTA

Support for open markets and hostility to protectionism is one of the oldest progressive principles. It is simply unfair to elevate the interests of industries or groups threatened by international competition above the interests of workers in exporting industries; of consumers; of communities that benefit from foreign investment; and of every American who benefits from steady growth, low unemployment, and low inflation. The trade agreements we forge today will determine the strength of our nation's global position tomorrow and define U.S. opportunities in the new global economy.

At the same time, we must substantially improve our efforts to equip all Americans with the education and skills they need to be as competitive as individual citizens as we now are as a nation. We must defend the rights of workers to organize and influence employer decisions that affect their jobs and income. We must encourage and reward good corporate citizenship towards both employees and their communities. And we must use trade negotiations not simply to knock down barriers but also to lift incomes here and abroad, create eager customers for our goods, and fair and worthy competitors at the same time.

The message about fast track is simple: If America can't negotiate, Americans lose. We will be supplying the best information we can find to help you sift through the facts. I can be reached at 202-546-0007, and look forward to assisting you and your staff in the weeks ahead.

Sincerely,

A handwritten signature in black ink, appearing to read "Edie Wilson", with a long horizontal flourish extending to the right.

Edith R. Wilson
Trade Project Director

America and the World Economy

What All Americans Need to Know

► Trade Contributes to American Prosperity

Trade expansion raises American living standards while simultaneously increasing economic prosperity in other countries. When unemployment is high, export growth increases demand for U.S. goods and services, increasing employment. Even today, in an economy at full employment, trade expansion benefits Americans by contributing to higher incomes and shifting the pattern of job creation in the direction of high-productivity, high-wage jobs. Since 1992, over 11 million new jobs have been created and, of these, 1.5 million have been high-wage, export-related jobs—which, on average, pay 13 to 16 percent more.

► We Need Fast Track Authority

The United States has been the world's most competitive major economy for the last three years. To maintain this prosperity, Congress must give the President the ability to protect America's interests in the world trading system through renewed fast track trade negotiating authority. Key regional negotiations are about to begin as well as negotiations in agriculture, financial services, information technology, and other service industries—sectors where our country is a world leader. Unfortunately, the President has not had fast track trade authority for three years now—despite the fact that every President since Gerald Ford has had it. Without fast track, the United States cannot negotiate tough, new trade agreements and fair, reciprocal trading rules. Failure to renew negotiating authority will only encourage competitors to cut America out of new industry-wide and regional accords. Already 22 agreements have been signed without the United States.

► All Americans Gain from Global Leadership

The recent passage of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the formation of the World Trading Organization (WTO), and free trade agreements with Canada and Mexico, as well as 200 other lesser-known trade agreements since 1992, have benefitted the United States by substantially reducing tariff barriers and by including provisions for the reduction of non-tariff barriers. Only three years after its passage, the North American Free Trade Agreement (NAFTA) is fulfilling its promise. Our trade relations with Canada and Mexico are better, prices on consumer goods are lower, and trade and investment throughout North America have increased. Today, the U.S.

economy creates in one month the number of jobs displaced because of NAFTA in the last three years.

► **We Need to Open New Markets**

With 95 percent of the world's consumers living outside our borders, the United States depends on new markets to sell its goods and services. From Latin America to the booming Pacific Rim, to Russia and the former communist states of Europe, the failure of socialism and centrally-planned economies has sparked a resurgence of market economies and democratic governance. The United States has spurred this resurgence by helping emerging economies tap into global investment and by developing new multilateral, debt-reduction programs for heavily-indebted poor countries. Expanding trade and opening new markets are important components of an overall strategy to accelerate U.S. economic growth while promoting democracy and stability abroad.

► **Investment at Home and Abroad Benefits Americans**

U.S. investment abroad creates new markets and customers for U.S. companies. In 1993, American companies' foreign operations sold 66 percent of all their goods and services in the host country's market and 89 percent of their goods and services outside the United States. Foreign direct investment (FDI) in the United States creates jobs and fuels economic growth. In 1993, foreign companies operating in the United States employed 4.7 million people, or five percent of all Americans employed by private industry. Currently, the United States receives more FDI than any other country in the world.

► **Imports Play a Vital Role in Our Economy**

Imports play an important role in strengthening our overall economy by increasing competitive pressures on domestic producers to upgrade and innovate and by providing American consumers with the best and most competitively priced products in the world. The United States is the world's largest importer even though, proportionate to the size of its economy, the United States imports far less than countries such as China, France, Germany, and the United Kingdom. By contrast, U.S. imports are now equal to only 12 percent of gross domestic product (GDP).

► **Trade Deficits Don't Tell the Whole Story**

Despite the attention annual trade deficits receive in the media, running a current account deficit is not always bad. Current account deficits and surpluses are primarily determined by macroeconomic circumstances, particularly the balance between domestic saving and investment. A current account deficit simply means that the United States is, on balance, borrowing from the rest of the world; a current account surplus means that the U.S. is a net

lender to the rest of the world. Whether this borrowing or lending is good or bad depends, as it would for any individual or business, on what the borrowing is used for or why the country is lending. Annual trade deficits are 1.7 percent of GDP. In the 1980s, U.S. trade deficits were problematic because large budget deficits were reducing national saving without increasing public investment. However, the recent increase in our trade deficit appears to be financing new U.S. investment, particularly in business equipment. Moreover, the U.S. economy is experiencing historic prosperity which provides the necessary resources to repay our loans from the rest of the world. It should be noted, however, that running large current account deficits over a long period of time may have a negative impact on the overall economy. The most efficient way to counter this potential negative impact is to increase national savings rates.

► **The Cost of Inaction—We Have No Time to Wait**

With the expansion of global markets linked by computers, satellite communications, and advanced transportation networks, international trade and investment play an ever-increasing role in American prosperity. The United States cannot afford to retreat from a proactive strategy of trade expansion that takes advantage of our position as the world's most prosperous and dynamic economy. The trade agreements we sign today will determine the strength of our nation's global position tomorrow and define U.S. opportunities in the rapidly globalizing economy. Increases in GDP, a 70 percent reduction in federal budget deficits over the last four years, and the prospect of a balanced budget lay the foundation for continued economic expansion. However, sustained prosperity is contingent on our willingness to use all the tools at our disposal to compete in and shape the global economy.

For additional information , please visit our Web site: <http://www.dlcpipi.org/trade.htm>.

Fast Track *Myths & Realities*

- 1. Myth** **Fast track authority will only repeat the mistakes we made with the North American Free Trade Agreement (NAFTA).**

Reality Wrong. The fast track debate is about American leadership in world trade—about whether we will participate in a wide-ranging series of new negotiations that are about to start with or without us. It is about expanding opportunities in international markets for American-made goods and services and about sustaining our economic growth and prosperity. The trade agreements we forge today will determine the strength of our nation's global position tomorrow and define U.S. opportunities in the economy of the future—but we can't do it without fast track.

Second, NAFTA is on track. In 1996, nearly one-third of U.S. trade in goods was with Canada and Mexico (\$421 million). Our NAFTA partners accounted for 53 percent of the growth in total U.S. exports in the first four months of 1997. Further, NAFTA has “locked in” not only a steadily decreasing tariff rate on almost all products, but also significant market reforms and dispute settlement procedures. It has increased certainty and stability in our commercial relations with our two largest trading partners in the world.

Third, NAFTA has also given us increased opportunities, new forums, and a process to engage our neighbors in addressing non-trade issues of mutual concern including immigration, drug trafficking, labor rights, and environmental protection.

- 2. Myth** **Fast track authority means that our Congress has no voice in the negotiations.**

Reality Wrong. Fast track authority is an agreement between the executive branch and the Congress to ensure that:

- ▶ The executive branch's constitutional prerogative to conduct international commercial negotiations is balanced by the legislative

branch's constitutional prerogative to review and approve these agreements. *Fast track is the proven vehicle for achieving this balanced approach*, having been used for every international trade negotiation since 1974.

- ▶ There is extensive consultation between the President and the Congress prior to and throughout the negotiation of trade agreements to ensure transparency, public debate, and fine-tuning of negotiating positions.
- ▶ U.S. trade negotiators and trade partners can negotiate with full confidence of knowing that the agreement they reach *will not be changed once submitted* to Congress, and will be honored and implemented in its entirety by the United States provided Congress approves the agreement. Without it, we cannot expect our partners to negotiate seriously.
- ▶ Fast track is a process designed to serve the overall national interest in trade, not any single special interest. If the President can negotiate a good trade deal, he should have the authority to submit it to Congress for approval. Without fast track, he cannot.

3. Myth Fast track is only about expanding NAFTA to include Chile.

Reality Wrong. The fast track stakes for the United States are much larger and more complex. Negotiations are scheduled to begin soon with or without U.S. participation. Fast track authority will enable the United States to advance our global economic interests in four key trade arenas:

- ▶ *Multilateral arena:* The World Trade Organization, the institution under which the General Agreement on Tariffs and Trade operates, has an ongoing agenda that includes:
 - Agricultural negotiations to further reduce barriers—such as export subsidies and domestic support programs—in the \$526 billion global agricultural trade market.
 - Services negotiations addressing a wide range of services in which the United States is highly competitive—such as health care, education, entertainment, tourism, business consulting, and advertising—to further open this \$1.2 trillion global market.

— Government procurement—the provision of goods and services to public-sector entities and public works projects. U.S. providers in sectors such as construction, high-tech electronics, telephone, and office product sectors need to participate in the creation of these new rules to ensure a level playing field with foreign competitors for these multi-billion dollar contracts.

- ▶ *Sectoral trade agreements:* With fast track negotiating authority, the United States can pursue its national interest and break down trade barriers in key sectoral negotiations where we are world leaders—including areas such as computer software, information technology, medical equipment, and environmental technology.
- ▶ *Regional trade agreements:* Through negotiations toward a "Free Trade Area of the Americas" (FTAA), targeted for completion in 2005, the United States could reduce trade barriers in our fastest growing market. In Asia, the Asia-Pacific Economic Cooperation (APEC) forum contains the fastest growing economies in the world today (a market of \$2.8 trillion in gross domestic product); the United States is committed to achieving free and open trade with its fellow APEC members by 2010.
- ▶ *Bilateral trade agreements:* The United States has committed to negotiating comprehensive bilateral agreements with Chile and New Zealand, among others. In addition, a number of countries have requested negotiations for bilateral intellectual property rights agreements and bilateral investment treaties.

4. **Myth** **Fast track leads to more trade agreements that will increase the U.S. trade deficit.**

Reality Wrong again. Fast track ensures that the Congress will have the opportunity to review each new trade agreement, both during the negotiations and as a package once submitted for approval.

There is no direct relationship between annual trade deficits and the signing of new trade agreements. More importantly, current account trade deficits are not necessarily harmful to the overall economy if the deficit is at a manageable percentage of gross domestic product (GDP) and the capital we are borrowing is invested in activities that contribute to economic growth. Currently, our annual trade deficit is only 1.7 percent of GDP which is much lower than other advanced countries.

5. **Myth** **We should fine tune existing trade agreements before we negotiate any more.**

Reality Wrong approach. The United States should have the ability to engage in trade negotiations that are in our national interest while we work with our trade partners to improve existing agreements.

If all we do is fine tune existing agreements, our competitors will take advantage of further delays by reaching agreements without U.S. participation, which is likely to be detrimental to the interests of U.S. workers and businesses. Over twenty-two such agreements have already been signed without any U.S. participation.

6. **Myth** **America can grow without trade.**

Reality Dead wrong. The United States is the world's largest trading nation and the world's most competitive trader. To sustain our own economic growth, we need increased access to the 95 percent of the world's consumers living outside our borders—85 percent of whom live in developing countries, the largest growth regions both now and in the future.

U.S. exports account for 12 percent of all world goods exports and 16 percent of all world services exports. Expanded trade has been a huge contributor to our national economic success. Exports have increased by one-third in the last three years alone. Between 1986 and 1994, jobs supported by exports rose 63 percent—more than four times faster than overall private industry growth. By 1997, 12 million U.S. jobs depended on exports, a number that is expected to rise to 16 million by the year 2000. Over the last four years, U.S. job growth has been greater than the combined job creation of all the other industrialized nations.

7. **Myth** **Fast track is detrimental to American workers. Fast track negotiated trade agreements are responsible for falling wages, increased job insecurity, declining incomes, and a decline in manufacturing jobs in America.**

Reality Just plain wrong. By allowing the President to negotiate free and fair trade agreements, fast track allows us to protect the interests of American workers by opening new markets for American-made exported goods and services. It also allows us to set new rules in areas like intellectual property rights that ensure that American investment in innovation is not stolen. Exports support higher paying jobs and are key to sustaining economic growth. Fast track is about maintaining and expanding the U.S. export base—U.S. manufacturing exports are increasing, not decreasing.

Export-related jobs pay an average 13-16 percent higher than the national average. In addition, competitive pressures associated with trade play a key role in holding down consumer prices. Export-related jobs contribute to a rising standard of living.

We are enjoying the most stable U.S. economy in thirty years. Unemployment has fallen from 7.5 percent in 1992 to 4.9 percent in April of 1997 while inflation remained steady at approximately 3.5 percent. Core inflation (excluding volatile energy and food prices) was at 2.6 percent in 1996. The combination of low unemployment and low inflation means the lowest "misery index" since the 1960s.

8. **Myth** **We always give up more than we gain in trade negotiations. Fast track just makes our losses happen more quickly.**

Reality Untrue. Because our market is already one of the world's most open, we give up very little in trade negotiations. Our trading partners, whose markets are still far more restrictive, give up substantially more. Nevertheless, our trade partners leap at any opportunity to enhance access to the world's richest market. We need fast track authority in order to break down foreign barriers to trade, open new markets for U.S. goods and services, and ensure that they remain open.

9. **Myth** **Fast track won't take care of issues like immigration, drug trafficking and environmental problems like those that have resulted from NAFTA.**

Reality True: Fast track has nothing to do with these issues. However, having the authority to engage our partners in trade negotiations gives us more clout to make progress on these issues. Conversely, without fast track, we weaken our ability and credibility to pursue other foreign and economic policy objectives.

Trade agreements give us enhanced and more frequent opportunities and forums to engage our trading partners on these important issues. For example, making environmental and trade policy mutually supportive enjoys growing support in our country and internationally. The Rio Summit on Sustainable Development (1992), the Summit of the Americas (1994), and ongoing work in the World Trade Organization all reflect an international commitment to find new methods of collaboration to resolve environmental issues.

10. **Myth** **We should just "wait and see" how other trade negotiations shape up and then decide whether or not to play a role.**

Reality No. That is not only a bad negotiating strategy, but unsound public policy. If we wait to see how global or regional agreements shape up, we will have no ability to influence the trade agenda, the rules of individual agreements, or the obligations of the members of the agreement. The United States would be left in a position of accepting or rejecting a trade package in which we did not participate but which may be detrimental to the interests of our workers and businesses.

11. Myth **The United States does not need fast track to negotiate trade agreements, and our partners need access to our market so badly that they will continue to negotiate with us anyway.**

Reality Yes, we do and no, they won't. Our trading partners are unwilling to engage in comprehensive negotiations without the assurance that the deal they strike will not be watered down by amendments and other changes. No country is going to reveal its best offer to a trading partner that can't make a deal and keep it. Our trading partners will not negotiate with us without fast track, as evidenced by Chile's current refusal to go forward with bilateral negotiations. Instead, Chile has negotiated an associate membership with the Mercosur, and a free trade agreement with Canada, both of which carry tangible disadvantages for the American economy.

It is clear that our trading partners would prefer the status quo with the United States to bad faith negotiations. Meanwhile, they are cutting deals with other markets to the detriment of U.S. interests.

12. Myth **Fast track and more trade agreements will just make hard times harder for those American workers who are not benefitting from our prosperity.**

Reality Trade, like technological change and every other development in the new world economy, produces dislocations and insecurity. But the way to deal with dislocations and insecurity is to confront them directly, not wish them away.

We must substantially improve our efforts to equip all Americans with the education and skills they need to be as competitive as individual cities as we are now as a nation. We must defend the rights of workers to organize and influence employer decisions that affect their jobs and income. We must encourage and reward good corporate citizenship towards both employees and the communities in which they live. And we must use trade negotiations not simply to knock down barriers, but also to lift incomes here and abroad, create new customers for our products and fair and worthy competitors at the same time.

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Fast Track Negotiating Authority

What It Is & How It Works

What is Fast Track negotiating authority?

- ▶ Fast track negotiating authority was agreed to between the executive and legislative branches as part of the Trade Act of 1974 in order to negotiate and implement the Tokyo Round of the General Agreement on Tariffs and Trade (GATT). Reviewed and renewed over time, fast track authority has been used to implement each comprehensive trade agreement in which the United States has been a party since that time: Tokyo Round of the GATT (1979); U.S.-Israel free trade agreement (1985); U.S.-Canada FTA (1988); National Free Trade Agreement (NAFTA) (1993); and, the Uruguay Round of the GATT(1994).

Fast track authority is an agreement by the executive branch and Congress designed to ensure that:

- ▶ The executive branch's constitutional prerogative to conduct international commercial negotiations is balanced by the legislative branch's constitutional prerogative to review and approve these agreements. Fast track is the proven vehicle for achieving this balanced approach.
- ▶ There is extensive consultation between the President and Congress prior to and throughout the negotiation of trade agreements to ensure transparency, public debate, and fine-tuning of negotiating positions.
- ▶ U.S. trade negotiators and trade partners can negotiate with full confidence that the agreement they reach will not be changed once submitted to Congress, and will be honored and implemented in its entirety by the United States provided Congress approves the agreement.

How does Fast Track work?

- ▶ Fast track negotiating authority is granted by Congress, usually for a specified period and a specified set of negotiations.
- ▶ The President notifies Congress that he intends to negotiate a trade agreement with a given country or countries.

- ▶ Congress approves or disapproves the President's request under a special timetable.
- ▶ If approved, the President enters into negotiations for the trade agreement, assured of an up or down vote by the Congress upon submission of legislation implementing the agreement under U.S. law.
- ▶ During the negotiation process, fast track requires the President to consult with Congress on the progress, substance, and issues in the negotiation. Congress typically holds hearings related to the negotiation but individual consultations with Members and committees are also held as needed.
- ▶ Once negotiations are completed, the President notifies Congress of his intent to sign the agreement. After a specified time period has elapsed, the President signs the agreement and submits legislation that will implement the agreement under U.S. law (including mandated reports by his advisory committees, etc.) for congressional approval.
- ▶ Under a specific timetable, Congress then votes on the implementing legislation for the trade agreement.

(Based on the Trade Act of 1974 as amended; 1988 Omnibus Trade Act as amended)

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Expanding the Winner's Circle

A New Social Compact

As our stake in the new global economy increases, so does our responsibility to ensure that all Americans have the opportunity to compete effectively. Trade liberalization must go hand-in-hand with a new domestic agenda that offers all U.S. workers lifelong access to career training; provides more effective public support for workers in transition; equips them with the tools to manage their own career security by controlling their health and pension resources; and redefines corporate responsibility in a world of borderless markets.

Create a Lifelong Career Opportunity System for All Americans

- ▶ Expand support for apprenticeships to help train young people not bound for college.
- ▶ Replace today's ineffective federal job training and adult education programs for displaced workers with individual vouchers. Workers would be able to decide for themselves the best way to build the skills they need to secure good jobs and wages in a rapidly changing economy.
- ▶ Create a competitive system of public, non-profit and private One-Stop Career Centers that would give every American access to reliable information, allowing them to choose appropriate education and training providers, apprenticeships, colleges and, ultimately, jobs.
- ▶ Reform the tax code to provide all workers with access to job training by: 1) experimenting with tax-preferred savings accounts to help people set aside funds to enhance their career skills; and 2) reforming the tax law so that any firm providing tax-free training to its managers and professionals could not discriminate against other employees by denying them comparable opportunities, as long as workers who take advantage of these opportunities agree to stay with the firm for a reasonable period.

Extend Portable Health Insurance and Pensions to all Americans

- ▶ Portable health insurance is critical for workers as they assume more responsibility for their own economic security in the global economy.

Although job-based health insurance covers most Americans, workers should have portable benefits that enable those who are changing jobs or are laid-off to retain their health insurance coverage during the transition. To support these workers and those whose employers do not offer insurance, this segment of the population should be able to purchase their own coverage with help from a refundable tax credit.

- ▶ Restructuring Social Security to place the program on sound fiscal footing should include changes in our retirement system that promote self-reliance, greater personal responsibility, and a more reasonable tax burden on working families.
- ▶ While many workers have portable pensions that allow them to roll over their pension assets when they change employers, this option should be available for every American.

Performance-based Compensation, Equity-Sharing and other Reward Systems

- ▶ To provide average Americans with more opportunities and incentives to increase productivity and innovation on the job, firms should be encouraged to establish reward systems that are internally equitable, competitive, and linked to the long-term performance of the firm. Extending the non-discrimination rule that is currently used for health care coverage and pension contributions to this area should be examined. Specifically, when a firm provides tax-favored, performance-based bonuses to executives, all employees should be eligible to earn such compensation.

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Key Facts About U.S. and World Trade

- ▶ Between 1977 and 1996, U.S. exports as a percentage of U.S. gross domestic product (GDP) increased from 8.5 percent to 13 percent. In addition, global capital flows have exploded—between 1990 and 1995, total U.S. investment abroad has grown by 65 percent, while investment in developing countries has nearly doubled.
- ▶ Since 1992, the number of high-wage, export-related jobs in the U.S. economy has increased by 1.5 million. These jobs pay more—13 percent to 16 percent more on average—than the median wage job. Over 12 million U.S. jobs are supported by export-based industries, and by the year 2000 this number is expected to rise to 16 million.
- ▶ Exports have increased 42 percent since 1992, and today we export one-eighth of all the goods and services we produce.
- ▶ As a percentage of GDP, the United States imports far less than other advanced countries. The United States imports 12.6 percent of GDP, compared to 19.4 percent for China; 21.4 percent for France; 23.3 percent for Germany; and 30 percent for the United Kingdom.
- ▶ Running a trade surplus is very difficult when the economy is growing. Nonetheless, the overall U.S. trade deficit today is only 1.7 percent of GDP, down from 3.3 percent of GDP in 1986-87.
- ▶ Foreign direct investment (FDI) benefits the investor and the host country by creating new markets and customers, increasing access to new knowledge and technology, and reducing capital and information failures. In 1993, American companies' foreign operations sold 66 percent of all their goods and services in the host country's market and 89 percent of their goods and services outside the United States. Also, the United States is the world's largest recipient of FDI.
- ▶ Trade between firms and their foreign affiliates (intrafirm trade) is often an efficient form of international trade because it reduces problems of imperfect information. Over a third of U.S. exports and two-fifths of U.S. imports are estimated to be intrafirm. Worldwide, about one-third of trade is intrafirm.

- ▶ The Asia-Pacific region is the United States' most viable market, purchasing 30 percent of U.S. goods and absorbing more than \$40 billion of U.S. foreign direct investment between 1991 and 1995. Latin America is the second fastest growing region for U.S. goods and services.
- ▶ Overall, trade with Mexico has grown nearly 60 percent in the last three years. Despite Mexico's economic problems and a temporary drop in U.S. exports, the United States still exported \$46.3 billion worth of goods to Mexico in 1995. This is 11 percent more than the pre-NAFTA level of \$41.5 billion in 1993. U.S. investment in Mexico averages only half of one percent of domestic investment in plant and equipment. By the end of 1997, Mexico will be our second largest trading partner. For every dollar Mexico spends on imports, 75 cents goes to the United States.

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Key Facts About NAFTA

North American Trade

- ▶ In 1996, nearly 40 percent of U.S. trade in goods with the world was with the Western Hemisphere (\$242 billion). Trade with our North American Free Trade Agreement (NAFTA) partners has increased 44 percent since NAFTA was signed, compared with 33 percent for the rest of the world. Mexico and Canada accounted for 53 percent of the growth in total U.S. exports in the first four months of 1997.
- ▶ Between 1993 and 1996, U.S. exports to Mexico grew by 36.5 percent to a record high of \$15.2 billion, despite a 3.3 percent reduction in overall Mexican demand over this same period.

NAFTA's Impact on Trade Barriers and the U.S. Economy

- ▶ Since NAFTA, Mexican tariffs on U.S. goods have been reduced by an average of 7.1 percent. U.S. tariffs on Mexican imports have been reduced by 1.4 percent; some of these reductions would have taken place under the Uruguay Round, regardless of NAFTA.
- ▶ Overall, U.S. trade with Mexico has grown nearly 60 percent in the last three years. Despite Mexico's economic problems and a temporary drop in U.S. exports, the United States still exported \$46.3 billion in 1993. U.S. investment in Mexico averages only half of one percent of domestic investment in plant and equipment. By the end of 1997, Mexico will be our second largest trading partner. For every dollar Mexico spends on foreign imports, 75 cents goes to the United States.
- ▶ The U.S. economy creates in one month the number of jobs displaced by NAFTA in three years.
- ▶ It is difficult, methodologically, to isolate NAFTA's effect on the U.S. economy because NAFTA is only three years old, the Mexican peso has fallen, and U.S. tariff reductions under the Uruguay Round have taken place during the same period. After controlling for other variables, however, several studies have shown that NAFTA had a modest positive impact on U.S. net exports, income, investment, and jobs supported by exports.

- ▶ A recent study by DRI estimates that NAFTA increased real exports to Mexico by \$12 billion in 1996, compared to a smaller real increase in imports of \$5 billion, controlling for the Mexican peso crisis. The larger impact on U.S. exports reflects the fact that under NAFTA, Mexico lowered its tariffs approximately five times more than the United States. DRI estimates that NAFTA contributed \$13 billion to U.S. real income and \$5 billion to business investment in 1996, controlling for the Mexican peso crisis.

NAFTA'S Impact on the Mexican Economy

- ▶ In 1996, Mexico recovered from its most severe recession since the 1930s. NAFTA played a small, yet positive, role in this recovery by imposing economic discipline on the Mexican economy. In contrast to Mexico's 1982 financial crisis, Mexican economic output dropped more quickly in 1995, but it also rebounded more quickly, reaching pre-crisis levels at the end of 1996. In 1982, it took Mexico 7 years to return to international capital markets, in 1995, it took only 7 months.
- ▶ In 1995, Mexico continued to implement NAFTA provisions even as it raised tariffs on imports from other countries. As a result, U.S. exports recovered in 18 months and were up nearly 37 percent by the end of 1996 relative to pre-NAFTA levels, even though overall Mexican consumption decreased by 3.3 percent.

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FAST TRACK

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

- o **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.
- o **Fast Track authority is even more essential today.** The rapidly expanding global economy presents enormous opportunities for our companies and workers. 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
- o **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.
- o **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.
- o **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.
- o **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.

THE POTENTIAL GAINS ARE GREAT, IF WE SEIZE THEM.

- o **Multilateral WTO "built-in agenda"** presents 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 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 and business consulting and advertising.

Global negotiations will address other key areas like intellectual property, customs and government procurement rules.

- o **Sectoral Agreements.** 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
- o **Regional Free Trade Agreements.** Continuing regional initiatives present vast opportunities, although this is only one part of the trade agenda.
 - **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.
 - **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.

- o **Other countries are breaking down barriers for their companies and workers.** We talk a lot about leveling the playing field, but our competitors are winning, while we sit on the sidelines. Since 1992, our competitors have negotiated 20 free trade pacts without us. 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; China's "strategic priorities" include Mexico, Argentina, Brazil, Chile and Venezuela; Japan has undertaken high-level efforts in Asia and Latin America.
- o **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.

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

- o The Clinton Administration has achieved more progress in advancing trade-related objectives concerning labor right and environmental goals than any of its predecessors.** 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. Labor and environmental issues are of critical importance.
- o 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.

Basic Fast Track Questions & Answers

Q: Isn't "fast track" just about expanding NAFTA to include Chile?

A: No, fast track is about ensuring that America speaks with a united voice as we pursue our trade agenda. The immediate agenda extends well beyond a comprehensive agreement with Chile. It includes multilateral negotiations growing out of the WTO built-in agenda, which will include, for example, negotiations to reduce barriers to agricultural trade and services, in which the U.S. is the most competitive. It also includes sectoral negotiations, like those that led to the recently-concluded ITA agreement.

More fundamentally, it is about maintaining the competitive position we have regained over the last 4 years. If we do not participate effectively in reducing trade barriers, we will relinquish opportunities for American business and workers to our competitors. Indeed, since 1992, more than 20 regional trade agreements have been negotiated which do not include the United States. Everyday strategic and preferential alliances are being forged without us. Most recently, Canada indicated an intention to form a trade alliance with the Mercosur countries.

We have no credibility with our trading partners if they do not believe we can implement the deals we negotiate. Fast track authority is essential for that reason alone.

Q: I would like to support you on fast track, but in my district fast track is about NAFTA. They say NAFTA has not been good for America, and it has done nothing to further the labor and environmental concerns that it was supposed to address. How do I respond to that criticism?

A: First, fast track is not about NAFTA. Fast track is about giving America the ability to pursue a global market opening trade agenda.

Second, 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. (See included "Economic Benefits of NAFTA" for details.)

Third, with respect to labor and environmental, the NAFTA side agreements are working to make a bad situation better. 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 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. (See included "NAFTA Environmental Concerns" for details.)

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. **(See included "NAFTA and Worker Rights" for details.)**

More needs to be done and it will be. But, withholding support for fast track authority will not help workers or the environment. To the contrary, it will hurt America's competitiveness and leadership role. We will lose the ability to create new export opportunities and attendant high-wage jobs, like those resulting from increased trade over the past 4 years. If we are not involved, we cannot continue to push for progress on the important issues of labor and the environment.

Q: The NAFTA helped induce 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. U.S. exports to Mexico today stand at record levels.

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: 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?

A: 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.

Q: You talk about creating high wage jobs. It is my impression that trading with low wage countries actually depresses 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.

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: The Administration keeps talking about its success opening foreign markets, yet our trade deficit keeps going up. How is this good for the U.S. economy as it must cost U.S. jobs?

A: There is no doubt 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.

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.

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.

ECONOMIC BENEFITS OF THE NAFTA

- **Export Expansion:** NAFTA is playing a vital role expanding markets for U.S. products in our first and third largest trade partners, Canada and Mexico. NAFTA also acts as a buffer against reduced access to these markets of 120 million consumers.
 - With the phasing in of NAFTA, 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.
 - **Sectoral growth:** The strength of U.S. exports to Mexico under NAFTA, even in the face of the peso crisis, is vivid in particular product 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.
 - A recent article in the Wall Street Journal (4/21/97), in fact, cites strong growth in U.S. manufactured exports to Mexico due to NAFTA as a principal reason behind the current economic boom in the **Midwest**.
- **High Wage Job Creation:** NAFTA has also supported the expansion of high wage jobs in the United States. Goods exports to Mexico and Canada supported 2.3 million U.S. jobs last year. Such U.S. jobs supported by exports pay 13% to 16% more than the U.S. national average. 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.
- **Benefits During Mexican Recession:** NAFTA proved to be extremely important to the protection of U.S. jobs and interests in light of Mexico's international payments difficulties and peso crisis beginning in late 1994. 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.
 - NAFTA can also be credited with helping the 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.

- **U.S. Trade Balance with Mexico:** The peso crisis and severe Mexican recession, not NAFTA, were responsible for the widely noted shift in the U.S. trade balance with Mexico -- from a surplus of \$1.7 billion in 1993 to a deficit of \$16.2 billion in 1996. In fact, NAFTA itself, probably 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.
 - During the Mexican recession and peso crisis, U.S. net employment rose by 4.8 million, the unemployment rate fell from 6.1% to 5.4% and U.S. industrial production rose by over 6% in real terms

NAFTA ENVIRONMENTAL CONCERNS

- 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?
- **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. 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.
 - **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).)
 - **Certifying and arranging financing for numerous infrastructure projects** designed to reduce pollution and improve the environment in the U.S.-Mexico border region.
 - **The BECC Board has certified twelve projects** in just two years of existence (six U.S. and six Mexican). Of these, 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.
 - The President during his May 5-7 visit to Mexico made effective border projects that address environmental concerns a high priority. During the visit, a grant of \$170 million was confirmed from the U.S. Environmental Protection Agency to the NADBank for projects to clean and preserve water along the border.
 - **The CEC has also begun work on an unprecedented list of environmental projects** in which the three NAFTA governments are cooperating to achieve such diverse objectives as protecting migratory birds, tracking hazardous wastes to ensure they are disposed of properly, and identifying sources of pollution. This work has already begun to create an entirely new and more cooperative framework to address transnational environmental questions.

- **Improved Enforcement:** Mexico has generally good environmental legislation. The NAFTA side agreement is resulting in improved enforcement of those laws.
 - **Increased the number of enforcement actions nationwide.** Enforcement actions 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. As a result of its inspections, in 1996, Mexico ordered 18 total facility closures, 59 partial closures, and fined 2,622 facilities.
 - **Increased the number and sophistication of its environmental inspectors.** More than 600 inspectors were trained by USG authorities in such critical areas as safeguarding against illegal CFC shipments and compliance with regulations regarding the transboundary shipment of hazardous wastes.
 - **Established environmental auditing program:** To encourage voluntary compliance by plants/factories, a new auditing program was put in place. Between 1992 and 1996, 700 companies participated in the program.
 - **Created environmental crimes unit:** The crime unit is part of the Attorney General's office and has the power to impose criminal sanctions.
 - **Results:** As a result of improved enforcement, Mexico reports the number of serious violations dropping. 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 1991-1992 to 12,288 tons, reflecting maquiladora compliance with applicable laws.
- **Commitment to further progress:** Presidents Clinton and Zedillo committed to redouble efforts regarding environmental cooperation, particularly as it relates to the border, during President Clinton's May 5-7 visit to Mexico. They instructed their environment (and labor) Ministers to identify within 90 days issues requiring further attention.

NAFTA AND WORKER RIGHTS

- 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?**
- **The NAFTA labor cooperation agreement** is contributing to the progress Mexico has made in enforcing its labor laws, which are as good and comparable to labor legislation in the United States and other industrialized countries. The commitment to further progress was evident during the President's recent visit to Mexico, where Presidents Clinton and Zedillo committed to redouble efforts in this regard (and with respect to the environment, particularly along the border).
 - It is unrealistic to expect that after three years of operation, the NAFTA labor cooperation agreement would correct the historic problems associated with this emerging economy's labor practices. Progress in reversing that history, however, is evident. That progress has come notwithstanding the worst economic downturn in Mexico's modern history.
 - **Progress** has already occurred 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.
 - **Cooperation** The North American Agreement on Labor Cooperation (NAALC) (the NAFTA side agreement) is the cornerstone of the most cooperative, institutionally-based relationship on worker rights issues that we have with any developing country in the world.
 - **The NAALC's specific objectives** include: improving working conditions and living standards in each party's territory; promoting basic labor law principles; encouraging cooperation to promote innovation and rising levels of productivity and quality; pursuing cooperative labor-related activities; and promoting compliance with, and effective enforcement by each party of, its "labor law" and fostering transparency in the administration of labor laws.
 - **The NAALC's new institutions are functioning effectively** To achieve these goals, several new institutions were created. They include: a Ministerial Council and a supporting technical secretariat. They are supported by National Administrative Offices (NAO) in each party to assist, in particular, with the enforcement element of the agreement. Each party also has a National Advisory Committee made up of public, labor and business representatives.
 - **Significant Initiatives:** Initiatives are underway in educating and upgrading skills and policy implementation across North America, including in Mexico

- **Trinational study tours to evaluate practices to improve working conditions.** The U.S. Occupational Safety and Health Administration (OSHA), in cooperation with the National Safety Congress, have conducted tours in the construction and the petrochemical industries to evaluate and make recommendations on improving conditions in order to reduce worker fatalities.
- **Sponsorship of labor law, worker rights, and industrial relations conferences and seminars.** These programs address best practices and discuss and seek to resolve issues raised in the submission process to avoid formal dispute resolution.
- **Addressing child labor issues:** The NAALC countries are hosting a conference on "Child and Youth Labor in North America" focused on eliminating inappropriate participation of children in the workplace and improving the conditions for children legally in the workplace by reducing risks to health and safety and by safeguarding educational opportunities.
- **Submission Process:** 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). This formal process has led to concrete results:
 - **Registration of Union:** The NAFTA submission process 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.
 - **Commitment to address concerns about union registration and internal union democracy:** Six of the submissions reviewed by the U.S. NAO concerned these issues. As a result of these complaints, in August 1996, the Mexican Secretary of Labor, together with the major labor and business organizations, signed a document in front of President Zedillo committing their respective organizations to address these matters.
 - **Restrictions of union organization as unconstitutional:** The Mexican Supreme Court has found that state laws that restrict union organization in the state governments are unconstitutional. The types of restrictions addressed in the decision had been reviewed and publicly reported on by the U.S. NAO in the

submission process.

- **Legislative reform:** Many of the government and party controls on unions in the private sector are now subjects for reform in a bill submitted to the Mexican Senate. These controls and restrictions have been the subject of submissions filed with the U.S. NAO.
- **Regulatory Reform -- Mexican Department of Labor Guidelines:** The Mexican Department of Labor in December, 1996 issued policy guidelines addressing a number of laws and practices restricting union registration and organization. Many of the areas targeted for reform were reported by the U.S. NAO.
 - An internal review of certain labor laws and practices, commissioned by the Mexican Department of Labor, acknowledged that some practices restrict registration of independent unions in Mexico. The review was conducted pursuant to Ministerial consultations resulting from the submission process.
- **"Phantom" unions and "phantom" collective bargaining agreements:** Mainstream Mexican labor organizations and the Secretariat of Labor are considering remedies regarding the registration of "phantom" unions and "phantom" collective bargaining agreements, essentially unions and agreements organized and negotiated without the consent, and sometimes the knowledge, of membership. These practices are the subject of a submission currently under review by the U.S. NAO and have been a significant component of previous submissions.
- **Commitment to further progress:** Presidents Clinton and Zedillo committed to redouble efforts regarding labor (and environmental) cooperation during President Clinton's May 5-7 visit to Mexico. The Presidents instructed their labor (and environment) Ministers to identify within 90 days issues requiring further attention

NUCLEAR TECHNICAL GROUP

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COMPETING WITH LOW WAGE COUNTRIES

*Laurel - Draft
+ relevant
includes from
WSS, NWT*

Critics charge that the U.S. workers cannot compete against workers earning [low wages][a fraction of U.S. wages]. The critics are wrong:

- **The U.S. economy is the most competitive in the world.** Independent experts have rated the U.S. economy as the most competitive large economy in the world for the past five years. American workers are the best trained, most highly educated and productive work force in the world.
- **U.S. exports to low wage countries have increased almost twice as fast as exports to high wage countries.** Over the past ten 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.
- **Labor cost per unit are often lower in the United States than in low wage countries.** Wages alone do not determine the cost of a product; rather it is a function of both wages and worker time spent producing the product. Although American workers are paid significantly more than many of their competitors overseas, they are highly productive and spend less time producing many products than workers in low wage countries. A recent study by the Federal Reserve Bank of San Francisco examining several Asian developing countries illustrates this point.
 - For example, according to its estimates, workers 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 U.S. because of productivity differentials.
 - In addition, the study showed that unit labor cost differentials favoring the countries examined had shrunk significantly, or turned in to disadvantages between 1970 and 1990.
- **U.S. companies can compete successfully even with state of the art manufacturing facilities in low wage countries.** The competitiveness of output from manufacturing facilities is influenced significantly by the quality, cost and availability of inputs into its production – everything ranging from telecommunications, transportation, financial services to purchased parts and components. Thus, even state of the art facilities in developing countries often operate far less efficiently than [older] facilities in the U.S.
- **Even in the industrial sector, the U.S. competes successfully.** U.S. industrial output is up 20% in real terms since 1992 (compared to a 7% rise for Japan and a 2% decline for Germany). Manufacturing employment since 1992 is up roughly one-quarter million due largely to strong productivity growth in the manufacturing sector.

INCLUDE?? [Rejecting fast track only provides incentives for companies to relocate abroad—Stats re: companies relocating to Mexico as a result of NAFTA compared to pre NAFTA years?]

At the Heart of the Trade Debate: Inequality

Income Differences Suggest the Unskilled Will Hurt

By BOB DAVIS

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON — Big Labor argues that liberalized trade worsens the lot of American workers. Typical trade agreements "undermine the wages and jobs of us all," thundered AFL-CIO President John Sweeney at a rally in Philadelphia.

The trouble for supporters of fast-track legislation, which would authorize the president to negotiate trade deals free from congressional amendments, is that the labor boss may be right — at least partly.

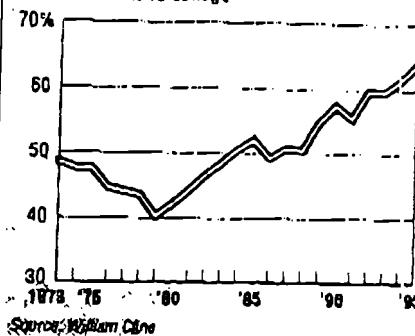
Since 1973, the wage gap between skilled and unskilled workers has widened, an increase that has destroyed many Americans' confidence that the economic system works for them. For example, for every dollar that a high-school graduate earned in 1973, a college graduate would have made \$1.48. By the end of 1995, the college graduate was making about \$1.63 for every dollar earned by the high-school graduate. Trade has played a role in widening the wage gap, although the extent of its culpability is heatedly debated from boisterous union halls to cloistered think tanks.

Just as controversial is deciding what needs to be done. Even those economists who pin a lot of the blame on trade warn that restricting trade would backfire:

The Widening of the Wage Gap

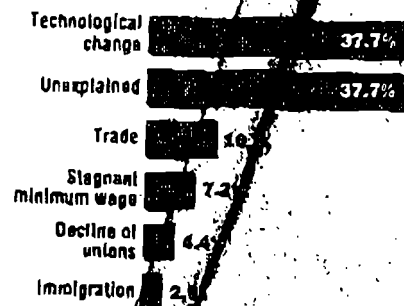
College Advantage

Additional wages, in percent, earned by college graduates compared with those who didn't attend college



Sources of Inequality

Contribution of various factors to wage inequality, in percent



Raising import prices would hurt the workers Mr. Sweeney champions by raising prices for consumer goods and by slowing economic growth.

Edward Leamer, an economist at the University of California at Los Angeles who assigns trade a big role in wage inequality, says the way to prosper isn't through trade barriers, but "by accumulating skills and knowledge... through investing in education."

Open trade encourages companies to

exploit their advantages internationally, including the advantage of low wages. Since the North American Free Trade Agreement took effect in January 1994, about 150,000 garment workers have lost their jobs; about 16% of the garment industry's work force, largely because of import competition from Mexico and other low-wage nations. Some economists believe relentless pressure from abroad also holds down wages at home and encourages clothing makers to open "sweatshops" that pay less than minimum wage.

The travails of one industry, however, don't necessarily mean that all unskilled workers have been hurt by trade. Imports from developing nations are growing rapidly, but represent only 5% of the economy — not large enough to account for large, economy-wide shifts in income. Moreover, no one has been able to find a "smoking gun" that links trade with wages. Economists reason that if low-wage nations are broadly depressing wages in the U.S., that ought to be reflected in lower prices for imports made by low-skilled foreign labor. Specifically, the price of such imports should be dropping faster, or not rising as quickly, as the price of imports made by more-skilled labor.

So, how much is trade to blame? William Cline, chief economist at the Institute of International Finance, a Washington, D.C., association of large financial-service companies, is releasing an exhaustive study on the subject Nov. 6. He describes the economy as if it were buffeted by powerful crosswinds. One current, the long-term rise in college enrollment, fosters economic equality because more people gain the skills necessary to work in the modern economy. But that force has been overwhelmed by gales of inequality caused by increased trade, immigration and technological change.

By Mr. Cline's accounting, trade and immigration are factors in the widening of the income gap as low-wage workers come under pressure from low-skilled immi-

Please Turn to Page A12, Column 1

Jobless Claims Fall to a 3-Month Low, As Labor Market Continues to Tighten

By JOHN SIMONS

Staff Reporter of THE WALL STREET JOURNAL
WASHINGTON — The number of Americans filing new applications for unemployment benefits fell to a three-month low last week, suggesting a continued tightening in the labor market.

Initial claims for jobless benefits declined 16,000 last week to a seasonally adjusted 297,000, the Labor Department said.

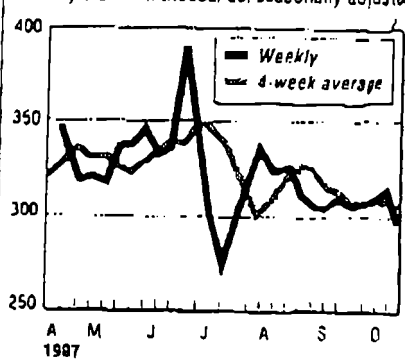
Before climbing to a revised 313,000 in the week ended Oct. 18, jobless claims had been below 310,000 for five consecutive weeks, the longest such period since 1988. The four-week moving average of jobless claims — considered a better gauge because it adjusts for weekly fluctuations — slipped by 3,000 to 305,250.

Another sign of strong demand for labor came in a Conference Board report showing an increase in help-wanted ads. In its monthly survey of help-wanted advertising in 51 of the nation's newspapers, the board's Help Wanted Advertising Index rose two points to 87 in September. The figure was 84 a year before. The largest regional increases occurred in the West South Central, East South Central and New England regions.

Strained labor markets have yet to create inflation. While these latest numbers add to worries that the nation's sustained sub-5% unemployment rate may restrict economic growth, some analysts believe the figures did little to stir the

Jobless Claims

Weekly claims in thousands, seasonally adjusted



renters move into homeownership," he said. "One thing that's been on our side is job growth."

Indeed, demand for new single-family homes remained strong in September despite the Commerce Department's report yesterday that home buying activity dropped 0.2% during the month. Single-family homes were sold at a seasonally adjusted rate of 800,000 in September, down from 802,000 in August. That compares with 768,000 in September 1996.

The annual rate for the first nine months of this year has averaged 803,000, up 6.7% from last year's first nine months. Analysts believe 1997's ideal conditions — low interest rates and high consumer confidence — are helping to make this the

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Wider Wage Gap Causes Concern

Continued From Page A2

plants and low-priced imports. Even so, technological change has hurt low-skilled workers far more. The advance of computer technology over the past 20 years has greatly expanded the demand for skilled workers and diminished demand for those without college education. As a result, the wage gap between the two classes of workers has widened.

While Mr. Cline and other economists make clear distinctions between technology and trade, in truth they appear to be mixed together. When a high-school dropout can't get a job these days at a textile mill because looms are highly computerized, technology is blamed. But there can be a trade component as well: The textile mills might not have modernized as quickly if they hadn't been under great pressure from international competition.

Robert Scott, an economist at the union-backed Economic Policy Institute in Washington, argues that the "rules of trade" must be changed so that trade pacts

can be used to enforce improved labor standards. "That would raise wages abroad and here," he says.

But others argue that weighting trade agreements with labor issues would inevitably reduce trade. Developing nations, whose main advantage often is cheaper labor, won't be inclined to sign trade pacts that call for big wage increases. Future trade deals could be scuttled.

Ultimately, that could hurt U.S. workers. The living standards of low-wage, unskilled workers are buoyed by cheaper clothes, shoes, toys and electronics imported into the U.S. And skilled workers would suffer as their employers' export opportunities shrink.

Mr. Cline calculates that if trade liberalization were halted at current levels, wages of skilled workers would decline by 2% to 5% by the year 2013, compared with what they would be otherwise, while wages of unskilled workers would remain flat. Slapping a 30% tariff on imports from developing countries would be even worse: Wages for the unskilled would fall by 1%

because of higher import costs, and for skilled workers would drop 5%. The wage gap would narrow, but only because everyone would get poorer.

The key to helping workers, most economists agree, is education. Education packs a double punch. First, it helps productivity and, therefore, wages for everyone. And, second, as more workers gain the skills necessary to do top computer-based jobs, the gap between wages for skilled and unskilled workers would at least stop widening and, perhaps, diminish.

But some say that isn't sufficient. Some economists recommend greatly reducing the number of unskilled immigrants. "There's a distinction between the flow of people and the flow of goods," argues William Leamer, the UCLA economist. While American workers can adapt to competition from cheap imports by striving for higher-skilled jobs, he says adding skilled immigrants makes the transition much tougher. "You'll have low-skilled Mexican and U.S. nationals competing for the same jobs," he says.

An Old Saw: You Can't Ever Live Down Your Horrible Past

Continued From First Page

cluding Leatherface. Handy with a chain saw, he dispatches four victims in the 84-minute movie, shot on grainy 16-millimeter film.

After grad school, Mr. Hansen tried to put Leatherface behind him. He moved to Northeast Harbor to start his writing career, eventually working as an editor for Maine magazine and selling articles to Yankee, Down East, Yacht and other periodicals. At 6-feet-4-inches tall and 275 pounds, he became a familiar figure around the village, padding around in untucked shirts. He joined the volunteer fire department and did odd jobs as a part-time carpenter. He read, and reread, Melville, his favorite author. Most residents didn't make the Leatherface connection, in part because his face never appeared in the film. Leatherface wore a mask of "dried human flesh."

"Kids knew," Mr. Hansen says. "It was secret knowledge they passed around. You'd see 10-year-olds talking, and every so often one would get up enough courage to come up and ask."

Marguerite Yourcenar, the French novelist who lived in the village, didn't know. But Grace Frick, one of her translators, confronted him once on the legacy she thought his movie had wrought: "In New York City, 15 people were murdered yesterday - and it's your fault!"

Sequel offers arrived. He turned them down. Some strange phone calls came. He got an unlisted number. Aging bikers occasionally rode into town on gargling Harleys, asking about him. His friends played mum.

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Despite a strengthening dollar, exports remain robust. Above, cargo being loaded onto ships in Port Elizabeth, N.J.

John Sotomayor/The New York Times

By LOUIS UCHITELLE

As the dollar strengthened this year, Ronald D. Bullock, president of the Bison Gear and Engineering Company near Chicago, raised his prices in francs and marks for the metal transmission gears that he exports to Europe. But his customers stuck with him, drawn by Bison Gear's new willingness to custom-design the gears — similar in shape to bicycle sprockets — for each factory machine whose speed they regulate. And Bison's exports have risen, despite the sticker shock.

"We hire a lot more engineers today than we ever have before to do this custom-designing," Mr. Bullock said.

Stories like these proliferate among the nation's manufacturers. Added together, they explain why a longstanding economic verity — that a nation's exports begin to fall after its currency has risen in value for 18 months or so — has failed to kick in during the current strengthening of the dollar, which began two years ago.

American business has responded much more than in the early 1980's, the last time the dollar moved up sharply. This time it cut costs, shaved prices and profit margins, developed products, sold harder. The unexpected export vigor has added significantly to the nation's sales, here and abroad, and has bolstered the economy, helping to prolong the expansion into its seventh year.

"American manufacturers have managed to export against the odds," said Wynne Godley, an economist at the Jerome Levy Institute, a research group.

At the same time, however, the robust dollar makes it easier and less costly for America's trading partners to export more to this country, and they are doing just that. Despite the growth in American exports, foreign companies are selling more in the United States than American business sells abroad. The turmoil in Southeast Asia, with its currencies falling in value, will only increase these sales to America.

The merchandise trade deficit, as a result, has widened considerably in recent years, even surpassing the record level reached a decade ago. But in contrast to the furor that the trade gap created then, it is greeted today almost with indifference.

"The difference is really in the perception," said C. Fred Bergsten, director of the Institute for International Economics. "People no longer think it is a reflection of some underlying weakness in American competitiveness."

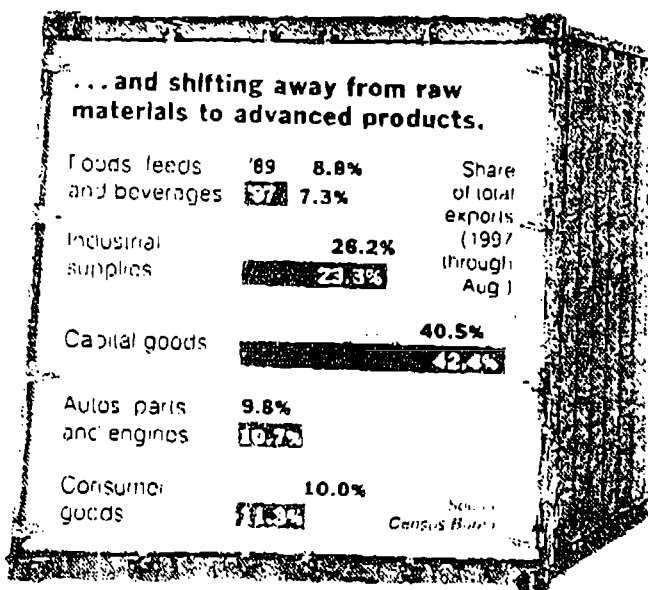
Allied Signal Inc., of Morristown, N.J., offers one explanation for why exports are rising even while the dollar strengthens. Airline travel is booming everywhere, and Allied is a big

exporter of engines and parts for commercial aircraft. Demand is driving sales. So are long-term contracts. Big customers like Dassault of France, maker of Falcon business jets equipped with Allied engines, cannot easily switch suppliers. "That's impractical," said Marc Greenberg, an Allied spokesman.

AMP Inc. of Harrisburg, Pa., provides another insight into the nation's export performance. AMP exports to itself, a growing American practice largely impervious to exchange rates. AMP is shipping connectors for Pentium chips to its plants in Asia, where they are installed in electronic equipment sold in the region. The company also sends computer cables and connectors to its Mexican plant, where they are attached to one another and imported back into the States for AMP to sell. Sixty percent of America's merchandise exports to Mexico fell into this category last year, according to one recent study. And Mexico is America's fastest-growing export market, after Canada.

"The question is, do we use intelligent, flexible Mexican labor for this assembly work," said William J. Hudson, AMP's chief executive "or do we install an expensive piece of

Continued on Page 4



A New Chief Suddenly Quits, and Shareholders Are

By CLAUDIA H. DEUTSCH

Ronald T. LeMay's sudden resignation as chief executive of Waste Management Inc. left the company in turmoil, but that is not the main thing bothering owners of the company's stock. What has really unnerved them is not knowing why he left after less than four months on the job.

Market
Place

The abrupt turn of events, highly unusual for an executive of any big company, smacked of a

said Barry A. Marmis of Goldman, Sachs.

In what amounted to a shareholder vote of no confidence, shares of Waste Management, the trash-hauling company based in Oak Brook, Ill., fell \$5.75, to \$24.25, yesterday, a 20 percent decline. It was the most active stock, with volume of 36 million shares, more than 10 times the daily average.

Mr. LeMay was already back at his old No. 2 position as president and chief operating officer of the Sprint Corporation yesterday, hours after he announced his resignation on Wednesday night. Waste Man-

have long demanded.

Mr. Miller held a brief conference with analysts yesterday afternoon to assure them that the company was not paralyzed. "We have to make some tough decisions about fleet management, about centralizing purchasing, about standardizing our service levels," Mr. Miller said in an interview. "We won't sit around for months without making those decisions."

The promise of action, however, may not assuage investors. Most analysts attribute the selloff to fears that Mr. LeMay's resignation was prompted by a lack of

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THE NEW YORK TIMES, FRIDAY, OCTOBER 31, 1997

Equation Revised: Strong Dollar, More Exports

Continued From First Business Page

omated equipment in the United States? We prefer the flexible Mexican labor, particularly since models change so often."

No one knows how much stronger the dollar has to get for exports, even M.P.s, to stop rising. The United States is not the first nation to experience a rising currency and, at the same time, rising exports. Japan, for example, is an old hand at this, and Americans are becoming more adept, too. Thousands of small manufacturers, for example, have doubled and tripled their sales abroad in recent years, according to the National Association of Manufacturers. Like Bill Gear, which has \$35 million a year in revenue, 10 percent of it from exports, they often find ways to offset the costs of a rising dollar.

The stronger dollar does not kick everywhere, and that helps as well. The dollar has not strengthened recent months against the currencies of America's two largest export markets, Canada and Mexico. Both have absorbed bigger shares of United States exports in the last year.

In Europe and Japan, where the dollar is much stronger, some American companies have resisted increasing their prices in francs, marks or yen, even though that has meant lower dollar revenue and lower profit margins for each item sold.

"You are getting falling dollar prices for American exports, more than you would expect," Mr. Godley said. "One wonders how long that will last."

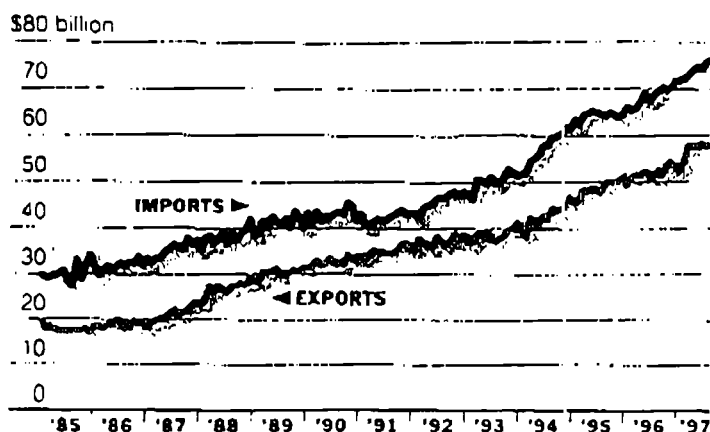
Varian Associates Inc., a multinational based in Palo Alto, Calif., gamboled on freezing the price in Europe and Japan for its chromatographs, industrial instruments that sell for upwards of \$40,000 and identify invisible elements in a substance. The big gamble paid off.

"We found, to our surprise, that we sold more units, nearly 20 percent more," said J. Tracy O'Rourke, Varian's chairman. "And that kept our total revenue over the past year at \$150 million. The demand is there for state-of-the-art capital equipment, if it is not too pricey."

Though each chromatograph is less profitable now, the greater number of units sold has maintained Varian's overall return for this piece of equipment, Mr. O'Rourke said. Cost-cutting is increasingly important

A Gap Widens

United States merchandise trade (1997 through August).



Source: Datastream

The New York Times

dollar — it has risen roughly 16 percent since mid-1995 when measured against the currencies of America's major trading partners — means that more francs or marks or yen are needed to equal the same number of dollars in sales.

By the same token, though, foreigners who export to the United States need fewer dollars to make the same profits in their weakened currencies. So they can charge less

and the dollar's purchasing power fell into decline. Now the deficit is rising again, even passing the old 1987 level, but the dogs that barked so loudly in the 1980's are just beginning to arouse themselves.

A broader measure of the nation's international transactions is also going deeper into deficit. The current-account balance, which covers not only trade but the nation's other overseas transactions — tourism, investments, services, brokerage fees, international phone calls, even dollars sent by immigrants to families back home — reached \$148 billion last year. And this year, it could exceed \$150 billion.

That is close to the record current-account deficit of \$158 billion, also set in 1987, although still much less as a percentage of the nation's annual income. Fortunately for the American economy, the strong export performance this year — totaling \$447.5 billion through August in merchandise alone, or 11 percent ahead of last year — acts as a brake on this rising deficit. Service-sector exports help, too. They are much smaller, but rising fast.

A decade ago, the national wall over the big deficit in the nation's international transactions held that Americans were, in effect, borrowing abroad to pay for a profligate life style, and that the next generation would have to repay the accumulating bill, reducing its own living standard to do so. Such talk is all but

gone — has given way to a more hopeful view of how the money being used. Now the foreign money flowing into the country is said to be stimulating investment in American factory operations and other productive facilities.

The Clinton Administration subscribes to this optimistic assessment, and there is evidence of it in Government statistics. "The earnings from these investments mean that going forward we will have wherewithal to pay back the foreign debt," said Janet Yellen, who heads the President's Council of Economic Advisers.

A decade ago, the flood of imports, meant, to many, that higher-paying manufacturing jobs were shifting abroad as imports replaced goods made here. That is still a popular view; the Economic Policy Institute, a Washington research group, for example, concluded in a new study that imports are shutting down some domestic production, forcing workers into lower-paying service jobs.

Many experts, however, argue optimistically that imports, far from crowding out domestic products, are a necessary and welcome supplement for an economy that is close to fully employed. The imports, in their view, make up the shortfall.

"At a time of full employment, it does not make sense to think of a trade deficit as costing jobs," Yellen said.

The Asian crisis could challenge this view, if those countries respond by flooding the United States with inexpensive goods, and by curbing the demand for American exports of machinery and heavy equipment. Most of that is for public works projects that hard-pressed Asian governments might now postpone.

A downturn in the American economy would also eat away at optimism. "People would look at rising unemployment," Mr. Berg said, "and they would inevitably blame the trade deficit." The issue could easily work its way into the next Presidential election.

The one broad area where the strong dollar has hurt exports is in commodities — Allied Signal's exports, for instance, of chemicals, fibers and plastics that can now be purchased for less overseas. For Allied, U.S. exports have fallen this year, but by enough to offset the overseas demand for the company's aircraft parts. So Allied's total exports are

Just the same, imports have risen and a trade deficit has grown.

for their products in the United States, encouraging Americans to buy more from abroad.

And for all the resilience of American exports, imports are rising even faster. That translates into a widening merchandise trade deficit, to a record \$191 billion last year and a projected level of roughly the same size this year, compared with \$173.6 billion in 1995. The previous high, before the 1990's, was a gap of \$159 billion in 1987.

GENERAL TALKING POINTS ON THE IMPORTANCE OF FAST TRACK

Introduction

- I think you know the arguments for fast track authority. One-third of our growth since 1993 has come from exports. About 96% of the world's consumers live outside our borders. If we are to continue to grow, we must export. It's that simple. And that's all we are seeking under fast track: the opportunity to negotiate new agreements that break down foreign trade barriers, level the playing field, and increase our ability to export our world-class goods and services.
- We are in a perfect position to compete. Our economy is the envy of the world. We are once again the world's most competitive economy, the world's largest exporter, the leading producer of automobiles, semiconductors, and pharmaceuticals. It makes no sense to sideline ourselves now.

Fast Track and American Leadership

- We also must understand that the importance of fast track extends beyond trade alone; it is about American leadership in the world today. This debate is being viewed in Latin America and other world capitals as nothing less than a test of whether we intend to maintain our leadership role -- or to retreat and turn inward.
- Defaulting on our leadership role would be a terrible mistake. Under our lead, average tariffs have fallen from 40% at the end of World War II to about 5% today. This has led to a 90-fold increase in trade, which has benefited us enormously. One-third of our strong economic growth over the past five years has come from exports. We must not turn our back on those achievements.
- We cannot afford to take our leadership for granted. Throughout the world, especially in Latin America, others are moving to reach trade deals opening their markets. And they are not waiting for us -- with some 20 preferential trade deals already that exclude the United States. The EU is seeking such an agreement with MERCOSUR -- a market of over 200 million people with a GDP exceeding \$1 trillion. And President Chirac has stated that "the future of the region rests with Europe, not the United States."
- Let's face it: American leadership is not divisible. If we do not lead on trade, our influence is bound to suffer in other areas as well. The patterns of trade affect our national security and strategic interests as well -- particularly in this hemisphere. Trade agreements can bind us together through shared interests and institutions. If by default in our leadership we permit Latin America to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with them in other areas as well -- from drug interdiction to immigration to environmental protection to fighting corruption.

- Rejecting fast track would send the wrong signal to developing countries in particular. After decades of failed experiments and anti-Americanism, many today are embracing free markets, democracy, and other American values. But this progress is still fragile -- and it will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes, and strengthen the building blocks of democracy. Having preached the benefits of open trade to these countries for so long, the United States must not turn in precisely the opposite direction at this critical time.

Efforts to Address Members' Concerns

- I believe that as we expand trade, we should ensure that everyone shares in the benefits. That not only is the right thing to do -- it is also essential if we want to keep public support for a policy of expanded trade. That begins with extending the Trade Adjustment Assistance program -- as the Finance Committee has done with bipartisan support. The Administration has been working on a series of other initiatives to help both workers and communities, which we will be announcing in the next few days.
- Let me also tell you why our critics have it wrong on labor and the environment. I am convinced we can break down foreign trade barriers and advance worker rights and environmental protection at the same time. The Finance Committee bill strikes a sensible, balanced approach to allow us to do just that. And look at it this way: if we have fast track, Chile will conclude labor and environmental side agreements with us -- in fact, they already have agreed to do so. If we don't, they won't. Rejecting fast track is the best way to ensure that labor and environmental concerns simply are ignored in the years ahead.

Conclusion

- This is a very important vote. We face a critical choice. We can continue to make our economy the model for the rest of the world, open foreign markets, and exert global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark -- and that important. That's why I feel so strongly about fast track, and why I ask for your support.

POSSIBLE FAST TRACK QUESTIONS AND PROPOSED RESPONSES

Labor and the Environment

Q: Why have you embraced fast track bills in both the Senate and House that treat labor and the environment as second-tier concerns, not fundamental parts of trade agreements?

- Your characterization of these bills is wrong. They contain principal negotiating objectives aimed specifically at worker rights and the environment. That's more than has ever been contained in fast track legislation before. Under the bills, we will be able to use trade agreements to keep other governments from weakening their labor, environmental, or health and safety laws to gain an advantage in trade or investment (House bill)/to attract investment or inhibit U.S. exports (Senate bill).
- The President also retains ample authority to address these issues in a variety of international fora, as my Administration has been doing for the past 4 ½ years. And with fast track, the President also will be able to pursue labor and environmental side agreements where appropriate, including with Chile. Our goal should be to work with other countries to help them better protect the rights of their workers and improve their environments -- whether or not we are engaged in trade negotiations with them at any given point in time.

The Need for Fast Track

Q: How can you claim fast track is needed for trade agreements, when you have concluded over 200 such agreements without it?

- Fast track is needed only when we intend to make changes to U.S. law. Many agreements we negotiate with Japan and other countries include changes only by the foreign government, not us -- usually in response to our pressure to open their markets. But the largest and most important agreements -- like NAFTA and the Uruguay Round, and the future agreements we are seeking on agriculture, services, and in other areas -- require that all countries involved make some changes to their laws. We need fast track for those agreements.
- If we don't have fast track, other countries simply will not negotiate with us. They won't enter into one negotiation with the President, then let Congress unilaterally change the terms of the deal reached -- in effect, a second negotiation. Either the foreign country won't give the Administration their bottom line, best offer (fearing they'll have to make additional concessions to Congress), or they will simply refuse to negotiate in the first place. That's Chile's position; they have refused to negotiate with us unless we have fast track.
- History bears this out. In the late 1960s, the Administration brought back a GATT trade agreement that Congress amended unilaterally. After that, other countries simply refused to negotiate with us for several years. That's precisely why fast track procedures were enacted by Congress in 1974 -- to get us back in the game and leading again on trade.

Effects of NAFTA

Q: Why should we support fast track when we see such negative effects from NAFTA?

- First, I reject the critics' claims about NAFTA. The best available information shows that NAFTA has had a *positive* job impact -- creating 90,000 to 160,000 U.S. jobs, despite the 1995 peso crisis and its effect on Mexico's economy. And thanks to NAFTA, our exports to Mexico are already recovering from that temporary setback -- whereas we needed seven years for our exports to rebound after Mexico's last major financial crisis in the early 1980s. NAFTA has given us the chance to sell more to Mexico -- and to work more closely than ever before on other issues, including labor and the environment.
- But regardless what you think, this fast track debate is not about NAFTA. It is about our global trade agenda, our ability to negotiate new international agreements on agriculture and services and in those sectors in which we are the most competitive nation in the world. And it is about our ability to go after foreign trade barriers that remain much higher than our own -
- to work to level the playing field for our workers and firms.

Helping Workers and Communities

Q: Why should I support fast track without guarantees that trade-impacted workers and communities will be helped adequately?

- President Clinton has done more than any other President to ensure that American workers benefit from expanded trade. And for those who may not share in the benefits of our strong economy, this Administration has fought successfully for increased training and educational opportunities. We have doubled the funding for dislocated workers since 1993 to nearly \$1.3 billion; have fought to ensure that 13 million children from low-income families benefit from the child tax credit; have made college more affordable with the Hope Scholarship and tuition tax credit programs; and have pushed successfully for a variety of other measures.
- And the President is committed to doing even more to build on this strong record. The Administration has been working on a set of additional initiatives to help both individuals and communities that may be affected by trade flows, and President Clinton will be announcing the details of those plans in just a few more days.

The U.S. Trade Deficit

Q: Why should we move ahead with fast track and new trade agreements when our trade deficit continues to balloon?

- The trade deficit is the result of a range of complex factors, and is not the sign of a weak economy. It is hard to argue that this is harming us when we have been growing at about 3% annually over the past five years, have the lowest unemployment in 23 years, rising income levels, a rapidly shrinking budget deficit, high consumer demand, and record exports.

- And we are seeing some very positive signs: our exports are up 10% this year, despite sluggish growth in many other countries and a strong U.S. dollar. And our trade balances with our NAFTA partners -- now our two largest export markets -- have improved greatly this year, as we have cut the deficit with Canada 24% and with Mexico 15%.
- In any event, the best way to attack the deficit is to increase our exports -- and the best way to do that is through fast track trade agreements that break down foreign barriers. If you are concerned about the trade deficit, you should support giving the President the authority to attack the remaining trade barriers and negotiate tough new agreements to help our exporters.

Trade Agreements with Developing Countries

Q: Why should we negotiate trade agreements with countries where workers earn a fraction of U.S. wages?

- The truth is we are competing quite successfully with low-wage countries. Over the past decade, our exports to those countries are up 240% -- nearly double the increase to richer countries and more than three times the gain in domestic sales. Today, they account for 42% of our total exports -- creating jobs that pay about 15% more than non-export related jobs.
- We remain the strongest economy in the world, with the most productive workers. And we will gain through trade agreements with developing countries, whose existing barriers are several times higher than our own.

TALKING POINTS ON FAST TRACK AND FOREIGN POLICY

Fast Track and American Leadership -- Overview

- **The fast track debate is about much more than trade. It is about American leadership in the world.** Other governments, particularly those in Latin America, view fast track as a test of whether the United States intends to maintain our half century of leadership -- or retreat and turn inward.
- **A failure of U.S. leadership would be a huge mistake.** For over 50 years, we have led the world toward freer markets -- reducing average tariffs from 40% at the end of World War II to about 5% today. That has led to a 90-fold increase in trade, which has enormously benefitted the U.S. We must not turn our back on that progress.
- **American leadership is not divisible. If we fail to lead on trade, our influence will suffer in other areas.** The patterns of trade developed in the coming decades will create patterns affecting our national security, foreign relations and political interests. If Latin America is permitted -- by default in our leadership -- to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with Latin America. Rejecting fast track would also send a terrible signal to emerging markets, undermining the developing world trend toward free market policies and democracy.

Exports and U.S. Growth

- **For the U.S., the case for fast track is clear: if we are to sustain our economic growth, we must export.** Since 1993, one-third of our growth has come from exports. Over the next decade, the economies of Latin America and Asia are expected to grow at three times the rate of the U.S. economy. In a world where 96% of the world's consumers live outside our borders, we must export to grow. It's that simple.
- **We are in a perfect position to compete. Our economy is the envy of the world.** We are once again the world's most competitive economy, the world's largest exporter, the leading producer in key industries like automobiles, semiconductors and pharmaceuticals. It makes no sense to sideline ourselves now.
- **But we cannot afford to take our economic leadership for granted.** Throughout the world, other countries are moving to reach trade deals opening their markets. We can either lead this process -- or watch it proceed without us:
 - In Latin America and Asia alone, other countries have reached more than 20 preferential trade agreements without us. Today every major economy in the hemisphere has a preferential trade deal with Chile, except the U.S.
 - The EU is seeking a preferential trade agreement with MERCOSUR, a market of over 200 million people and a GDP exceeding \$1 trillion. President Chirac has declared "the future of the region rests with Europe, not the United States."

Fast track and American Foreign Policy

- **Fast track is a test of our foreign policy.** As the sole remaining superpower, the United States has a fundamental interest in aiding both security and prosperity around the world -- particularly in our own hemisphere. Stable trading relationships are critical to that end. In the post Cold-War world, trade agreements serve some of the same purposes security pacts played during the Cold War: They bind nations together through a set of shared interests and common objectives.
- **If the U.S. fails to lead, we risk losing influence by default. The trade patterns set in coming decades will have enormous strategic importance too.** That is part of the strategy behind FTAA and APEC processes. They are not just economic: they are also intended to reinforce broader U.S. engagement in Latin America and Asia, two regions where U.S. foreign policy strategic and security interests are deeply implicated. Rejecting fast track would signal retreat from these initiatives.
- **That would clearly undermine broader U.S. interests.** Latin America sees trade as the linchpin of a stronger hemispheric relations -- our failure to engage would undermine cooperation on a range of issues including drug interdiction, immigration, environmental protection and corruption. In Asia, the industrialization of 3.5 billion people in the arc from Korea to Pakistan will be perhaps the greatest development of the 21st Century. It is critical to America's economic and security interests that we be deeply engaged in the transformation. Without fast track, we are crippled in that effort.
- **The cause of democracy and free markets would also suffer.** After decades of failed experiments and anti-Americanism, many of the world's emerging markets today are embracing free markets, democracy and other American values. Today -- for the first time in history -- one half of the world's population lives under elected rulers. But this fragile progress will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes and strengthen the building blocks of democracy. Rejecting fast track would send a terrible signal that we are not serious about trade liberalization and reform.

Conclusion

- **The United States faces a critical choice.** We can continue to make our economy the model for the rest of the world, open foreign markets, and reaffirm our global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark -- and that important.

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Expanding Trade Through Fast-Track Will Raise American Incomes

U.S. Treasury Department

October 23, 1997

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Expanding Trade Through Fast-Track Will Raise American Incomes

United States Treasury
Office of International Affairs

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

Fast-Track Cuts Taxes on U.S. Products

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

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

been reduced by nearly \$10 billion in 1996.

Effective Tariff Rates¹

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

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

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

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

1996 U.S. Exports (\$ billion)

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

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

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

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

Lower Barriers Mean More Trade

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

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

Fast-Track Needed to Sustain Momentum

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

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

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

More Trade Means Higher Incomes

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

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

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

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

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

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

These calculations understate the likely gains

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

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

The Cost of Inaction

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

KEEPING AMERICA AND ITS WORKERS THE MOST COMPETITIVE IN THE WORLD

America Needs Fast Track to Continue to Create Higher-Paying Jobs for More Americans. Without it, America's role as the largest exporter in the world will be put in jeopardy. And with new markets opening around the world, it is more important than ever to give the President traditional trade authority to break down trade barriers that put American products made by American workers at a disadvantage. We will continue to ensure that America's workers will benefit from expanded trade by fighting for increased training and education opportunities.

I. AMERICAN WORKERS STILL FACE A DISADVANTAGE BECAUSE TOO MANY FOREIGN COUNTRIES PLACE RESTRICTIONS ON AMERICAN GOODS. WE NEED FAST TRACK TO LEVEL THE PLAYING FIELD FOR AMERICAN WORKERS.

What We Inherited. In 1993, President Clinton came into office at a time when the U.S. continued its commitment to free and fair trade, but other countries maintained high tariffs and other obstacles to fair trade to the disadvantage of America's workers.

President Clinton Moved to Address this Disadvantage by Completing the Uruguay Round Agreements, Negotiated Under Fast Track Authority. We have repeatedly leveled the playing field by negotiating tough, fair agreements -- securing more concessions from our trading partners than we had to give up. For example, Australia has cut its tariffs five times more than we have had to, Korea six times more than the U.S. and Peru has cut its tariffs ten times more than the U.S. since the Uruguay Round of GATT. Because of the ongoing benefits from the Uruguay Round, it is estimated that trade will continue to grow by an average of 9% per year until 2000.

American Workers Still Face a Disadvantage. Even with the recent progress in GATT, American exports still face higher tariff rates than our own. For instance, U.S. agricultural exports average 38%, while our own rates average 11%. U.S. electric machinery exports average 5%, while our rates average under 2%. Without Fast track authority, these conditions will only persist when more and more countries negotiate their own preferential trade deals to the detriment of America's workers. American workers deserve better.

Open and Fair Trade is in the Best Interest of American Workers and their Families. As the American people prepare for the challenges of the 21st century, we face a critical choice: We can meet the challenges of the future, write the trade rules and continue America's remarkable economic growth -- or we can turn our back on the world and fail to compete for new markets, new contracts, new business and new jobs. All over America, jobs have been created in small, medium and large companies that would not be here today if we did not have the ability to negotiate fair trade agreements.

- Over the last four years, American manufacturing exports rose 42%, high technology exports jumped 46%, service exports climbed 33% and farm exports rose 41%.
- From 1990-1996, U.S. auto exports to the biggest emerging markets (excluding Mexico) rose \$500 million and are estimated to reach \$6.1 billion by 2010. U.S. parts exports to these emerging markets are expected to more than triple from the current \$3 billion to \$10 billion in 2010.
- The U.S. dominates 75% of the global software market. More than one-half million workers are employed in the industry -- double the level a decade ago. This industry is expected to grow 9% per year worldwide over the next decade.

- The U.S. once again dominates the world's semiconductor industry -- after trailing Japan for years. More than one-quarter million American are employed in the semiconductor industry -- up 13% over the last three years. The global semiconductor market nearly tripled in size between 1990 and 1995 -- and sales are expected to reach \$200 billion by the year 2000 -- a fourfold increase over a decade.
- Exports of goods and services have risen from about 4% of GDP in the early 1960's to over 13% today. Over 15% of the total American workforce is employed in the manufacturing sector. U.S. exports have grown 3 times faster than Japan's, 5 times faster than Germany's since the mid 1980's.

II. TO ENSURE THAT ALL AMERICAN WORKERS BENEFIT FROM EXPANDED TRADE, THE CLINTON ADMINISTRATION HAS FOUGHT FOR INCREASED TRAINING AND EDUCATION OPPORTUNITIES.

We need a growth strategy in which we take every action possible to ensure that all Americans can benefit from economic change. We need to break out of the old arguments that say you are either for blocking change or you are for the market, but everyone has to fend for themselves. Government needs to help workers, communities and those not in the job market realize the benefits of expanded trade.

- **The Administration is developing a comprehensive plan to help communities and workers who have been affected by trade.** President Clinton is building on his strong record of helping workers and families secure more opportunities to improve their educations and obtain higher paying jobs. The President will announce his plan early next week.

A Record of Strong Action to Help Families and Workers

- **Fought To Ensure Low-Income Families Benefitted from Child Tax Credit.** Because of the President's efforts, 13 million children from families with incomes below \$30,000 will receive the tax credit -- up to 7.5 million more than under the House plans. Families making under \$30,000 -- such as young teachers, police officers, farmers, nurses and others who work hard and play by the rules -- will now receive the child credit.
- **20% Tuition Tax Credit.** The balanced budget deals provides for a 20% tuition tax credit applied to the first \$5,000 of qualified education expenses and to the first \$10,000 thereafter for college juniors, seniors, graduate students, and working Americans pursuing lifelong learning.
- **\$1,500 Hope Scholarship Tax Credit.** The balanced budget deal also includes a \$1,500 Hope Scholarship to make the first two years of college universally available. For a student attending the average four-year college, the Tuition Tax and HOPE Scholarship tax credits will provide tax savings of up to \$5,000.
- **Doubled Dislocated Worker Funding.** The funding for dislocated workers has been doubled, from \$651 million in FY93 to \$1,286 million in FY97. This year, the dislocated worker program will assist 580,000 workers, up about 300,000 since President Clinton took office.
- **Largest Pell Grant Increase in Two Decades.** The Balanced Budget agreement boosts the maximum 1998 Pell grant from \$2,700 to \$3,000, and expands the program to more poor independent students -- that's the largest increase in two decades.

III. IF THE PRESIDENT DOES NOT HAVE THE SAME AUTHORITY THAT EVERY PRESIDENT HAS HAD SINCE 1974, OUR COMPETITORS, NOT AMERICAN WORKERS, WILL REALIZE THE BENEFITS OF THE NEW ECONOMY.

Today, we have the opportunity to permanently create the types of jobs that pay more and provide our workers with more security -- if we continue to increase our exports and open more markets. But if the President does not have the authority to negotiate tough and fair trade agreements with Congress' consent, our competitors will get the best jobs for their workers, while the U.S. will be relegated to the sidelines.

- **Without fast track, the U.S. will lack credibility to push for a fast start on global negotiations scheduled to start at the end of 1999. The United States stands the most to gain in these negotiations because of its comparative advantage in agriculture, commercial services and government procurement.**

Agriculture. Agricultural exports support nearly a million U.S. jobs. Agriculture remains one of the most protected and subsidized sectors in the world economy. American exports still continue to face trade barriers through high tariffs and preferential trade deals that exclude the U.S.

Commercial Services. Service exports of U.S. firms supported nearly 4 million jobs in 1996. Unless negotiated away, barriers will inhibit increased U.S. service exports. In Korea, a number of service sectors remain restrictive for foreign investment including telecommunications and insurance. Brazil has restrictive investment laws, lack of transparency in administrative procedures and limits on foreign capital participation. Distribution in the domestic market is restricted in Indonesia.

Government Procurement. Some sectors relating to government procurement include civil aircraft, energy equipment, environmental technologies and services and medical equipment which employ over 2 million American workers. The vast majority of low and middle-income countries have not signed the WTO Government Procurement Code and the U.S. cannot negotiate government procurement obligations in plurilateral negotiations.

WHY AMERICA WON'T GET ITS FAIR SHARE OF JOBS WITHOUT FAST TRACK

America needs fast track to continue to create higher-paying jobs for more Americans. Without it, America's role as the largest exporter in the world will be put in jeopardy. And with more markets opening around the world, it is now more important than ever to give the President traditional trade authority to break down trade barriers for American goods and services.

The U.S. needs to maintain its leadership role in opening markets through tough, fair trade agreements.

- **Since 1992, 49 states have experienced an increase in overall goods exports and 45 states have experienced an increase in jobs supported by trade.**
- **46 states have higher exports to Mexico and 47 states have higher exports to Japan.**

In the upcoming WTO negotiations, President Clinton needs fast track to have the flexibility to negotiate agreements in **agriculture, commercial services and government procurement**. In each of these areas, the U.S. is the most competitive nation in the world and stands to benefit the most from writing the rules of trade.

AGRICULTURE

The U.S. is the world's largest agricultural exporting country -- shipping a record \$60 billion in exports abroad. In 1996, total world agricultural exports totaled \$600 billion. U.S. exports accounted for only 10% of that -- \$60 billion.

- **U.S. agricultural exports support nearly a million jobs and this number is rising.** Since 1990, the value of U.S. agricultural exports has increased by \$20 billion, or nearly 50%. Each week last year, on average, American producers and processors shipped out more than \$1.1 billion in farm and food products to foreign markets.
- **Last year, our agricultural exports were twice the level of our agricultural imports -- a claim no other industry sector can make.** Dollar for dollar, we export more corn than coal, more wheat than steel, more meat than aluminum and more fruits and vegetables than CD's, records, and tapes. U.S. exports are growing more than three times as fast as domestic demand for foods.
- **U.S. agriculture will pay a price if fast track is not granted.**
 - ☞ More than 30 bilateral and regional trade agreements are already operating here in the Western Hemisphere, and the U.S. is party to only one -- NAFTA. While these preferential trade agreements multiply, the U.S. share of the region's total agricultural imports is declining.
 - ☞ Chile has already signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, MERCOSUR and most recently Canada. The U.S. has already lost an estimated \$500 million in exports to other countries that have duty preferences already in place.
 - ☞ Chilean fresh fruit pays a 2% duty when entering Venezuela (due to the Chile-Venezuela FTA) whereas American producers pay a 15% tariff. The U.S. Embassy estimates that the U.S. market share would grow from its current 39% to 67% if U.S. producers had equivalent access to the Venezuelan market.

Without fast track, the U.S. will lack credibility to push for a fast start on WTO agricultural negotiations scheduled to start at the end of 1999. Agriculture remains one of the most protected and subsidized sectors in the world economy. American exports still continue to face trade barriers through high tariffs and preferential trade deals that exclude the U.S. **Already, since 1992, in Latin America and Asia alone, our competitors have negotiated 20 trade agreements that do not include the United States.**

The best way we can continue to increase our agricultural exports and create more higher-paying jobs is through broad negotiations where the U.S. has the ability to seek additional commitments from other countries to reduce their barriers to American agriculture.

COMMERCIAL SERVICES

Exports of services by U.S. firms supported an estimated 3.9 million U.S. jobs in 1996. U.S. service exports have more than doubled over the last ten years, increasing \$135 billion since 1987 and \$84 billion since 1990 to \$250 billion in 1996. In 1995, U.S. service exports accounted for 16% of global service exports; our closest competitors that year were France (8%) and Germany, Italy, Japan and the U.K. (between 5% and 6%).

- **U.S. exports to emerging markets have grown at impressive rates:** nearly 30% to China, Taiwan and Korea; and over 20% to Hong Kong and Argentina. The U.S. also exported over \$1 billion in 1995 to the emerging markets of Argentina, Brazil, China, Hong Kong, the Philippines, India, Indonesia, Korea, Malaysia, Singapore and Thailand.
- **Service exports are estimated to reach \$300 billion by 2005 and \$350 billion by 2010.** With the expanding electronic commerce market, the growth trend in the service sector may easily surpass these estimates. For example, look at the health care services industry. In 1994, exports reached \$812 million. The industry is estimated to grow to \$1.03 billion by 1998 and continue its growth to \$1.4 billion by 2002.
- **Unless negotiated away, barriers will inhibit increased U.S. service exports.** In Korea, a number of service sectors remain restrictive for foreign investment, including audio-visual services, insurance, telecommunications and advertising. Brazil has restrictive investment laws, lack of transparency in administrative procedures and limits on foreign capital participation. Distribution in the domestic market is restricted in Indonesia.
- **Fast track will strengthen U.S. efforts to reduce trade barriers and expand these international markets which are key to maintaining U.S. competitiveness and innovation.**

GOVERNMENT PROCUREMENT

- **In 1996, government procurement totaled \$200 billion in U.S. exports in 1996 in a total world market of \$600 billion.** Sectors relating to government procurement include civil aircraft, which supports over 450,000 high-wage jobs, energy equipment supporting 350,000 workers, environmental technologies and services supporting 1.3 million workers and medical equipment employing over 260,000 workers.

Civil Aircraft

- **One out of every two civil aircraft manufactured in the U.S. is exported.** Asia has become the fastest growing foreign market for U.S. civil aircraft, accounting for about 45% of U.S. civil aircraft exports in 1996. Korea is in the midst of a major civil aviation expansion -- a ten year procurement program plans the purchase of some 230 aircraft worth about \$20 billion. With ASEAN, there is a large and growing demand for airport and ground support equipment. The Philippines has initiated a \$3 billion refleet and modernization program. Almost all of Thailand's demand must be met by imports.
- **High tariffs and government subsidization are major barriers.** Low and middle income country tariffs range from 3 to 40% while the U.S. has no tariffs.
- **Competition isn't waiting for U.S. leadership.** Canada is competitive in Latin America, especially in the business and regional jet aircraft sectors. Canada already has a Free Trade Agreement with Chile which will provide a three percentage point tariff advantage over U.S. suppliers by 1997. This tariff differential, which will increase to 11 percentage points when the FTA is fully implemented, provides the Canadian industry a significant advantage in certain segments of the market.

Energy Equipment

- **Since 1990, U.S. exports of energy equipment have doubled reaching \$15.5 billion in 1996 with a trade surplus of \$6.5 billion.** U.S. exports to the big emerging markets, China and FTAA countries more than doubled since 1990. Exports account for an estimated 34% of the U.S. industry's product shipments. By 2005, energy equipment exports are expected to exceed domestic shipments.
- **The demand for energy in low and middle income countries is expected to grow at more than twice the rate of industrialized countries.** Thailand is expected to invest \$22 billion in new power plants; Indonesia is spending \$40 billion developing a natural gas field; China and India represent even larger potential markets as each country attempts to meet increasing demand.
- **Competition doesn't wait for U.S. leadership.** MERCOSUR countries are in the process of privatizing the electricity sector and expect increased demand for generation and distribution equipment. Imports supply approximately one-fifth of the equipment demand, and the U.S. supplies one-third of that. Yet, with tariffs ranging up to 24%, U.S. companies will be at a significant disadvantage if other countries are given preferential access.

With U.S., German and Japanese companies providing almost equal shares of energy equipment in world markets, any preferential access to low and middle income countries by our competitors will hurt U.S. workers and companies.

- **Fast track will strengthen U.S. efforts to reduce trade barriers and expand these international markets which are key to maintaining U.S. competitiveness and innovation.**

Environmental Technologies and Services

- **U.S. ET exports increased 26% from \$11.5 billion in 1994 to \$14.5 billion in 1995 -- making the U.S. the world's largest supplier.** Growth in exports was responsible for 40% of the \$7.5 billion in 1995 environmental technology industry growth. The global market is projected to grow from about \$440 billion in 1995 to approximately \$600 billion by the year 2010. While the U.S. enjoys over \$14 billion in environmental exports only 8% of the U.S. environmental industry's revenue comes from exports. Major competitors, such as Germany and Japan, export in excess of 20%.
- **Opportunities abound for U.S. environmental technology.** The market in Indonesia exceeds \$1.3 billion of which \$300 million is from the U.S.). Thailand's market exceeds \$1 billion (U.S. exports account for two-fifths of that) and could double over the next five years. Malaysia's market is around \$700 million and is expected to grow at 15-20% per year through 2000.
- **Competition doesn't wait for U.S. leadership.** \$10 billion in new investment is expected through the year 2000 in Brazil. U.S. exports last year amounted to about \$100 million. Tariffs range up to 18%, although MERCOSUR partners receive duty free treatment and other Latin American countries receive a 60% duty reduction.

Medical Equipment

- **Total medical device exports reached \$11 billion in 1996 -- a 14% rise from 1995.** Exports as a share of industry shipments were 20% in 1990 and are expected to be 30% by 2005. Since 1990, U.S. medical devices exports to China, ASEAN and the other big emerging markets (excluding Mexico) doubled, reaching \$2 billion in 1996. Thailand's medical device market exceeds \$600 million, and Indonesia's market has been growing by over 10% annually. Malaysia has budgeted \$1.4 billion this year to upgrade health care quality, and Singapore has over \$500 million earmarked for redevelopment projects.
- **The industry faces tough barriers in low and middle income countries** which include approval procedures for imported devices; government health care reimbursement policies which discriminate against U.S. products; and non-transparent government procurement policies. MERCOSUR countries are developing import and standard regulations which will negatively impact U.S. medical device manufactures.

Fast track will strengthen U.S. efforts to reduce trade barriers and expand these international markets which are key to maintaining U.S. competitiveness and innovation.

- The vast majority of low and middle-income countries have not signed the WTO Government Procurement Code and the United States cannot negotiate government procurement obligations in plurilateral negotiations.
- Current WTO negotiations on establishing elements of a transparency agreement offer the opportunity to secure more transparency in foreign government bids, to the benefit of U.S. firms and workers.

TARIFF RATES

Country	Post-Uruguay Round Tariffs Faced by U.S. Exporters Could Be Raised As High As (Bound-Rates):	Applied Rates	
		Pre-Uruguay	Post-Uruguay
Jamaica	56.3%	28.0%	15.5%
India	52.2	47.4	30.9
Tunisia	48.7	31.7	24.8
Romania	45.1	13.5	11.7
Colombia	39.7	14.5	10.9
Sri Lanka	38.9		
Indonesia	38.4	40.4	28.6
Zimbabwe	35.3	21.8	10.7
El Salvador	34.2	10.3	4.5
Peru	33.7	14.5	10.7
		27.4	14.6
Turkey	33.3		
Venezuela	31.6	32.8	26.3
Argentina	31.0	15.0	12.4
Uruguay	29.4	14.5	10.3
Brazil	29.0	24.0	14.6
		12.8	11.7
Thailand	27.5		
Chile	25.0	41.0	26.1
Philippines	21.9	11.0	11.0
Senegal	16.6	26.9	19.0
Korea	16.4	11.8	11.8
		16.2	7.7
Iceland	12.6		
Poland	12.3	18.7	2.9
Australia	11.1	11.1	6.9
New Zealand	10.8	16.9	8.9
Malaysia	9.3	14.6	6.8
		13.7	6.4
Austria	7.3		
Singapore	7.1	7.8	3.3
Hungary	6.6	16.2	1.3
Finland	6.2	9.6	6.8
Norway	4.2	12.2	5.9
		4.4	1.0
Czech & Slovak	4.0		
Japan	3.7	5.2	3.8
UNITED STATES	3.3	5.5	2.8
European Union	3.2	5.7	2.8
Sweden	2.9	5.9	2.8
		3.5	1.4
Switzerland	2.0		
Hong Kong	0	3.1	1.7
Macau	0	0	0
		0	0

Note: Tariff averages based each country's trade with world in Uruguay Round base year, 1988/89.

Post-UR
Bound
Tariff
Aver.

Pre-UR
Applied
Tariff
Aver.

~~Post~~ UR
Applied
Tariff
Aver.

(All Merchandise)

USA	3.3%	5.7%	2.8%
E. Asia & Pacific	21.0%	21.3%	11.9%
Latin America	32.7%	14.1%	11.7%
S. Asia	50.8%	46.9%	30.4%
N. Africa	48.7%	31.7%	24.8%
~~Sub-Saharan~~	~~19.4%~~		~~19.4%~~
All Low & Middle Income	25.2%	21.4%	13.3%

Data cover only countries participating
in WTO Integrated Data Base

**Draft of Senate Finance Committee Testimony
Ambassador Charlene Barshefsky
June 3, 1997**

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

Trade and Domestic Prosperity

Trade, as you know, has a profound effect on the lives of millions of Americans. It is both a pocketbook issue and a strategic issue. Never before have the benefits of trade for Americans been so deep, so diverse, so widespread, and so sustainable. More than 11 million Americans now work in jobs supported by exports. 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 become a vital part of many rural states, for example. From 1992 to 1996, more than a dozen rural states posted increases in goods exports of more than 60 percent: Arizona, Arkansas, Colorado, Illinois, Iowa, Montana, Nevada, North Dakota, New Hampshire, New Mexico, South Carolina, South Dakota, and Tennessee.

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 lower than at any time over the last 20 years. Inflation is down. Mortgage rates are down. 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. Since the beginning of this Administration, exports have accounted for fully one fourth of the increase in our GDP. Mr. Chairman, this committee knows better than most the ramifications of even a slight slowdown in our GDP growth. The damage is pervasive. While no one can insulate the American economy from future slowdowns, it is clear that trade is critical to preserving our opportunities to regain momentum.

The economic security of the United States clearly requires that we maintain our leadership abroad. Ninety six percent of the world's consumers live outside our boundaries, and 85 percent of them reside in developing countries. These are the large growth regions. Last year, the developing world imported over \$1 trillion in manufactured goods from the industrialized countries, and that is the tip

of the iceberg. But we must work to create fair access to these markets, and American leadership is indispensable.

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

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

The Importance of Fast Track Authority

Our responsibilities today in the post-Cold War era run even deeper than security. Just as we are the world's military superpower and the world's strongest democracy, we are the world's most competitive and dynamic economy.

To seize the opportunities in the global economy and to fully meet the competition, the President is asking Congress for a new grant of authority for negotiating trade agreements, specifically fast track authority. In consultation with the Senate and House leadership, we have determined that proceeding with fast track legislation in September provides the best opportunity for proper consideration and passage of this legislation by year end. Between now and September, we will work with you towards developing legislation that will allow us to continue our important initiatives and to build a consensus on renewing this authority while addressing the concerns of members.

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.

Given the evidence of concerted efforts by our competitors to improve their position, around the world, we need to respond with our most effective and strategically powerful trade policy. We must use the full range of our tools of leverage on the trade front while continuing to enforce our trade

laws and agreements vigorously. 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.

Improving Trade in Regions, Nations, and Sectors

A number of developments since the start of this year underscore the steady progress our trade policy has generated thus far, the centrality of America's role in world trade, the danger posed by continued inaction, and the extraordinary potential held by some of the trade agreements that, in the absence of fast track, may be just beyond our reach.

Multilateral Efforts

Within four years, major WTO negotiations will occur in several areas where the United States is a top global competitor: agriculture, services, and the rules for intellectual property rights. This year we have 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 America does best. American workers, farmers, engineers, 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.

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. However, with the precedent that has now been established in the telecommunications agreement, we hope to see improved offers in the financial services talks.

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Services negotiations to expand this \$1.2 trillion global market -- where U.S. firms exported more than \$220 billion in 1996 with a surplus of \$73 billion -- are to start in January 2000. The trade related intellectual property rights (TRIPs) agreement which protects, for example, the interests of fast-growing U.S. copyright industries exporting over \$400 billion a year, is to be reviewed, with key elements examined before then. We must do everything possible to expand opportunities for such vibrant industries.

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- For example, the rules governing technical barriers to trade (covering product standards, technical regulations and associated procedures such as testing and certification) are scheduled to be reviewed by December of this year, just as sanitary and phytosanitary rules affecting trade in agricultural goods will be reviewed by January of next year. These reviews will play an important role in our broader efforts to ensure that the development and application of product standards and environmental, health, and safety regulations are adequately justified and do not serve as disguised restrictions on international trade.
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- Likewise, the upcoming reviews of pre-shipment inspection and import licensing procedures can make a big difference in opening up access to the growing markets of low- and middle-income countries, where governmental reliance on pre-shipment inspection and import licensing to compensate for underdeveloped domestic customs administrations can sometimes result in unjustified trade barriers through commercial uncertainty and corruption.
- Negotiations for harmonizing the rules for determining the origin of internationally traded products are also due to be completed by July 1998. A harmonization agreement will significantly enhance commercial predictability and reduce the ability of governments to manipulate origin rules as a means of "reclassifying" products under a higher tariff. For the U.S. industries that source their parts and components from around the world for production in various countries, these rules are critical to their ability to predict costs and conduct business.
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While China's accession has attracted far more attention, the United States takes every opportunity to pursue American interests with the 28 applicants that are now seeking WTO membership, and to give leadership to the process. Russia's WTO accession could play a crucial part in confirming and assuring Russia's transition to a market economy, governed by the rules of law and international trade. Discussions so far on Russia's accession, while still at an early stage, have been quite positive and we look for more progress. We are excited about the prospects of the accession of many of the former Soviet Republics, and the Baltic States. Others, like Saudi Arabia and Vietnam, are also becoming more active.

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In Europe last week, we achieved a major breakthrough in our negotiations with the EU on Mutual Recognition Agreements, which cover such areas as telecommunications, electronics, medical devices, pharmaceuticals and recreational craft. The fifteen EU member countries represent the largest market for U.S. goods and services and the MRAs encompass more than \$47 billion in two-way trade. The MRA package, which seeks to eliminate redundant testing between the United States and the EU, continues the Administration's emphasis on expanding trade and opening markets in areas where the United States leads the world.

Sectoral Efforts

The Administration will work with industry and workers to search out ever more opportunities for trade liberalization in key sectors. We will continue to look for sectoral opportunities to benefit U.S. exporters to build on the successes we have had in recent months. We will also continue to press for bringing more trading partners on board these agreements and those sectoral tariff elimination agreements that we negotiated in the Uruguay Round.

We have seen a dramatic illustration of progress in sectoral agreements this year. Over the last three

months, we have completed the Information Technology Agreement (ITA) and the Agreement on Basic Telecommunications---two far-reaching multilateral agreements reducing trade barriers around the world for our high technology industries. The ITA will benefit producers of such products as semiconductors, computers, telecommunications equipment and software. These industries support 1.5 million manufacturing jobs and 1.8 million related service jobs. This agreement amounts to a global tax cut of \$5 billion.

The telecommunications accord should generate thousands of new U.S. jobs over the next 10 years and should save billions of dollars for American consumers and business. The average cost of international phone calls should also drop substantially from the current average of \$1 a minute. Both agreements have the support of U.S. industry and together they cover more than \$1 trillion in goods and services worldwide.

APEC has embarked on such a program of early liberalization in key sectors that will be critical to further anchor the United States in Asia. The Information Technology Agreement has been so well received that the 18 nations in the Asia-Pacific Economic Cooperation forum (APEC) agreed last month in Montreal to explore other sectors for trade liberalization initiatives. The Ministers also agreed to follow up the ITA by pursuing an "ITA II" trade agreement, which would go beyond tariffs to encompass nontariff trade barriers and look at increasing product scope and the number of participating countries. Let me stress here that the original ITA -- already a model agreement affecting hundreds of billions of dollars in goods and services worldwide -- would have been impossible without the residual tariff authority from the Uruguay Round.

The APEC Ministers established an expedited process for launching new market-opening sectoral initiatives. Specifically, the APEC countries will each propose sectors for liberalization initiatives. These proposals -- many of which are likely to be sectors where the United States is market leader -- will be developed by trade officials this summer and presented for consideration in November with a view to commencing formal negotiations. They could encompass goods as well as services and cover tariffs, nontariff measures, trade facilitation measures, and technical cooperation. Fast track authority is essential to ensuring that the United States again plays its leading role in these trade liberalization efforts, protects the interests of American businesses and workers, and is able to implement agreements that are advantageous to us.

Regional Efforts

Latin America and the Caribbean were the fastest growing market 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 trends continue, it will exceed the EU as a destination for U.S. exports by the middle of next year, and exceed Japan and the EU combined by the year 2010.

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. 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.

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 reduction to agriculture to structural issues such as IPR and government procurement.

Chile, as you know, 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 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 and its kind of reform is in the economic interests of the U.S. to ensure a growing export market well into the next century.

The Asia Pacific region, likewise, is a region of rapid progress and vital interests. It is enormous in its scope and has major implications for the future of the United States. It contains the fastest growing economies in the world, largely emerging economies with a total population nearing 3 billion people. Within the Asia Pacific Economic Cooperation (APEC) forum, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 13 percent annually, or almost \$80 billion a year. As a step towards the ultimate APEC goal of free trade, market-opening agreements with key economies and key sectors of the Asian Pacific rim would provide U.S. exporters with a strategic advantage over U.S. competitors in the region.

Dangers of Inaction

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

It should be noted that Brazilian President Fernando Henrique Cardoso was quick to cast a shadow on the recent progress at FTAA, saying that as long as President Clinton does not have fast track authorization from Congress the talks are "imaginary." Latin American nations regard the passage of fast track authority as a key indicator of America's seriousness about pursuing the FTAA.

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Executive Office of the President

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WASHINGTON, D.C. 20508

Office of Congressional Affairs

May 30, 1997

Number of Pages excluding cover: 11

To: Annette Rooney
Office/Agency: OMB
Fax Number: 55691

SUBJECT: CB's June 3rd Testimony....for interagency clearance...thanks!



From: Nicole Venable
Congressional Affairs Specialist

Phone: (202) 395-9495

FAX: (202) 395-4656

COMMENTS:

Draft of Senate Finance Committee Testimony
Ambassador Charlene Barshefsky
June 3, 1997

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

Trade and Domestic Prosperity

Trade, as you know, has a profound effect on the lives of millions of Americans. It is both a pocketbook issue and a strategic issue. Never before have the benefits of trade for Americans been so deep, so diverse, so widespread, and so sustainable. More than 11 million Americans now work in jobs supported by exports. 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 become a vital part of many rural states, for example. From 1992 to 1996, more than a dozen rural states posted increases in goods exports of more than 60 percent: Arizona, Arkansas, Colorado, Illinois, Iowa, Montana, Nevada, North Dakota, New Hampshire, New Mexico, South Carolina, South Dakota, and Tennessee.

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 lower than at any time over the last 20 years. Inflation is down. Mortgage rates are down. 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.

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of the iceberg. But we must work to create fair access to these markets, and American leadership is indispensable.

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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 reduction to agriculture to structural issues such as IPR and government procurement.

Chile, as you know, 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 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 and its kind of reform is in the economic interests of the U.S. to ensure a growing export market well into the next century.

The Asia Pacific region, likewise, is a region of rapid progress and vital interests. It is enormous in its scope and has major implications for the future of the United States. It contains the fastest growing economies in the world, largely emerging economies with a total population nearing 3 billion people. Within the Asia Pacific Economic Cooperation (APEC) forum, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 13 percent annually, or almost \$80 billion a year. As a step towards the ultimate APEC goal of free trade, market-opening agreements with key economies and key sectors of the Asian Pacific rim would provide U.S. exporters with a strategic advantage over U.S. competitors in the region.

Dangers of Inaction

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

It should be noted that Brazilian President Fernando Henrique Cardoso was quick to cast a shadow on the recent progress at FTAA, saying that as long as President Clinton does not have fast track authorization from Congress the talks are "imaginary." Latin American nations regard the passage of fast track authority as a key indicator of America's seriousness about pursuing the FTAA.

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

The United States can only define the shape of reform if it has a strong, consistent influence throughout the Latin American region. Peru recently announced its intention to withdraw from the Andean Community and join MERCOSUR. The nations of the Andean Community have started meeting with member nations of CARICOM and the Central American Common Market to discuss the possibility of negotiating trade agreements. Canada, as you know, has already negotiated a trade pact with Chile and has started discussions with MERCOSUR.

Our trading partners are not waiting for us. They are forging preferential trade agreements without us. More than 20 such agreements have been concluded without us in recent years and the trend continues. In South Asia, for example, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- announced in May 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 also encompasses roughly 20 percent of the world's population. Indifference to its development would only harm our economic future.

Other examples abound:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and has a GDP of roughly \$1 trillion and a population of 200 million. It has struck agreements with Chile and Bolivia, 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 has a clear strategic objective regarding commercial expansion and a stronger position in world affairs.
- The EU has begun a process aimed at reaching a free trade agreement with MERCOSUR, the largest market in Latin America, comprised of Argentina, Brazil, Paraguay, and Uruguay, with a GDP of over \$1 trillion. They have also concluded a framework agreement with Chile that is set up to lead to a free trade agreement. The President of France, just in the region, said we "will have to set the foundations for a new and ambitious partnership," with Latin America, and suggested that Latin America's "essential economic interests... lie not with the United States but with Europe." President Chirac was traveling with four Cabinet officials and 20 leading French businessmen.

- China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities" in Latin America. China wants to enhance commercial ties and ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora. The Chinese leadership has undertaken an unprecedented number of trips to Latin America in that last two years, and Latin America is its second fastest growing export market.
- Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. The Prime Minister of Japan recently visited Latin America seeking closer commercial ties and a greater Japanese commercial presence in all respects.
- ASEAN is forming a free Southeast Asian trade area that will include 400 million people and some of the fastest growing economies in the world. It is a region where China, Japan, Korea and the EU are focusing competitive energies. Argentina's President Menem recently even suggested a MERCOSUR -ASEAN free trade area - an agreement that would encompass over 600 million people.
- Countries within this hemisphere are equally aggressive. Mexico wants to be the commercial hub between North and South America, but also serve as a venue in which to enter North, Central and South America from Asia and Europe. It is jointly pursuing a free trade area with Europe and is reaching out to Asia. President Zedillo and his Cabinet have undertaken numerous missions to Asia and have been well received. It has reached trade agreements with Colombia, Venezuela, and Costa Rica and is negotiating with Honduras, El Salvador and Nicaragua. It has initiated talks with MERCOSUR.
- Chile has a similar strategy. It has concluded agreements with MERCOSUR, Mexico, Colombia, Venezuela and Ecuador. It intends to start similar negotiations with Central America and has an eye toward agreements with Asia. Japan is its largest export market, but Chile sees itself as a bridge from MERCOSUR to Asia and back, and is positioning itself with its MERCOSUR neighbors for that purpose. It has also struck an agreement with Canada that includes a range of market opening elements.
- In the Asia-Pacific region, competition comes from many sources, all of which have contributed to a declining share of U.S. exports to the region. Competition within Asia is the most intense. Japan has been ahead of the U.S. in East Asia in terms of corporate presence, and especially in the past decade, in terms of the amount of overseas development assistance (ODA) it is willing to spend to advance its commercial interests. In more recent years, Korean chaebols have likewise pursued an aggressive strategy to both invest and attain market share in dynamic East Asian economies, ranging from textiles to steel to autos.
- The countries of Southeast Asia, some of the most dynamic economies in the world, are

integrating through its ASEAN Free Trade Area. The integration gives other ASEAN countries access in some key areas where U.S. exporters would otherwise have an advantage, such as in agricultural products, particularly processed food products.

The Decision to Compete

We have an extremely rare opportunity. Never before have so many nations looked to a freer market and believed in it enough to let competition come right to their doorstep. This is a season of open minds on more open markets. Why -- when the benefits of expanded trade are so clear and the costs of sidelining ourselves so great -- should we retreat. We should not.

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

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

Over the next decade, the global economy is expected to grow at two times the rate of the U.S. economy. 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 benefiting from the new economy; advancing core labor standards and protecting the environment; being vigilant to the consequences and potential threat of forced technology transfers. But we would be starting from the proposition that we have been basically on the right track, and we should stay fully engaged, using all our tools, taking advantage of opportunities that present themselves as we did when we saw the chance to reach an ITA.

Or we can convince ourselves, against the evidence, that we are on the wrong track. We can choose our course guided by a picture of economic decline and disinvestment that bears no resemblance to what is happening in our country.

Our competitors would like nothing better than for us to sideline ourselves, debating NAFTA and our relationship with Mexico for 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. We can, in short, lose our momentum, abdicate our position of strength, either permit markets to stay closed, or let others seize the initiative from us and

gain preferential treatment. The choice is that clear.

Labor and the Environment

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

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

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

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

Continuing America's Leadership

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, in response to the lessons of the Smoot-

Hawley tariffs, America has led the effort to open foreign markets and increase U.S. and global prosperity. We cannot take that role for granted. As the President said recently, there is no Mount Olympus on which the world's only superpower can sit and expect to preserve its position, much less enhance it.

04/15/97 12:15 PM

**PRESIDENT WILLIAM JEFFERSON CLINTON
POINTS FOR FOREIGN POLICY DINNER
BLAIR HOUSE
APRIL 16, 1997**

INTRODUCTION

- Wanted to have this meeting since beginning of second term. Less than 1000 days before year 2000. Moment of historic opportunity. Much gone: Iron Curtain, Soviet Union, Cold War, containment. Much new: global economy, information/technological revolution. Market democracy ascendant. First time in history, 2/3 of world's people live under governments of own choosing.
- But promising state of affairs did not arise out of blue; no guarantee it will endure. Era forged by steadfast American leadership over last half century -- through NATO, Marshall Plan, UN, World Bank and IFI's. Now our generation has chance and duty to build new frameworks, partnerships and institutions that will lock in gains, better place America to succeed and win in this new era, create better world for our children and theirs.
- Time of extraordinary opportunities and challenges in increasingly interdependent world. To meet them, we must lead -- and to lead, we must act. But that can't happen without renewed bipartisan consensus on importance of American engagement in world. And while I will not cede my basic Presidential prerogatives, believe strongly that close cooperation between Congress and Executive is crucial to effective foreign policy -- now as 50 years ago.
- Only have 3 hours tonight; want to make most of limited time together. I've asked NSA Sandy Berger to monitor our discussion, keep it moving, help me cover as comprehensively as possible broad range of issues on our agenda.
- Want to present a brief overview of our priority goals; then with help of VP and foreign policy team move into three areas for more intensive discussion: European security, international affairs resources and Asia.

SIX STRATEGIC PRIORITIES

- In State of the Union, set out 6 strategic objectives to keep America secure and prosperous and preserve our global leadership. Together, form roadmap to security, peace, prosperity -- not just for next 4 years but next 50.
- **First, help build an undivided, democratic Europe at peace.** Lesson of this century: When Europe in turmoil, America drawn into war; when Europe stable and prosperous, America benefits too. We have historic chance to create lasting peace by replacing Europe's divisions with ties of partnership, unity.

Leading effort by adapting and enlarging NATO to meet demands of new era; forging strong NATO-Russia partnership. Convinced enlargement will strengthen NATO, bolster Europe's new democracies, enhance regional cooperation, improve climate for prosperity, help make sure Central Europe never again a seedbed of war. This will require Senate ratification and the whole Congress to vote the needed resources. We must do this together.

Also extending reach of democracy and open markets across continent. \$900 million investment under Partnership for Freedom will help turn fledgling NIS market economies into competitive, open markets; will benefit their citizens, Americans alike. Convinced after Helsinki that time is ripe; urge bipartisan support.

- **Second, lead in building a strong and stable Asia Pacific community.** America must remain balance wheel of stability in region where wars have claimed more than 200,000 American lives and markets now support more than 2 million American jobs.

Doing that by: strengthening our security and trade ties with Japan, working with South Korea to bring peace and stability to Korean Peninsula; engaging with China to advance our shared interests -- while addressing plainly our differences on important issues like human rights, trade.

- **Third, America must remain world's leading force for peace.** Might of our military, force of our ideals, power of our example give our nation unique ability to help heal divisions, resolve conflicts before they explode -- e.g. Bosnia, Haiti, Middle East, Northern Ireland.

Can't be everywhere; can't respond to every emergency. But sometimes America and only America can tip balance toward peace. When our interests and values at stake, and where we can make a difference, have responsibility to act.

Middle East an example of Democrats and Republicans alike putting resources, prestige on line for peace. Long term effort; steadfast support especially important in difficult moments.

- **Fourth, respond to new security threats like terrorism, drug trafficking, proliferation and crime -- threats that disregard national borders, demand collective solutions.** Every nation must do its part to defeat these dangerous forces. Sometimes, our nation must and will act alone. But our hand is strengthened when we persuade others to work with us.

That's why doing all we can to build strong international coalitions: arms control agreements like CWC, greater law enforcement cooperation against international criminals, intelligence sharing to root out corruption, comprehensive strategy against terror.

- **Fifth, build new, open trading system for 21st century.** America's future lies in trade. More than 95% of world's consumers live abroad; exports support more than 11 million U.S. jobs. In last four years, reached more than 200 trade agreements, each of which opened

someone else's markets to U.S. business. Now asking Congress for fast-track authority every President has had since 1974 to negotiate new trade agreements, create opportunities for U.S.

We have nothing to fear: Our economy is envy of world. Over last four years, created more jobs than all other G-7 nations combined. We have much to gain: With fast-track, I can work to open trade in areas where American firms are leading, e.g. high technology, agriculture. Can further open markets in Latin America and Asia -- fastest-growing in world.

- **Finally, must have tools to meet these challenges.** Vice President will discuss this in more detail. But want to emphasize that leadership has a price. Can't sit on some illusory Olympus and expect to remain global superpower. Need to meet responsibilities to family of nations.

Spending on international affairs programs plummeted roughly 20% in last four years. Steep decline diminished our ability to influence events abroad, undermined our leadership, cost us opportunities to promote exports and jobs. Further reductions will only create bigger problems for us later: Ounce of prevention worth pound of cure.

We're not in business of writing blank checks. Holding IFI's accountable for efficiency, effectiveness. Won uphill battle for new UN leadership; now, UN has Secretary General committed to reform. As we hold these institutions to their commitments, have to make good on our own by paying our debts and dues.

Also need to give trade finance agencies -- ExIm Bank, OPIC, TDA -- tools they need to help our exporters compete and succeed.

CHEMICAL WEAPONS CONVENTION

- Ready to move on to first topic for broader discussion -- European security, in particular NATO enlargement and Bosnia.
- But first, want to focus on CWC, which as you know is before Senate this week.
- Urge you to remember bottom line: U.S. already getting rid of virtually all our chemical weapons. It's been U.S. policy since 1991 to renounce the use of CW for any purpose in war, including retaliation. Clearly in our interest for as many other nations as possible to follow our lead.
- With CWC, troops less likely to face CW on battlefield. Rogue states and terrorists will have harder time getting ingredients for weapons. New tools for verification, global network for intelligence will make it easier to prevent and punish would-be outlaws.
- On other hand, lose great deal if we don't ratify: Not there to enforce treaty we helped write, leaving US troops and citizens more vulnerable. Put ourselves in company of pariah nations

like Libya and Iraq. Subject our chemical makers to trade penalties that could cost jobs and hundreds of millions of dollars in sales. Send signal of retreat to world.

- CWC reflects best of American bipartisanship. Negotiated under Presidents Reagan and Bush; supported by broad, growing number of Americans -- including every Chairman of the Joint Chiefs of Staff since the Carter Administration. I urge Senate to do what is right and ratify CWC.

TARGETED DISCUSSION

- Now, I'd like to ask Secretary Albright to open the discussion on European security with a few words on NATO enlargement...

[Approximately 6:35 p.m. Albright speaks, followed by approx. 20 minutes of discussion.]

[Approximately 7:00 p.m.]

- I'd like to turn the subject to Bosnia, where 8,500 Americans are currently serving in NATO's Stabilization Force (SFOR) to help the peace become self-sustaining. Secretary Cohen and General Shalikashvili will each say a few words and then we'll open the discussion...

[Cohen and Shalikashvili speak 2 minutes each, followed by approx. 20 minutes of discussion.]

[7:30 p.m. Break for dinner. VP opens discussion of international affairs resources.]

[8:45 President returns to podium]

- To conclude tonight, I'd like to turn our focus to Asia. My National Security Adviser Sandy Berger will launch the discussion with a few comments on China. How China evolves, and how our relationship with China evolves, will have a profound affect on our nation and the world...

[Berger speaks, followed by discussion.]

[Concluding thank yous...]

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FAST TRACK TALKING POINTS

I will seek fast track trade negotiating authority this year. 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 authority to break down foreign trade barriers.

That authority is even more essential today. The rapidly expanding global economy is an inescapable fact of our time. Over the past 50 years, global trade has increased 90-fold. Today, 11 million American jobs are supported by exports, including one in five manufacturing jobs. These are good jobs, paying 13-16% more than the average wage. Over the next decade, global trade is expected to grow at three times the rate of the U.S. economy. In a world where over 95% of the world's consumers live outside the U.S., we have only one choice: we must export.

The U.S. is perfectly positioned to seize these opportunities. We have nothing to fear. The U.S. economy is the envy of the world. 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, while rest of the G-7 nations combined created 600,000. 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.

And these agreements offer us virtually one-way trade benefits. When the Uruguay Round is phased in, our tariffs will average 2.8%. Other countries are far higher: India (31%); Thailand and Turkey (26%); Chile and Indonesia (11%). These are virtually one-way deals.

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. We can continue that process today. New WTO negotiations will permit us to further reduce key barriers, such as: 1) Agriculture (\$526 billion global market); and 2) Services (a \$1.2 trillion global services market where U.S. firms exported more than \$220 billion in 1996). Talks in intellectual property and others areas are also important.

Sectoral. The recent Information Technology Agreement cut tariffs on \$500 billion of trade in semiconductors, computers, telecommunications equipment and software, \$5 billion tax cut for American exports. With fast track, we can tear down more barriers in areas like computer software, medical equipment and environmental technology, areas where America leads the world.

Regional. Continuing regional initiatives present vast opportunities: 1) Latin America and the Caribbean, the fastest growing market for U.S. exports in 1996; and 2) Asia, containing the fastest growing economies in the world, with nearly 3 billion people. Other efforts with Europe, Africa and other regions.

If we don't act, our competitors will. 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; China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities"; Japan has undertaken high-level efforts in Asia and Latin America. The cost of our inaction is high. Canada's free trade agreement with Chile helped cause Canada's Northern Talcum to win a \$180 million telecommunications contract over three U.S. companies - in part because it could avoid paying \$20 million worth of duties.

We need to work out our differences. I know that there are strong feelings on the labor and environment issues - and we need to work those out in a bipartisan fashion. I have asked Ambassador Barshefsky to lead that effort. But we must work through those and move forward.

We face a critical choice: whether to seize the initiative or have it seized from us. 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. The choice is that clear - and that important. I ask you to work with me in helping us move forward.

PRESIDENTIAL RETREAT WITH HILL

5:45 Members arrive/Meet and Greet-Blair House

6:10 POTUS arrives

6:15 VP welcomes members and introduces POTUS
Location: Garden Room. Members at tables
*VP speaks from podium

6:20 POTUS gives broad ranging remarks on second
term agenda with emphasis at end on CWC

6:30-7:30 SESSION I EUROPE

6:30 --NATO ENLARGEMENT (Albright does 3-4 minutes)
OPEN DISCUSSION

7:00--BOSNIA/BOSNIA SUPPLEMENTAL (Cohen/Shali) 3-4 min)
OPEN DISCUSSION

7:30 break

8:00 Dinner (VP remarks/Bipartisanship/resources
Individual discussions at tables: Fast Track, CWC, NATO,
Mexico, etc.

8:45 SESSION III US-CHINA (MFN)

Berger brief remarks

Albright--possible update on Middle East

9:15 HOME

Senator Daniel Patrick Moynihan (D-NY)
Senator William Roth (R-DE)
Senator Bob Kerrey (D-NE)
Senator Strom Thurmond (R-SC)

Representative Dick Gephardt (D-MO)
Representative Ben Gilman (G-NY)
Representative David Obey (D-WI)
Representative John Murtha (D-PA)
Representative Dick Armey (R-TX)
Representative David Bonior (D-MI)
Representative Tom DeLay (R-TX)
Representative Bob Livingston (R-LA)
Representative Sonny Callahan (R-AL)
Representative Nancy Pelosi (D-CA)
Representative Harold Rogers (R-KY)
Representative John Spratt (D-SC)
Representative Lee Hamilton (D-IN)
Representative Floyd Spence (R-SC)
Representative Ron Dellums (D-CA)
Representative Porter Goss (R-FL)
Representative Norm Dicks (D-WA)
Representative Tom Lantos (D-CA)
Representative Howard Berman (D-CA)
Representative Bill Young (R-FL)
Representative Sam Gedge (D-CT)
Representative Doug Bereuter (R-NE)

(Pending Responses)

Senator Robert Byrd (D-WV)
Senator Ernest Hollings (D-SC)
Representative Alan Mollohan (D-WV)
Representative John Kasich (R-OH)

Draft Remarks on Fast Track

... For fifty years the United States has led the world in building a foundation for peace and prosperity. (Assumes earlier discussion of NATO, UN initiatives) We have now reached a point in the post Cold War era where our global relationships will be significantly defined by our economic alliances as well as our security alliances. America is uniquely positioned to lead the world in both respects.

By measure of our military strength and readiness we are indisputably the world's military superpower. We are also the world's economic leader. For the fifth year in a row, the International Institute for Management Development has ranked the U.S. economy the most competitive in the world. Our competitiveness is based on a solid strategy which has worked to bring the deficit down, invest in our people, and increase the productivity of our workers and companies.

We lead the world in job creation: The United States has created eleven-and-a-half million new jobs from 1992 thru 1996 while the balance of the G-7 -- now G-8 countries -- have had near zero job growth over the same period. So it is hardly surprising that our unemployment rate of 5.2% in March, matching its lowest level in eight years. Trade has played an important role in our domestic economic expansion. From agriculture to aerospace, we are the world's export leader. Our exports are up over 40% in the last four years and fully 25% of our economic growth over the past four years is related to trade. More than 11 million U.S. jobs -- 1.4 million created in the last four years -- are now directly dependent on trade and these jobs pay more than non trade-related jobs in the domestic economy.

Even as our economy is far and away the world leader, and we are better positioned than our competitors as we open emerging markets, we must also consider one important reality: The United States is just 5% of the world's population. Ninety-five percent of the world's population is outside our borders. If we are going to continue to grow domestically, we must sell our goods and services in foreign markets. For four years, we have recognized this in our market opening trade strategy which is most clearly expressed in the simple principle of reciprocity. Just as our market is open to foreign goods and services, we expect others to open their markets to us. In the two-hundred plus trade agreements negotiated by this Administration, we have pushed market-opening initiatives bilaterally, regionally, and multi-laterally, and the return is unprecedented growth for U.S. exports.

The issue is not whether our market should be opened further. Since the global trade agreements of the 1960s' and 1970s', our economy has been among the most open in the world, and in part, that is responsible for our prosperity today. The average tariff rates -- the levy on foreign goods at our border is now just 3.5% -- while the tariff rates today in the fastest growing markets in the world are in the range of twenty to thirty percent. That's not fair and those barriers must come down so that our workers and companies are not at a competitive disadvantage.

Consider two recent examples: The Information Technology Agreement (the ITA) and the agreement on Basic Telecommunications Services. Together, these agreements encompass more than a trillion dollars in world trade in areas where the United States' has the most competitive companies and workers. These two agreements will unlock billions in new opportunities for U.S. companies and allow us expand the reach of the Information Superhighway around the world.

The telecom agreement includes 69 countries, and opens the world for telecommunications trade as never before. Before this Agreement, only 17 percent of the top 20 telecommunications markets were open to U.S. companies; now they have access to nearly 100 percent of those markets. Today, telecommunications is a \$600 billion industry. Under this agreement that figure will double or even triple over the next ten years, and no country will gain more in export opportunities than we do.

For the United States, the Information Technology Agreement levels the international playing field by eliminating tariffs on the vast range of technology products -- semiconductors, computers, telecommunications equipment, and software -- by the year 2000. Our technology exports were up 44% in 1996. For 1.8 million U.S. workers that manufacture technology products and our companies this agreement amounts to a \$5 billion annual tax cut because foreign tariffs are so much higher than ours. The ITA will fuel growth among 39 countries that account for more than 92% of global technology production: the \$500 billion technology market today will eclipse \$750 billion by the year 2000.

I raise these agreements because they exemplify our strategy to level the international playing-field and open foreign markets for our most competitive industries. It is worth noting that we were able to gain an ITA agreement because we had the tools -- specifically, fast track negotiating authority -- which strengthened our hand.

In the overall trade picture, we are once again the world's largest exporter, setting historic records. Over the last four years, our manufactured exports are up 42 percent, high technology exports jumped 45 percent, service exports climbed 26 percent, and farm exports rose 40 percent. [To those that use the trade deficit as an excuse, I say look at all the numbers. Our goods and services trade deficit amounted to 1.3% of GDP in 1996, down sharply from the recent high of 3.3% in 1987.]

There are incredible opportunities in the global economy which our workers and companies are prepared to capture. We owe it to them to ensure that they are competing on fair and equal terms, and that is why I am seeking special fast track trade negotiating authority from Congress.

We are unquestionably better-positioned than our competitors to capture the opportunities of a growing global economy. Our economic expansion has been investment-led, building the foundation for even greater economic strength. Our industrial production is up nearly 18 percent

in real terms over the last four years. Japan's production, by contrast, is up 5 percent and Germany's has declined 2 percent over this period. Growth of our industrial capacity is at its highest level since the 1970s.

Our competitors cannot beat us, we can only lose if we put ourselves on the sidelines. Our export growth is coming in the most important fast-growing markets of Asia and Latin America. From 1992 to 1996, our exports in Latin America grew from \$35 billion to more than \$52 billion, a growth rate of about 50%. Among the Pacific Rim countries (excluding Japan and China) our exports grew from \$69 billion to more than \$108 billion, a growth rate of more than 50%. The developing countries of the world now account for more than 42% of U.S. exports, and this is where future opportunities about. The OECD estimates that if China, India and Indonesia grow by an average of 6% a year (as they are now), and income distribution remains at the same levels, by 2010 some 700 million people in these three countries -- roughly equal to the current combined populations of Japan, the European Union, and the United States combined -- will have an average income equivalent to that of Spain today, forming a vast market for consumer goods.

Our prosperity, however, is not automatic in a global economy of ever-intensifying competition. Both Asia and Latin America are busy with Nations' in pursuit of strategic trade alliances which seek to work around us, not with us. The examples of such new exclusive alliances among our foreign competitors abound:

- MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) is a developing customs union with ambitions to expand to all of South America. MERCOSUR 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 EU has begun a process aimed at reaching a free trade agreement with MERCOSUR. They have concluded a framework agreement with Chile that is set up to lead to a free trade agreement. President Chirac, on a recent trip to South America said the region'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 to ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora.
- Japan has undertaken high level efforts throughout Asia and Latin America in country after country.

In this hemisphere, the United States is committed not only to concluding the FTAA by 2005, but also to concrete progress by 2000. Chile should be our first step in this process. Why is this important? Latin America and the Caribbean were the fastest growing market for U.S. exports in 1996. If trends continue, it will exceed the EU as a destination for U.S. exports by the year 2000, and exceed Japan and the EU combined by the year 2010.

Similarly, within APEC, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 27 percent annually, or almost \$50 billion a year. Market-opening agreements with key APEC partners offers the potential to catalyze this process and strengthen U.S. strategic relationships. 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. It is also unacceptable that Europe has a 30% market share in Africa while the United States has but 7% of the African marketplace.

There is no substitute for our ability to implement comprehensive trade agreements. Former Undersecretary of the Treasury, Fred Bergsten, recently advised Congress that renewal of fast track authority would be "one of the most beneficial steps the Congress could take this year to help our economy. It is the absence of agreed procedural authority that stands out as the single most limiting factor at this time in our ability to open foreign markets. Such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts.

This is not to suggest that we don't face challenges at home. Too many Americans have been left behind in the current economic expansion -- even as our unemployment rate is at historic low levels -- because they do not have the skills or education to benefit from the increased opportunities. Neither government nor the private sector should rest while that is the case.

I am calling on Congress to provide trade negotiating authority at the same time we increase training and education initiatives -- as I have outlined in my budget -- so that all Americans can fully participate in the opportunities of the global economy. I believe that it also in our interest to advance core labor standards and protect the environment in the context of our trade agreements wherever such opportunities are available to us. These initiatives are also fundamentally consistent with our national values and the advancement of democracy and civil rights abroad. We must also be vigilant to the consequences and potential threat of forced technology transfer in foreign countries. [need specific initiative here]

Whenever Congress considers trade expansion legislation there is a vigorous debate. I welcome that debate. However, I am concerned about those who would use the fast track debate to focus solely on the relationship between the United States and Mexico. Our competitors would like nothing better than for us to sideline ourselves debating our relationship with Mexico while they move ahead with trade relationships in their interest.

The debate about fast track should be about our ability to conduct a global trade policy and to advance our global trade interests. Congress can recognize that the American economy is the model for the world, and continue to open foreign markets and seize the initiative, or take another path that would seek to retreat from the global economy. I am seeking fast track negotiating authority consistent with that provided to President Ford, President Carter, President Reagan and President Bush on a bi-partisan basis, because it is so important for the United States to continue to lead the world economically, consistent with our role in seeking to strengthen global security.

04/10/97 1:30 pm

**PRESIDENT WILLIAM JEFFERSON CLINTON
REMARKS TO ASNE
WASHINGTON, D.C.
APRIL 11, 1997**

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Thank you, Bob Giles, for that introduction. [Acknowledgments]

I am very pleased to meet once again with the American Society of Newspaper Editors. I'm sorry I missed last year. Rest assured, though, that the Vice President told me all about it -- including the pictures from his days as a long-haired cub reporter at the Nashville Tennessean.

Times have changed since Will Rogers said, "All I know is what I see in the papers." But in today's world of 500 channels and hundreds of thousands of Web sites, America's newspapers remain strong guardians of American democracy. Amid the Information Age's daily blizzard of bits and bytes, the role you play in helping our citizens make informed choices for America's future is more important than ever.

I am here today to talk about one set of choices that will have a profound impact on the course of our lives and the shape of our world: the choices that we as a nation must make to sustain America's global leadership in the next century.

Four years ago, I came into office determined to renew our strength and prosperity at home. But I also was convinced that our success at home depends on our strength and willingness to lead abroad.

That belief has been the bedrock of American foreign policy for the last half-century. After World War II, a generation of farsighted American leaders forged NATO, which has given us a half-century of security. They built the United Nations so that a hard-won peace would not be lost. They launched the Marshall Plan to rebuild a Europe ravaged by war. And they created the World Bank and the other international financial institutions, which paved the way for unprecedented global prosperity. These institutions and the ideas they embody helped win the Cold War...cast freedom's light to the farthest reaches of the earth...and open an era of unprecedented progress for the American people and the world.

They did it through leadership. And they did it by working together across party lines, not as Republicans or Democrats, but as Americans. It wasn't easy. Throughout that remarkable half-century, Republicans and Democrats continued to disagree on many of the most pressing issues of the day -- sometimes passionately. But in the end, they heeded the call of a great Republican leader, Senator Arthur Vandenberg, to "unite our official voice at the water's edge." They came together in bipartisan support for the American leadership that has been such an important part of America's strength in the world for fifty years.

Now our generation must meet its own challenge of change. We have largely swept away the rubble of barriers and blocs that once divided whole continents. But as borders become more open and the line between domestic and foreign policy continues to blur, our leadership abroad is

even more vital to our security and well-being at home. From fighting terrorism and drugs to protecting the global environment, we stand to gain from working with other nations in this new world -- and to lose if we do not. Just as American leaders of both political parties did fifty years ago, we must create new structures and revitalize old ones so that free peoples can preserve peace...bridge differences...meet common challenges...and pursue shared dreams.

In my State of the Union address, I set out six key strategic objectives that we must achieve if we are to keep America prosperous and secure and our leadership strong: Working to build a Europe that is undivided, democratic and at peace for the first time in history...creating a strong and stable community of nations that links the United States and Asia...embracing our inescapable role as the world's leading force for peace...providing jobs and opportunity through a more open and competitive trading system...confronting new security threats that defy borders and unilateral solutions...and making sure that we can meet all these challenges with the right tools, from the world's strongest military to strong, fully-funded diplomacy.

These six goals are ambitious but achievable. Each is vital to realizing the rich promise of our time -- while guarding against its perils. And together, they outline a blueprint for America's future -- not just for the next four years, but the next half-century.

The next three months will be a critical time for making this blueprint a concrete reality. This period from Helsinki to Madrid offers us the chance to complete the mission that we set out on fifty years ago...and to push forward on the mission we have set for the next fifty years.

We will begin by strengthening the foundation for security and prosperity in our own hemisphere. Three weeks from now, I will meet with our closest neighbors in Mexico, Central America, and the Caribbean to help our democracies and economies grow together, and to intensify our shared fight against crime, drugs, illegal migration and pollution. Just before the 50th anniversary of the Marshall Plan, I will hold a summit with the European Union to affirm our transatlantic ties even as we expand our global partnership. I will host the world's leading industrial democracies and Russia at the Denver Summit of the Eight -- an opportunity to deepen our cooperation with Russia for peace and prosperity. And at the NATO summit in Madrid this July, we will continue to adapt NATO to the demands of a new era and invite the first, but not last, new members to join history's most successful alliance.

Like the larger agenda they support, each of these initiatives calls for strong and steadfast U.S. leadership. The powerful trend toward democracy and free markets is neither inevitable nor irreversible. Sustaining it will take relentless effort. But leadership brings its own rewards. If America leads, others are more likely to share the risks and responsibilities, furthering our values and goals.

Our leadership also faces two other pressing tests now and over the coming months: ratifying the Chemical Weapons Convention and strengthening our ability to thrive in the global economy by making trade more open and fair.

For the last fifty years, Americans have lived under the hair-trigger threat of mass destruction. Our leadership has been essential to lifting that global peril. And during the last four years, we have made remarkable progress.

The collapse of the Soviet Union left 3,400 nuclear warheads in Ukraine, Kazakstan and Belarus. Today, because of our efforts, there are none. North Korea was accumulating the material for nuclear weapons. Now its nuclear program is frozen under international supervision and eventually will be dismantled. We helped win the indefinite extension of the Nuclear Nonproliferation Treaty -- a powerful global barrier to the spread of nuclear weapons and their technology. We led in concluding the Comprehensive Test Ban Treaty, which will bring to life a decades-old dream of ending nuclear weapons testing. With Russia, we have worked to dispose of -- or more safely store -- uranium that could have been made into hundreds of bombs and warheads. And President Yeltsin and I agreed last month in Helsinki to a roadmap through the START treaties to cut our nuclear arsenals over the next decade by 80 percent from their Cold War peak.

Now America must rise to the challenge of ratifying the Chemical Weapons Convention before it takes effect on April 29 -- less than three weeks from today. This century opened with the horror of chemical war in the trenches of World War I. Today, at the dawn of a new century, we have the opportunity to forge a widening international commitment to begin banishing poison gas from the earth.

The Chemical Weapons Convention requires other nations to do what we decided to do more than a decade ago: get rid of virtually all our chemical weapons. In other words, this treaty is about other nations destroying their chemical weapons. As they do so and renounce the development, production, acquisition or use of chemical arms, our troops will be less likely to face one of the battlefield's most lethal threats. As stockpiles are eliminated and the transfer of dangerous chemicals is controlled, rogue states and terrorists will have a harder time getting the ingredients for weapons. And by giving us new tools for verification, enabling us to tap a global network for intelligence and information, and strengthening our own law enforcement, this treaty will make it casier for us to prevent and punish those who seek to violate its rules.

The Chemical Weapons Convention reflects the best of American bipartisanship. Negotiated under President Reagan and President Bush, it is supported by a broad and growing number of Americans -- including every Chairman of the Joint Chiefs of Staff since the Carter Administration. Last week at the White House, I was proud to welcome a remarkable cross-section of these supporters, including former Secretary of State James Baker, General Colin Powell, military leaders, legislators, arms control experts and representatives from small and large businesses, religious groups and scientists. I [welcome the Senate's decision TK] and I urge the Senate to do what is right and ratify this convention.

If we fail to do so, we will not be there to enforce a treaty that we helped write, leaving our military and our people more vulnerable to a silent and sudden killer. We will put ourselves in the same column with rogue nations like Libya and Iraq that reject this treaty, instead of in the company of those who set the norms for civilized international behavior. We will subject our chemical makers -- among America's leading exporters -- to trade restrictions that could cost

them jobs and hundreds of millions of dollars in sales. We will send a signal of retreat to the rest of the world.

America has led this effort to establish an international ban against chemical weapons. Now we must ratify it and remain on the right side of history. If we do, we will give new momentum and moral authority to our leadership in reducing even more the danger of weapons of mass destruction. Within my lifetime, we have made unimaginable strides, stepping back from the nuclear precipice, from the bleak time of fallout shelters and air raid drills. Once-distant goals have become the building blocks for even more ambitious future efforts.

For we have more -- much more -- to do. We must strengthen the world's ability to stop the use of deadly diseases as biological weapons of war. We must freeze the production of the raw materials used for nuclear bombs. We must give greater bite to the global watchdogs responsible for detecting hidden weapons programs. Continuing this remarkable progress demands constant work. It demands nonstop vigilance. And it demands American leadership.

There is a second matter that demands bipartisan cooperation in the coming months. For fifty years, America has led the world not only in building security but in promoting prosperity. Now we must choose whether to continue to shape the international economy so that it works for all our people -- or shrink from its challenges.

The rapidly growing and ever changing global economy is an inescapable fact of our time. Over the past 50 years, global trade has increased 90-fold. Over the next decade, it is expected to grow at three times the rate of the U.S. economy. Nations once divided by great gulfs of geography and military rivalry are now linked by surging currents of commerce.

This world marketplace poses stiff challenges. It means constant change for our nation and for our people. But it offers us the greatest opportunity for prosperity we have known. Today, America stands alone as the world's strongest and most competitive economy. Our exports have surged to record levels. Our budget deficit is now the smallest as a share of income of any major economy. Basic American industries have revived; our auto industry is number one in the world again for the first time since the 1970s. And from semiconductors to biotech to Hollywood, American firms lead the industries that are remaking the world. We are uniquely well-positioned to make the most of this new economic era.

But in a world where America has only four percent of the population -- where the fastest growing markets for our goods and services are in Asia and Latin America -- where export related jobs pay 13 percent to 16 percent more than other American jobs . . . we have only one choice: we must export.

To do that, we must have higher skills, stronger productivity, deeper investment. We must balance the budget. We must give our people the best education in the world, establishing national school standards to enable us to compete internationally, opening the doors of college, and passing my GI Bill for workers, which gives every unemployed and underemployed worker a skills grant that can be used to obtain the training he or she needs. We must continue to expand research and development in the public and private sector.

And at every opportunity, we must press forward in our struggle for open and competitive trade.

My administration has concluded more than 200 trade agreements, each of which opened someone else's markets wider to American business. We fought for enactment of NAFTA, creating a free market with our neighbors -- and today, despite the peso crisis, our exports to Mexico are up 37 percent over pre-NAFTA levels. We broke seven years of global gridlock and successfully negotiated the new round of GATT, which has lowered average tariffs on U.S. goods around the world by one-third. We have broken down barriers and boosted exports to Japan -- up 41 percent since 1993, and 85 percent in sectors like medical supplies and auto parts where we have established trade agreements.

This is a record to build on, not to rest on. History teaches us that when the momentum for open markets falters, the world can easily slide backward. It is unacceptable for us to go backward. It is unacceptable for us to stand still. It is unacceptable for us to sit on the sidelines while other nations forge bonds of trade. This is a critical moment for us to forge our future, and we must move to seize it.

American leadership created the prosperity of the past 50 years. Now only American leadership can create prosperity -- for our people and for all the world -- in the next 50 years. And America cannot lead if America -- and its leaders -- cannot act. Every American President since 1974, Democrat and Republican alike, has had the authority to negotiate new trade agreements. That fast-track negotiating authority, every time, has been extended with the support of Members of Congress of both parties. That is how America has exercised its most fundamental leadership of the world economy. So today I am renewing my call to Congress to give me fast-track authority to negotiate new trade agreements -- trade agreements that will create opportunities for our workers and our businesses in the global economy -- and do it this year.

We have seen in the past six months what a strong trade agreement can bring to our people and businesses. The International Telecommunications Agreement that we reached with 37 other nations in December will eliminate tariffs and unshackle trade on \$500 billion of trade in computers, semiconductors and telecommunications -- the high-tech sectors of the future in which America already leads the way. This amounts to a \$5 billion cut in tariffs on American products exported to other nations.

Now, if Congress grants fast-track authority, I can use it to open trade in the areas where American firms are leading and America's future lies. We lead the world in high technology; in years to come, we must press to tear down barriers around the world that keep out American products such as computer software, medical equipment, and environmental technology. We lead the world in agricultural exports; we must negotiate trade agreements to open even more markets to our produce. We will follow through on the agreement we forged at the Summit of the Americas in Miami, to build a Free Trade Area of the Americas by the Year 2005. We will press aggressively to open markets to our products in Asia. And through a new Partnership for Freedom, we can help create jobs for Americans by expanding trade and investment and deepening free market reform in Russia and the New Independent States.

If we do not seize the vast opportunities offered by the rising regions of the world, be assured that our competitors will. Last year, Latin American nations had more trade with Europe than with the United States. There is no reason to think that these nations will wait for us to move forward. These nations are our neighbors; they are our partners; and we would be foolish to let this opportunity pass us by.

All this expanded trade will enable us to create more jobs through higher exports. It will help us to protect the 11 million jobs that are already dependent on trade. This is not about whether we will open our markets to the world: They already are. It is about whether the world will continue to open its markets to us.

By opening the world's markets, we help the standard of living grow everywhere. That's the right thing to do. And it also helps move the world's poor nations from the threat of instability into a market for our goods and services.

I am determined that the new trade agreements we seek will be good for working people and for the environment, here and around the globe. I have asked the U.S. Trade Representative, Ambassador Charlene Barshefsky, to work with members of Congress of both parties, with labor and business and environmentalists, to try to reach consensus on these issues.

But let me be clear: We cannot shrink from the challenge of the global economy. Trade and communications are remaking our world and bringing it closer together. We must lead the revolution in global trade -- because in the long run, the world's developing nations will increase their buying power, and expanding our exports to them will be the key to our growth. And I am certain that American workers and businesses, given the chance, can outcompete anyone, anywhere in the world. I call on the Congress to work with me to let them do just that.

The question we face is as old as our country. Whether to turn inward or reach outward, whether to fear change or embrace it. Over the past fifty years -- and over the past four years -- we made the choice that has always served America best.

Now we face another moment of choice. As I told the Congress and the American people in February, while we no longer face a single implacable foe, the enemy of our time is inaction. I will continue to reach out to members of both parties to forge a strong and united American response to the new challenges of our times. The decisions we make will set our course for the next fifty years -- and we must make them together.

**Meeting with David Rockefeller
to Discuss NAFTA, Chile and Fast Track Legislation**

Issue

David Rockefeller is an avid supporter of the NAFTA, a trade agreement with Chile and fast track legislation. He was, in fact, a key private sector player in getting the NAFTA through Congress. He has also been a presiding figure over the annual Council of the Americas meetings in Washington. He is interested in hearing your view on the hemispheric trade agenda and fast track legislation. He will ask what role the private sector can best play in working with the Administration regarding fast track legislation. He will be accompanied by Ted Briggs, President of the Americas Society, and Bill Pryce, President of the Council of the Americas.

Suggested Points to Make

Chile/Free Trade Area of the Americas (FTAA)/NAFTA

- The President is fully committed to an agreement with Chile. He views this as the next concrete step we can take to build the FTAA, and a key strategic step in the region.
- We will continue to pursue our multilateral FTAA effort in the hemisphere and are looking for a successful trade Ministerial meeting in Brazil in May. As you know, the Ministers (Ambassador Barshefsky for the U.S.) are to determine "the how and when" to launch the multilateral FTAA negotiations.

~~We believe the second Summit of the Americas in Santiago, Chile, in March 1998 should launch the negotiations.~~

- We also support legislation to enhance the trade value of the Caribbean Basin Economic Recovery Act and have incorporated a proposal in the President's budget proposal.
- We also believe the NAFTA is in the best economic interest of the United States.

Fast Track Legislation

- Regarding fast track, the President strongly supports it. I think his speech on Friday to the American Society of Newspaper Editors made that clear.
- We also believe we need to reorient the rhetoric surrounding fast track. There has been too much focus on the NAFTA, and particularly Mexico specific issues, and too little focus on the importance of this to our role in the global economy, both in terms of building our prosperity and advancing our strategic interests.
- Many in Congress need to be informed that we are the most competitive economy in the world, the most open with the lowest barriers, and 95 percent of the world's consumers

reside outside the U.S. We have much to gain and virtually nothing to lose by negotiating tough reciprocal trade agreements.

- This is about opening the fastest growing markets in the world, ensuring the world continues to move towards open markets and societies, and ensuring we are strategically well positioned in the world as we enter the next century.
- We should have the authority to implement more deals like the global Information Technology Agreement which will generate billions in sales and hundreds of thousands of jobs in sectors where the U.S. is strongly positioned.
- We should have the authority to credibly negotiate as we move forward in the World Trade Organization with the "built in" agenda over the next 4 years that addresses important issues (e.g., intellectual property, procurement, rules of origin, etc.) and launches negotiations on agriculture and services - global markets of over \$525 billion and \$1.2 trillion respectively where the U.S. is extremely competitive.
- We should have all the tools to strategically position ourselves in the Asian Pacific Rim, advance with the TransAtlantic Marketplace, and tap into other markets with trade agreements that open markets with clear and transparent rules.
- Congress should also be aware that there is a real danger in U.S. inaction. The fastest growing markets in the world, like Latin America and the Asian Pacific Rim, and additional markets with great promise (Africa, Central Europe, etc.) are the focus of our global competitors.
- This competitive phenomenon is both regional and global. MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), Chile and Mexico, for example, are negotiating trade deals to advance their commercial interests in the region. The net result is U.S. based exporters find themselves at a competitive disadvantage in these markets.
- The EU is pursuing a trade deal with MERCOSUR, Chile and Mexico. The Chinese leadership has dramatically stepped up their efforts to carve into the region, including searching out strategic relations with key players to curb U.S. power in the region and in global fora. There is discussion of a MERCOSUR-ASEAN free trade agreement.
- Since 1992 alone, there have been over 20 free trade agreements struck in the world in key markets like Asia's Pacific Rim, Latin America and the Mediterranean basin that do not involve the U.S.
- Given the increasing importance of trade alliances, and the fact that their number and importance are growing, we also run the risk of losing our position as the foreign policy leader in key regions if we are not fully engaged with our trade agenda. This is particularly true in Latin America, where the EU and China are hard at work.

- There has never been a more important time given our competitiveness, the global economic reality, and our strategic interests to have the full arsenal of our trade tools at our disposal. Every President since 1974 has had fast track authority.
- The President has asked Ambassador Barshefsky to take the lead in working with Congress to forge the necessary bipartisan consensus. We want broad authority (i.e., not limited to any particular country, such as Chile) with sufficient duration to be credible in longer term initiatives (i.e., the FTAA, APEC, etc.).
- We are actively laying the groundwork with Congress, particularly in the House, to build support for the Administration's approach. This groundwork is vitally important to reorient the coming debate off of concerns with Mexico to our global agenda.
- In order to have a productive discussion of a specific Administration proposal, we need to lay this groundwork to ensure the best prospects for success. At the same time, we recognize the need to move forward quickly.
- With regards labor, the U.S. workforce in the global transition, and environment issues, the fact of the matter is that we must find a bipartisan consensus to succeed. These issues are too important to too many people to ignore them and be in a position to sustain support for the trade agreement agenda.
- In short, we must set forth a meaningful agenda on the labor, workforce in transition, and environment front. It must be something that attracts a sufficient number of Democratic votes, but does not cause us to lose critical Republican support.
- **At the same time, there are other issues we will have to work out on a bipartisan basis,** such as the stipulations regarding what kinds of legislation can be attached to trade agreement implementing legislation under the fast track procedures.

Role of the Private Sector re Fast Track

- With regard to the role of the private sector, we recognize the need for Presidential leadership, but your support will be critical. At this juncture, I suggest you contact USTR. Ambassador Barshefsky, working with the NEC and others in the White House, will coordinate the Administration effort, but they will be interested in your support.

Background

Ambassador Barshefsky has been engaged in an active Congressional (particularly House) consultation effort. We are focused on Ways and Means and others in the House in an effort to generate the appropriate conditions for moving forward with a proposal as quickly as possible. Both Chairman Archer and Congressman Rangel are predisposed to work with the Administration on a bipartisan bill, but Rangel is undecided. Most recently, Speaker Gingrich wrote the President on April 10 urging him to move forward with fast track, encouraging him to

speaking out in support of fast track noting Presidential leadership is vital to success, and indicating he has asked the Ways and Means Committee and Rules Committee to move forward on this issue.

Drafted by: USTR/Huenemann x5-5190

Cleared by: USTR Barshefsky
State (B.Samuel)

Fast Track & Trade Agenda

President Clinton is committed to move forward with an activist trade agenda during his second term. He made his intentions clear during the State of the Union and more recently when Chilean President Frei was visiting. And he will continue to sound this theme when he travels to Mexico, the Caribbean, and South America later this year and when he meets with the leaders of the dynamic Asia-Pacific economies next autumn.

We will work hard over the next four years -- as we have over the past four years -- to secure and enforce agreements that enable you to compete fairly in foreign markets. But in order to do that, Congress must give President Clinton a grant of fast track negotiating authority, just as they have given every President since Ford for key periods.

Without Congressional authority, we could not have secured the Information Technology Agreement last December. This agreement will eliminate tariffs around the world on \$500 billion of trade in semiconductors and software, computers and telecommunications equipment -- expanding the sales of leading edge American companies around the globe. This agreement will benefit the 1.8 million American manufacturing workers already employed in these dynamic sectors and create additional high wage jobs here in America.

Our trade partners in Latin America and Asia will not sit idly by: they will expand trade without us, costing us jobs and our future prosperity. Take Chile as an example. They have already negotiated a free trade agreement with countries such as Canada and Brazil. If we do not move forward with a free trade agreement, our exporters will face a cost disadvantage of over 10 percent in Chile's fast-growing market.

We have also made some progress on deepening our dialogue with China on trade matters in recent months. When President Clinton met with President Jiang at APEC they pledged to intensify efforts to bring China's trading practices into conformity with multilateral rules by working with China and other trade partners on a strong, commercial accession to the WTO. We are committed to continuing our efforts to strengthen and stabilize commercial relations with China.

With the most competitive economy in the world -- with U.S. manufacturing exports up 42 percent over the past 4 years alone -- now is the time to act. The President appreciated the supportive letter he received from Jerry Jasinowski (NAM) following the State of the Union address. We are pleased we can count on you in the months ahead to help make the case to the American people on the benefits of expanding trade.

erry J. Jasinowski

President

February 11, 1997

The President
The White House
Washington, DC 20500

Dear Mr. President:

On behalf of the 14,000 manufacturers of the National Association of Manufacturers, I write to compliment you on your State of the Union address delivered last week before the United States Congress. Not only was your call for balancing the budget and excelling in education admirable, but manufacturers were particularly impressed with the time you spent, and your global view, regarding the importance of expanding international trade and exports.

The NAM applauds your statement that "[w]e need not shrink from the challenge of the global economy [because] [a]fter all, we have the best workers and the best products." There is no question that U.S. global competitiveness will lead to more high-paying jobs for American workers, spur economic growth and reduce the trade deficit — all important goals.

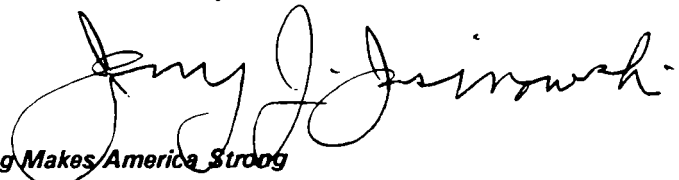
The NAM supports your call for the authority to negotiate new trade agreements, and is pushing Congress to extend such authority as soon as possible. While the road ahead will not be easy when hammering out the details of the new "fast-track" authority, our companies are hopeful that a compromise will be attainable. I am heartened that recent initial conversations with congressional members suggest that the atmosphere is ripe for fast-track renewal. However, I would urge that negotiations with the Congress be pursued immediately and vigorously or they risk being eclipsed by other items on the legislative agenda.

The NAM also agrees with you that we must continue to pursue a deeper dialogue with China and seek stabilization of commercial relations with China in the near future. Permanent MFN status, WTO accession when practicable and meaningful, and the repeal of U.S. unilateral economic sanctions against China are critical to a strong U.S.-Sino trading relationship. In support of your policy, the NAM is involved in an extensive lobbying campaign to inform congressional members and the public of the importance and benefits of engaging the Chinese. We will continue to keep in touch with your Administration in this regard.

I look forward to working on a strong international agenda with you and your Administration over the next four years. Please do not hesitate to have your Administration call us if we can be of service.

Sincerely,

bc: The Hon. Samuel R. Berger



Manufacturing Makes America Strong

56983

Why the Legislation is Important

The absence of agreed procedural authority to implement trade agreements is the single most important factor limiting our capacity to open markets and expand American trade opportunities in the new global economy. Such authority is a prerequisite to U.S. negotiating credibility and success on all major trade fronts. Every President since Ford has had it for key periods with bipartisan support, but the reasons for it now are more compelling than ever. Trade now represents nearly 30 percent of the U.S. economy, up from 13 percent in 1970 and 25 percent in 1992. Trade fuels growth in our domestic economy. With exports up 35% in the last four years, over 11 million high wage U.S. jobs (jobs related to exports pay 13-16 percent higher than non-trade related jobs) now depend on trade, (up 1.5 million in the last 4 years).

We must also recognize that trade alliances will play a critical role in defining strategic relationships between countries and regions in the next century. The ability of the United States to define the nature of our trade relationships will in significant measure determine our leadership role in the next century. Effective U.S. leadership requires the ability to negotiate, conclude and implement agreements with our trading partners.

There are dramatic changes and huge new opportunities in the new global economy. Trade (counted in terms of global exports) increased 40% from 1992 to 1996, from \$4.8 trillion to \$6.6 trillion. The rapidly growing markets of Asia Pacific and Latin America in 1996 accounted for nearly 70 percent of U.S. exports, up from 65 percent in 1992 in just 4 years. In recent years the Western Hemisphere has been our largest market, and Latin America (a \$1.5 trillion economy) last year became our fastest growing market followed by Asia's Pacific Rim.

There is great unevenness in the relative openness of economies around the world. The only way to eliminate the imbalance between our open economy and others that are more closed is through the negotiation and implementation of agreements with reciprocal rights and obligations, which requires implementation authority. We have nothing to fear. The U.S. is already the most competitive, the most open and most successful large economy in the world. We are the most prepared to forge ahead in this vast global transition, in part because of our longstanding openness. Our continued success, though, is not automatic.

Even as our exports to Latin America grow -- on average 40 cents or more of each dollar spent in the region on imports is spent on U.S. goods -- other countries are making new inroads. The EU seeks trade agreements with key Latin American economies - MERCOSUR, Mexico and Chile - and is an increasing presence in Asia and Africa. China is building commercial and strategic alliances to confront U.S. economic power in Asia, Latin America and Africa. Japan, Korea and others have undertaken highly visible commercial initiatives and are determined to compete in Asia, Latin America and Africa. Within Latin America and Asia, intra-regional preferential trading arrangements are rapidly changing the competitive rules of the game.

We must intensify our global and regional efforts to seek routes to sustain and build on our competitive advantage. Without trade implementation authority, we would not have secured the

Information Technology Agreement? The global information technology market is over \$500 billion. One and half million U.S. manufacturing jobs and another 1.8 million service jobs were supported by \$90 billion in exports of these products in 1995.

The Uses for the Legislation

It is inconceivable that in the arena to negotiate global rules - the World Trade Organization - the world's largest trader would not have the leverage of implementation authority to secure trade agreements. Within four years, major negotiations will occur where the U.S. is a top global competitor: agriculture, professional services, and the rules for intellectual property rights. Negotiations to further open the \$526 billion global agriculture market are to be initiated (Dec 1999). Services negotiations to expand this \$1.2 trillion global market -- where U.S. firms exported more than \$220 billion in 1996 (est.) with a surplus of \$74 billion -- are to start (Jan 2000). The trade related intellectual property rights (TRIPs) agreement which protects, for example, the interests of fast-growing over \$400 billion U.S. copyright industries is to be reviewed (Jan 2000), with key elements examined before then. We must do everything possible to expand opportunities for such vibrant industries.

The "built-in" agenda from the Uruguay Round provides other opportunities to open foreign markets; negotiations to reduce technical barriers to trade (required review by Dec 1997) that impact virtually all goods and services, and sanitary and phytosanitary rules (required review by Jan 1998) are increasingly critical to U.S. access to the huge global agriculture market. Pre-shipment inspection procedures and import licensing procedures (required review by Dec 1996) are key factors to market access the massive low and middle income country markets which already import \$1 trillion a year from industrial countries. Product origin rules (required to conclude agreement by June 1998) are central to U.S. global transactions. Government procurement (required Dec 1997 launch to negotiations) rules can be improved and their coverage expanded on the basis of full reciprocity, a key step to improved U.S. access to massive infrastructure projects. There are \$1 trillion in such projects in Asia over the next decade.

Within the Organization for Economic Cooperation and Development we should also have the full range of options to conclude and implement the Multilateral Agreement on Investment currently under negotiation to ensure equitable and fair treatment for U.S. investors.

The U.S. is committed to conclude the Free Trade Area of the Americas (FTAA) by 2005, but also to concrete progress by 2000. A May 1997 hemispheric trade Ministerial meeting is to determine how and when these critical negotiations will be launched, and a second Summit of the Americas will take place in Chile in early 1998. The region is moving ahead without the U.S. at this juncture and our competitors from outside the region are also zeroed in on market access on favorable terms. We are at a key juncture in this process. Implementing authority is vital to U.S. efforts to credibly launch the multilateral FTAA negotiations. It is also essential to fulfill the 1994 written commitment to a trade agreement with Chile. Chile is symbolic of the opportunities in this region, with U.S. exports up 128 percent since 1990. Chile is also the leading economic

reformer in Latin America. Chile's kind of reform is in the economic interests of the U.S. to ensure a growing market for exports well into the next century.

Within the Asia Pacific Economic Cooperation (APEC) forum, we estimate that reaching the goal of open markets would increase U.S. goods exports alone by 27 percent annually, or almost \$50 billion a year. 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 U.S. with a strong economic anchor in Asia, a key step in this region bursting with vitality and opportunity.

It is in the United States' interest to be positioned to conclude a comprehensive agreement with any number of countries and regions that are important to the world's economic welfare and long term security. For example, we should not preclude the possibility of a comprehensive trade agreement with Russia following its full accession to the World Trade Organization. Russia's economic potential and the opportunities it could provide are enormous. Similarly, Africa is a region rich in resources and potential and should be engaged with determination to ensure its effective and sustainable development and democratic governance. Trade agreement implementing authority provides the credibility to undertake such initiatives.

While the Administration does not foresee a need to use implementing authority to amend U.S. labor or environmental laws, trade agreements can and should complement and enhance both environmental protection and worker welfare. The linkages between environmental protection and world trade cannot be ignored; they must be addressed. In numerous fora -- including the World Trade Organization, the 1994 Miami Hemispheric Summit, the 1992 Rio Sustainable Development Summit -- the United States has joined other nations in committing to the objective of making trade and environmental policies mutually supportive. The Administration would use implementing authority regarding environmental issues in trade negotiations in a manner consistent with that objective; e.g., to ensure that the obligations in our trade agreements and international environmental agreements do not conflict, to prevent the use of environmental regulations as a means to adopt or maintain disguised barriers to trade, and to ensure that due deference is given to our right to protect our environment through standards and other measures. At the same time, the Administration would not use implementing authority to negotiate away Congress's right to legislate U.S. environmental policy, to negotiate on environmental issues that do not relate to trade, or to force other countries to adopt particular environmental standards. [follow with parallel recitation of wills and won'ts re labor]

In conjunction with the trade negotiations it conducts under the agreed implementing procedures, the Administration further intends to undertake an integrated approach to addressing the relationship between trade liberalization and labor and environment. The Administration will seek enhanced cooperation with our trading partners on these issues, given their important role in attaining a more sustainable and prosperous global economy.

We will look carefully at the labor and environment policies and standards in a country(s) in

KEY FAST TRACK MESSAGES

Fast Track and Chile Generally

- I believe we must have fast track authority to conclude new trade agreements that open markets to America's products.
- We cannot afford to sit on the sidelines while other countries move ahead to take advantage of the growing markets of Latin America and other regions of the world.
- Chile's impressive political and economic reform and its record of good government and sound fiscal policies make it an excellent candidate for the first use of fast track authority.
- My Administration remains committed to concluding a comprehensive free trade agreement with Chile.

NAFTA Accession for Chile (Only if asked)

Question: Although you favor a free trade agreement with Chile, there has been some suggestion that you no longer favor achieving it through NAFTA accession. Is this true?

- I support the NAFTA and believe it has been a good model for opening the markets of Canada and Mexico.
- As I mentioned, I am committed to concluding a comprehensive free trade agreement with Chile working with our North American trading partners. We can determine the exact legal form of any agreement at the time it is negotiated.
- For now, the most important step is to secure fast track negotiating authority.

Labor and Environment (Only if asked)

Question: At its recent convention, the AFL-CIO passed a resolution saying they will "vigorously oppose" fast track authority if labor/environmental provisions are not made part of future free trade agreements (not simply side agreements), subject to the same dispute resolution procedures as the trade agreement. Will you meet this demand? What is your approach to labor/environment generally?

- My Administration is deeply committed to addressing labor and environmental concerns as we pursue our trade policy. I don't think we can retain public support for the activist trade policy of this Administration unless we address the very real concerns about labor and the environment.
- It's no secret that this is one of the most difficult issues we face in securing fast track authority. We will need to work with Democrats and Republicans - and all interested parties - to fashion a bipartisan consensus that remains true to our commitment.
- But I don't think it's wise to do that negotiating in public. That would not help advance the important goal of securing fast track authority.

[fourth draft (1/27)]
Administration Statement
Trade Agreement Implementation Authority

Why the Legislation is Important

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In conjunction with the trade negotiations it conducts under the agreed implementing procedures, the Administration intends to undertake an integrated approach to other key issues, including foreign government labor and environment practices. While the Administration does not intend to use implementing authority to amend U.S. labor or environmental laws, trade agreements can and should complement and enhance both environmental protection and worker welfare. The Administration will seek enhanced cooperation with our partners on these issues, given their important role in a more sustainable and prosperous global economy. We will look carefully at the labor and environment policies and standards in a country(s) in assessing whether to conclude a trade agreement, and will work to ensure that countries do have, or are putting in place, good labor and environment policies and standards. For example, the Administration will continue to seek Chile's adherence to the North American Agreements on Labor and Environmental Cooperation upon resumption of the negotiations started in 1995. Consistent with the agreed 1994 Summit of the Americas action plan, the Administration will pursue sustainable development initiatives with the hemisphere. To build upon and better implement these initiatives, labor and environmental concerns will be carefully factored into the Administration's advisory committee and public comments process and into its consultations and reporting to Congress.

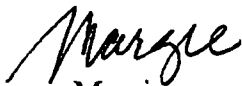
1/28/97

Dan --

Attached please find the latest draft of Charlene's written testimony for her confirmation hearing scheduled for tomorrow at 10:00 am.

Based on your fast track meeting yesterday, I think we have struck a balance in terms of the language she will use to talk about fast track. Please let me know if you have any questions, comments or concerns.

Thanks, ,


Margie

9:00pm, DRAFT #8, Jan. 27

STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY AT CONFIRMATION HEARING

Introduction

Thank you, Mr. Chairman and Members of the Committee. (Introduction of family) It is a great honor to appear before you today as President Clinton's nominee to be United States Trade Representative.

I am deeply aware of the special responsibility of the USTR in defining trade policy objectives, negotiating trade agreements, and striving forward each day with a clear mission to protect and defend the interests of United States' workers, farmers and companies around the world. I am anxious to build upon our work of the past four years. In this respect, I want to acknowledge the vision, creativity, perseverance, and extraordinary accomplishments of my predecessor and friend Ambassador Kantor. His no-nonsense approach and results-driven trade agenda set an important course which I intend to carry forward.

Today, I would also like to express appreciation for the on-going counsel provided by the members of this Committee. I intend to nurture and strengthen the special relationship that USTR has with the Finance Committee and its House counterpart, the Ways and Means Committee, on the whole range of trade issues. If recommended by this Committee and confirmed by the Senate, I will build upon the dialogue we have already established.

The cornerstone of successful U.S. trade policy is a bipartisan approach to defining our interests and pursuing our objectives. This bipartisan approach has been the key to any success we have had in the past four years. I believe our Administration has brought a distinctive approach to trade issues, but that approach reflects a process in which consensus evolved over a period of years about the trade policy the United States would need to follow to compete and win in the global economy. Congress was of course instrumental in that process, including the bipartisan passage of the 1988 Trade Act. Success in trade in the next four years will depend upon a continuation of bipartisan support and cooperation.

The Past Four Years

From the early weeks of his first term, President Clinton made clear his view that the policies which brought us prosperity in the 1950's and 60's would not suffice for the 1990's. The test would now be what policies were needed to compete and win in an increasingly competitive global economy.

The President stated that we would compete, not retreat behind walls, but that we would not allow our trading partners to take advantage of our open market while maintaining closed markets at home. We have relentlessly pursued market opening abroad - multilaterally, regionally, and bilaterally - because despite the fact that we are the world's most competitive economy we are

too often shut out, hampered by market access barriers and unfair practices of other nations. We also committed to working for a system where all trading nations, developed and developing, would adhere to the same set of basic rules, and we made important strides in that regard with the creation of the WTO.

The 200-plus trade agreements -- including NAFTA and the Uruguay Round -- negotiated by this Administration have added considerably to our domestic prosperity and reflect our determination to achieve even further market access gains for our companies and workers around the world. The expanded opportunities from markets opening abroad have come at a time when our companies, farmers and workers are the world's most competitive. We lead the world in agriculture and aircraft; in automobiles and semiconductors; in software and entertainment, and we offer the most competitive services exports anywhere. As a result, in the past four years, our goods exports are up 42%, our high technology exports are up 47%, and our agricultural exports have reached record levels.

The importance of trade in our domestic economy today is clear. In 1970, trade represented 13% of U.S. GDP. In 1996, trade was 30% of GDP, or about \$2.2 trillion. More than eleven million U.S. jobs now depend on trade -- 1.5 million more than just four years ago. Among export-dependent jobs, wages are 13-16% higher than non trade-related jobs in the economy. One fifth of our economic growth has come from trade.

The leading trade areas of accomplishment in the last four years include:

- The Uruguay Round. Our Administration provided the leadership to complete the Uruguay Round, completing the work begun by the Reagan and Bush Administrations. The agreement cut global tariffs by an average of 40% and extended international trade rules in areas such as agriculture, services, investment and intellectual property. Overall, the Administration and GATT analysts estimate that the Uruguay Round would add \$100 to \$200 billion to the GDP annually when fully implemented. One of the most significant results of the final agreement was the establishment of a system which puts in place a comprehensive set of rules to which all members must adhere.

- NAFTA. In November 1993, the administration succeeded in winning passage of the North American Free Trade Agreement (NAFTA). Our goods exports to Mexico, despite the peso crisis, are expected to be \$55 billion this year, 32% higher than in 1993. It is clear that NAFTA helped stabilize Mexico through its worst financial crisis in modern history. When Mexico last underwent a deep financial crisis, United States exports dropped 50% and took seven years to recover.

- Japan. Throughout the 1980's, the imbalance of trade and market access with Japan was perhaps the major U.S. failure in trade. We have focused on this problem from the first month of this Administration, and we have made important progress. Through the Framework Agreement reached in July 1993, we pursued market opening and deregulation in Japan on all

fronts: macroeconomic, structural and, most visibly, sectoral negotiations. We have reached 24 trade agreements with Japan, including such key areas as autos and auto parts, telecom, government procurement, cellular phones, glass and semiconductors. We have made unprecedented headway in opening closed agricultural markets, such as rice and apples. Our exports to Japan are at record levels, up 34% in four years, and U.S. merchandise exports to Japan have grown at a rate five times as fast as imports from Japan. Within the last month we reached a landmark insurance agreement which surpassed all expectations and achieved a break through in wood products as Japan agreed to accept U.S. grade-marked lumber for the first time, increasing the number of U.S. mills that can ship lumber to Japan from 80 to over 1000.

- China. At President Clinton's direction, the United States has led the world in setting tougher standards for trade with China. We have battled to open a highly protected market, still dominated in many areas by the central or provincial governments. We have negotiated landmark agreements to combat piracy and advance the interests of our copyright industries. We have also negotiated -- and vigorously enforced -- agreements on textile trade, designed to prevent transshipments. We have taken the lead in consulting with China on its WTO accession, and insisted that this accession occur on commercially meaningful terms.

- APEC. The elevation of the Asia-Pacific Economic Cooperation (APEC) forum to the Presidential level in Seattle in 1993 was an historic event that breathed new life into this forum. Year by year, APEC has made progress toward its goal of increased trade and investment, and lowering barriers, in the fastest-growing economic area in the world. (APEC represents half the world's GNP, and last year, 62 percent of all U.S. merchandise exports went to APEC countries.) APEC's endorsement of the ITA in Manila was pivotal to reaching the successful conclusion of the ITA in Singapore and represented another important step in the region's commitment to concrete trade expansion and market opening. Equally important, through APEC, we have anchored our country firmly in the Asia-Pacific region.

- FTAA. Our Administration has strengthened the commitment to the nations in our hemisphere. Latin America has become the second fastest growing economic region in the world, and the largest market for U.S. exports, accounting for nearly 40 percent of total U.S. exports in 1995. By 2010, we estimate that our exports to Latin America will exceed our exports to Europe and Japan combined. These numbers are impressive, but even more important they reflect the extraordinary spread of free markets and democracy in our hemisphere. The 1994 Summit of the Americas began the process of achieving a Free Trade Area of the Americas (FTAA) by the year 2005; considerable progress has been made at the working level to prepare for future trade negotiations when the time is right.

- Transatlantic Business Dialogue. Our trade and investment relations with the European Union are deep and mutually beneficial, but even in this relationship, trade can be substantially expanded through further tariff cutting and the elimination of non-tariff barriers, such as the different standards that govern most manufactured products in the U.S and the EU. The Information Technology Agreement came out of the Transatlantic Business Dialogue, which we spearheaded along with our private sectors, and other promising initiatives for the next four years

are underway.

- "New Issues". We have taken the lead in pressing several of the so-called "new issues," combatting bribery and corruption in government procurement, recognizing core labor standards, and finding ways to address the intersection between trade and the environment. At the WTO meeting in Singapore, we launched a study of illicit government procurement practices---perhaps the most pernicious trade barrier faced by our companies abroad--- with the explicit objective of developing an international transparency agreement. At the WTO meeting, we also gained international recognition of the importance of core labor standards---the right to organize, the right to bargain collectively, prohibitions against child labor and forced labor---sought by the United States since the Eisenhower Administration. Our leadership in the WTO Committee on Trade and Environment has begun to produce some progress, and environmental quality objectives are also addressed in the context of the development objectives for the Free Trade Area of the Americas. (FTAA)

We have encountered vigorous international opposition to some of our initiatives. But it is worth remembering that not long ago, most of the world opposed the ideas of intellectual property protection or rules for trade in services when we first advanced them. We maximize the political support for open trade only by constantly making it clear that we seeking ways to address the full range of concerns that people have about the impact of trade.

- Enforcement of Trade Laws and Agreements. Our willingness to enforce trade laws and existing agreements is crucial to our support at home and our credibility abroad. The Administration has brought a record number of enforcement actions by using all the trade tools at our disposal. And we have reinvigorated efforts to ensure compliance with all of our trade agreements whether negotiated by us or previous administrations. We have aggressively fought against the market closing practices of competitors through the application of Section 301, as well Title VII, and Section 1377 sanctions to open foreign markets and ensure fair treatment for our goods and services. In four years, we brought 48 trade enforcement actions. We have filed 22 cases to enforce U.S. rights under the new dispute settlements procedures of the World Trade Organization. These enforcement efforts have resulted in major benefits to U.S. firms and workers.

The Importance of Trade in a Post-Cold War World

One of the dividends of our victory in the Cold War and the collapse of Communism is that it has opened the world for commerce as never before. Trade---as measured by total global exports---has increased 40% in just the last four years. Our country's success in the past four years should remind us: we have every asset needed to succeed in the post-Cold War global economy. At the same time, success in the global marketplace is not automatic for any nation, even one with our great resources.

For example, even as our exports to Latin America grow---on average 40 cents or more of each dollar spent on imports is spent on US goods in the region---other countries are making new inroads. The EU seeks trade agreements with key Latin American economies---MERCOSUR,

Mexico and Chile--and is an increasing presence in Asia and Africa. China is building commercial and strategic alliances to compete with U.S. economic power in Asia, Latin America and Africa. Japan, Korea, and others have undertaken highly visible commercial initiatives and are determined to compete in Asia, Latin America and Africa. Within Latin America and Asia, intra-regional preferential trading arrangements are rapidly changing the competitive rules of the game.

Without a strategic vision of trade policy, we will not take full advantage of the opportunities for our country to expand trade and enhance domestic prosperity. Moreover, just as military alliances shaped the content of global relationships in the twentieth century, the end of the Cold War means that trade alliances will play an increasingly important role in defining relations between nations in the twenty-first century. The ability of the United States to expand our influence abroad and advance core values of democracy, the rule of law and human rights will be enhanced to the extent that our trade relations are stable and enduring.

In the next four years, the United States should continue to be a moving, dynamic force, pro-actively positioning itself at the center of a constellation of trade relationships---such as the WTO, APEC, and the FTAA, taking opportunities to expand trade on a reciprocal basis when those opportunities present themselves. If we do so, we will be well positioned to compete successfully, create high wage jobs, and provide leadership in the world as the next century begins.

The Upcoming Agenda

Advancing the work of the WTO, on a number of fronts, remains the centerpiece of our efforts:

- o In the coming weeks we will be finalizing the staging and other technical details of the Information Technology Agreement (ITA) reached in Singapore. The United States is the world leader in new technology developments and production: semiconductors, computers, telecommunications equipment, and software. These industries support 1.5 million U.S. manufacturing jobs and 1.8 million related service jobs. For these workers and their companies, this agreement amounts to an annual global tax cut of \$5 billion because the tariffs on these products are consistently higher in other countries than ours.

insist & line extended

- o The deadline for conclusion of an International Basic Telecommunications Services agreement is just two weeks away, February 15. One of my first actions upon being named Acting USTR last April was to break-off the telecom negotiations, because it was clear that there was not a critical mass of market opening offers from our trading partners, particularly in the emerging markets of Asia and Latin America. Our test for a good agreement was clear then, and it is clear now. We believe that competition in telecommunications services is valuable, and we welcome it in our market, but we will not open our market further unless other nations reciprocate with genuine market opening proposals. We have seen some important progress in the last nine months, but we are not there yet. It remains to be seen whether an agreement will be reached.

o The "built-in agenda" of the WTO envisions a resumption of further liberalization talks in agriculture and services in 1999. Both areas are critical to our continued success in trade and economic prosperity. 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, I am extremely concerned about the continuing proliferation of barriers to agricultural trade which exist around the world. This is particularly true in the sanitary and phytosanitary area, where "health standards" are routinely invoked without justification to block our exports. Removing agricultural barriers wherever they exist is one of our highest priorities of the next four years, so the follow-on negotiations in the WTO are extremely important. At the same time, in services, the United States is the world leader, with \$220 billion in exports in 1996, and a \$70 billion surplus. Further removal of barriers, and new commitments by our trading partners, can only be helpful to us.

o The Administration has been steadfast in ^{supporting} leading the effort to assure that China's accession to the WTO would occur on commercial, rather than political, grounds. Despite the operation of something resembling a free market in parts of China, the country as a whole does not yet come close to conforming to WTO rules. It may be possible through WTO accession to bring about profoundly important changes in China's trade regime which could not be attained in the foreseeable future in any other way. It is also possible that China will not make such dramatic changes, even in exchange for WTO membership, because the changes, if undertaken, would cause significant dislocation in enterprises run and dominated by the government. The pace of China's accession negotiations depends very much on Beijing's willingness to improve the offers now on the table.

o While China's accession has attracted far more attention, Russia's WTO accession could play a crucial part in confirming, and assuring, Russia's transition to a market economy, governed by the rules of law and international trade. Discussions so far on Russia's accession, while still at an early stage, have been quite positive. ~~With a sustained effort, Russia's accession during the latter part of this Administration might be possible, which would undoubtedly strengthen the forces in Russia which favor democracy and market economics. Russia's accession would also open the door for consideration of Ukraine and other former Soviet Republics.~~ In the next four years, we also plan to pursue a wide range of possible regional and bilateral initiatives:

---Latin America has been the second most rapidly growing region in the world. Moreover, it is our natural market, and our exports to rest of the hemisphere have already increased enormously, particularly in manufactured goods. The Administration has committed to negotiating a reciprocal trade agreement with Chile, because of Chile's extraordinary economic performance, and that negotiation has already been delayed for two years. Our ability to deliver on the commitment to Chile is seen, with some justification, as a litmus test for trade expansion in this hemisphere. ~~1997 is the time for serious negotiations with Chile, and demonstrating our commitment to leading the hemisphere in the direction of trade expansion.~~

---While our progress in APEC has been gratifying, and increasingly concrete, the APEC process still envisions a very long time frame for achieving free and fair trade in the region. We

also face the challenge posed by the extraordinary diversity of the Asia-Pacific nations, in terms of size, relative prosperity, and disposition toward market opening. It is important to consider if we could enhance our strategic position in the region by being willing to negotiate reciprocal market opening agreements with those individual nations who were willing to lower their barriers to us in the near term.

---With Europe, our focus will be on the non-tariff barriers which continue to impede transatlantic commerce, most particularly regulatory barriers, such as the different standards that govern most manufactured products in the US and the EU. For example, of the approximately \$110 billion of U.S. merchandise exports to the EU, more than half (\$66 billion) required some form of EU certification in addition to U.S. domestic certification requirements. Such redundant testing and certification requirements increase the base cost of exports by up to 15%. Our business community strongly supports our current negotiations to complete Mutual Recognition Agreements (MRAs) to harmonize standards and eliminate double testing between the U.S. and the EU. The areas under discussion include key sectors such as telecommunications, electronics and medical devices, with pharmaceuticals and the automotive sector to follow.

--- USTR recently completed a report to Congress on the status of trade, investment, and technical aid now available in Africa. There is a global obligation to address the rampant poverty of sub-Sahara Africa, a region that has been passed-over by the international trading system for too long. The Administration is currently reviewing a range of possible initiatives. Part of the solution is to reform our GSP system which allows developing countries to bring their products in to the United States on a preferential basis. We are still preparing our ideas, but look forward to working with Congress to align benefits of GSP with those nations most in need of economic development. *Emerging Africa ref. in process*

Much of our trade agenda can go forward without Congress giving the President a new grant of trade agreement negotiating authority. But there is no doubt that our ability to negotiate regional or bilateral market opening agreements, to take full advantage of the opportunities which a dynamic and fluid global economy may present, depends on the ability of the President and Congress to agree on the appropriate terms of such a grant of "fast track" negotiating authority. The President believes that new negotiating authority is an important tool for advancing our nation's economic interests. If confirmed, I am prepared to work with this Committee, its House counterpart and other interested members of Congress to fashion an appropriate grant of negotiating authority, and build a broad, bipartisan consensus in support of it. I don't underestimate the difficulties of building that consensus, but we should also recognize the importance of trying to do so. Otherwise, we run the risk of standing on the sidelines while other nations move ahead to advance their economic interests, sometimes at our expense.

Conclusion

President Kennedy once described himself as "an idealist without illusions." These words provide,

I think, an apt description of President Clinton's view of trade. The Administration believes that trade can contribute to the prosperity of both the US and our trading partners, but we are under no illusions about the number of problems facing us. Every foreign trade barrier is there for a purpose -- it may be politically-driven, economically-targeted, culturally-defined, or bureaucratically-based. They do not come down easily. I am acutely aware that there are no final victories in the trade area. The hard work of the past four years gives us the opportunity to do the hard work of the next four.