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DRAFT 9/13/97

WTO DISPUTE SETTLEMENT
Questions and Answers

- Transparency and openness
  - Private counsel
  - Amicus curiae briefs
- Uruguay Round improvements
  - Time frames
  - Implementation of dispute results
  - Enforcement of new rules
- Sovereignty concerns
  - Has the WTO infringed U.S. sovereignty
  - U.S. response to panel reports
  - State measures
  - Regulation and standard of review
- Improving WTO dispute settlement
- Vitality of Section 301
- Addressing problems with Japan
- Relationship to Commerce Department

TRANSPARENCY OF WTO DISPUTE SETTLEMENT: Current USTR Practice

Comments received from the public. Section 127(b) of the Uruguay Round Agreements Act (URAA) requires that we publish a notice in the Federal Register seeking written comments from the public concerning the issues raised in the dispute promptly after requesting the establishment of a panel, or receiving a panel request from another WTO member. However, under section 127(e), we are only required to place in the public file a *listing* of the comments received, so currently we do not place the comments in the public file. (Excerpts of statutes are attached.)

In our request for comments, we provide for commenters to submit confidential business information and we also provide for commenters to request that information other than confidential business information that is submitted in confidence be treated as confidential in accordance with section 135(g)(2) of the Trade Act of 1974. Upon advice from FOIA attorneys at the Department of Justice, we have interpreted section 135(g)(2) as establishing a limited statutory exemption to the FOIA, intending that public comments submitted in confidence pursuant to this provision would not be disclosed in response to a FOIA request. To date, however, no commenters have availed themselves of this provision, so we have not yet withheld disclosure of any public comments in response to a FOIA request.

Draft U.S. submissions. We are required by section 127(a) of the URAA to consult with the appropriate congressional committees, the section 301 petitioner (if any), and relevant private sector advisory committees, and to "consider the views of representatives of appropriate interested private sector and nongovernmental organizations" at every stage of a panel and Appellate Body proceeding. For that reason -- in addition to the fact that for many cases we simply cannot prepare our brief without the assistance of the private sector or NGOs -- we have frequently shared drafts of our briefs with interested organizations. Our practice has remained *ad hoc*, however, because we were advised that, while draft briefs may be exempt from disclosure under FOIA (as deliberative material and possibly as attorney work product) we waive that exemption when we share the drafts with persons outside the government. Thus by sharing our draft briefs with groups supportive of the U.S. position, we leave ourselves vulnerable to a requirement under FOIA that we disclose those drafts to our foreign adversaries if they so request. To date we have not had such a FOIA request.

Filed U.S. submissions. We make U.S. opening briefs available to the public (by placing them in the public file located in the Reading Room) immediately upon filing those briefs with the WTO. Rebuttal briefs, however, are not placed in the public file *in toto* unless the other party's briefs are non-confidential. If the other party's briefs are confidential, we first redact from our rebuttal briefs all references to arguments made by the other party, or we create a public version of our rebuttal brief that does not disclose confidential arguments of the other party. Redactions are generally done by legal interns, and the redaction process causes a delay in making those briefs available to the public.

Foreign government submissions. In every case we routinely urge the other party to make its briefs publicly available or, failing that, to provide us with a non-confidential summary that we can make available to the public. DSU rules require them to provide such a summary, but do not specify a deadline by which it must be provided. Therefore, several of our requests remain outstanding and most of our public files contain nothing with respect to foreign submissions.

Reports of panels and the Appellate Body. The Secretariat marks as "Confidential" both the interim panel report and the advance copy of the panel report that is provided to the disputing parties prior to its release to all WTO Members. However, there is no basis in the DSU for such practice; the Secretariat is merely continuing the customary practice of the GATT, as envisioned in Article XVI.1 of the agreement establishing the WTO. USTR's recent practice has been to respect the confidentiality of these reports until such time as the findings therein have been leaked, at which point we have considered it politically untenable to decline comment. (These reports have leaked in almost every recent case.) Although we comment on leaked reports, we do not release the confidential texts. In addition, we customarily invite persons holding security clearances who are members of our private sector advisory committees or their staff or Congressional staff to read these reports at USTR without permitting them to make copies. It has not been our practice to preclude them from taking notes. In the past, we classified these documents "Confidential" under our national security classification system (which permits classification of a document given to the USG by an international organization with the expectation that it will be treated as confidential), but since such classification limited our ability to use it electronically, and created more potential for innocent security violations, we have discontinued that practice.

Appellate Body reports are usually issued to the disputing parties in a Confidential version only a day or so before they are issued to the public, so our practice (with only four reports issued to us so far) has been to respect the confidentiality and use the lead time to prepare our press materials.

Relevant Provisions of DSU, URAA, Trade Act, and FOIA

DSU - Article 18.2 provides:

> Written submissions to the panel or the Appellate Body shall be treated as confidential, but shall be made available to the parties to the dispute. Nothing in this Understanding shall preclude a party to a dispute from disclosing statements of its own positions to the public. Members shall treat as confidential information submitted by another Member to the panel or the Appellate Body which that Member has designated as confidential. A party to a dispute shall also, upon request of a Member, provide a non-confidential summary of the information contained in its written submissions that could be disclosed to the public.

URAA - Sec. 127 provides in pertinent part:

(a) IN GENERAL. -- Whenever the United States is a party before a dispute settlement panel established pursuant to Article 6 of the Dispute Settlement Understanding, the Trade Representative shall, at each stage of the proceeding before the panel or the Appellate Body, consult with the appropriate congressional committees, the petitioner (if any) under section 302(a) of the Trade Act of 1974 (19 U.S.C. 2412) with respect to the matter that is the subject of the proceeding, and relevant private sector advisory committees established under section 135 of the Trade Act of 1974 (19 U.S.C. 2155), and shall consider the views of representatives of appropriate interested private sector and nongovernmental organizations concerning the matter.

(b) NOTICE AND PUBLIC COMMENT. -- In any proceeding described in subsection (a), the Trade Representative shall--

> (1) promptly after requesting the establishment of a panel, or receiving a request from another WTO member country for the establishment of a panel, publish a notice in the Federal Register--
>
> > (A) identifying the initial parties to the dispute,
> > (B) setting forth the major issues raised by the country requesting the establishment of a panel and the legal basis of the complaint,
> > (C) identifying the specific measures, including any State of Federal law cited in the request for establishment of the panel, and
> > (D) seeking written comments from the public concerning the issues raised in the dispute; and
>
> (2) take into account any advice received from appropriate congressional committees and relevant private sector advisory committees referred to in subsection (a), and written comments received pursuant to paragraph (1)(D), in preparing United States Submissions to the panel or the appellate Body.

(c) ACCESS TO DOCUMENTS.. -- In each proceeding described in subsection (a), the Trade Representative shall --

(1) make written submissions by the United States referred to in subsection (b) available to the public promptly after they are submitted to the panel or appellate Body, except that the Trade Representative is authorized to withhold from disclosure any information contained in such submissions identified by the provider of the information as proprietary information or information treated as confidential by a foreign government;

(2) request each other party to the dispute to permit the Trade Representative to make that party's written submissions to the panel or the Appellate Body available to the public; and

(3) make each report of the panel of the Appellate Body available to the public promptly after it is circulated to WTO members, and inform the public of such availability.

(d) REQUESTS FOR NONCONFIDENTIAL SUMMARIES.-- In any dispute settlement proceeding conducted pursuant to the Dispute Settlement Understanding, the Trade Representative shall request each party to the dispute to provide nonconfidential summaries of its written submissions public, and shall make those summaries available to the public promptly after receiving them.

(e) PUBLIC FILE. -- The Trade Representative shall maintain a file accessible to the public on each dispute settlement proceeding to which the united States is a party that is conducted pursuant to the Dispute Settlement Understanding. The file shall include all United States submissions in the proceeding and a listing of any submissions to the Trade Representative from the public with respect to the proceeding, as well as the report of the Appellate Body.

Trade Act of 1974, as amended- Sec. 135 provides in pertinent part:

(a)(1) The President shall seek information and advice from representative elements of the private sector and the non-Federal governmental sector with respect to--

...(B) the operation of any trade agreement once entered into, including preparation for dispute settlement panel proceedings to which the United States is a party; ...

***

(g)(2) Information other than that described in paragraph [g](1) [which refers to trade secrets and confidential commercial or financial information], and advice submitted in confidence by the private sector or non-Federal government to officers or employees of the United States, to the Advisory Committee for Trade Policy and Negotiations, or to any advisory committee established under subsection (c), in connection with matters referred to in subsection (a), may be disclosed upon request to--

(A) the individuals described in paragraph (1); and

Transparency and openness

Q: Some groups continue to complain about their lack of access to the dispute settlement process and to documents from dispute settlement proceedings. Have there been any improvements on that front?

A: The WTO dispute settlement system is much more open than the GATT system was.

-- the Administration invites public comments and seeks advice from the Congress and private sector whenever we defend a case before a WTO GATT panel. We also invite public comments and consult with Congress and our private sector on the disputes we bring.

-- U.S. briefs are immediately made public. We routinely request the parties to *any* WTO case (even cases in which we are not involved) to provide us with a copy of their briefs or a non-confidential summary for release. We make the documents they provide available to the public.

-- WTO panel reports are made available to the public as soon as we receive them. In fact, the WTO makes WTO panel reports available on the Internet for downloading, the day after they are circulated in Geneva.

-- The same is true of WTO documents on disputes. The consultation requests and panel requests in every dispute are circulated to all WTO members in all three official languages as *public* documents, and immediately put on the WTO's public Website. So all of these dispute documents are available in English to the public immediately. Any U.S. exporter or any member of the public can access WTO documents through the Internet and follow the progress of WTO disputes.

Q: *Private counsel:* Why has the United States objected to having private counsel appear on behalf of other countries in WTO panel and appellate proceedings?

A: A WTO dispute is not just another court case. WTO disputes are disputes between sovereign governments about rights and obligations that affect their citizens. The issues at stake in a WTO case don't just affect the pocketbook of one private plaintiff, but can affect the results in other cases. Each time we bring a case, we consider what its impact will be on the *general* interest of the United States. Every time we make an argument, we weigh its impact on other cases we are arguing, other cases we may bring in the future to open markets, and possible challenges to U.S. government laws or regulations.

The parties in a WTO case are sovereign governments who normally solve their problems by negotiation. We take cases to the WTO after we have failed to resolve things by negotiation, and after the dispute is over, the result at the end of the day will still be determined by negotiation. Unlike a court, the WTO has no powers to compel specific performance.

So it makes sense that WTO cases, like GATT cases before them, have been essentially governmental in character, not courtroom duels between hired gladiators. Governments need to talk to governments without having to screen their interaction through lawyers. A very high proportion of WTO cases are settled, through intergovernmental negotiations. And after the dispute is over and the settlement is reached, the governments concerned have to live with one another. We can't afford to permit scorched-earth litigation tactics or the other types of lawyer behavior we have become accustomed to in high profile court cases in the United States. Letting lawyers in will fundamentally change the environment for using disputes to solve problems. And if we were to consider letting lawyers in as hired representatives, we would need to address a number of basic issues regarding ethics and qualifications.

Q: *Amicus curiae briefs:* **Does the Administration believe that panels should accept *amicus curiae* briefs from interested groups, such an environmental NGOs, in disputes involving issues in which they are stakeholders?**

A: Yes. We agreed in the Uruguay Round Agreements Act to strive to open WTO dispute settlement further. Part of our commitment was to urge the WTO General Council to permit interested parties to submit amicus briefs to dispute settlement panels and the Appellate Body. To date we have not found a consensus among WTO Members to do so.

We still agree that this is a worthwhile objective. Amicus briefs can provide useful information to panels and can therefore improve the quality of the output of the dispute settlement process. Panels are fully capable of evaluating such briefs.

Uruguay Round improvements

Q: *Time Frames:* **The new WTO procedures were intended to set tight time frames for the completion of disputes -- enabling us to address trade agreement violations within the statutory time frame of section 301. Have panels kept to these time frames? Have disputes actually been adjudicated more quickly?**

A: Panel proceedings have moved more quickly than they did under the GATT. Under the GATT, a typical case would take years. The defending party could block the establishment of a panel, could block the adoption of the panel report, could refuse to comply when it had been found in the wrong, and could block any sanctions. Or it could stall the process and deprive us of our rights.

The WTO dispute procedures provide ambitious timetables for disputes which do enable us to address trade agreement violations within the statutory time frame of Section 301. For instance, our WTO challenge to Canada's discriminatory measures against imported "split-run" magazines has been conducted within the framework of a Section 301 investigation. We have carried out a complete dispute settlement proceeding, including WTO appellate proceedings, within the eighteen months that Section 301 provides. I was able to make my Section 301 determination in this case on time; I have determined not to take action under Section 301 because Canada has stated that it will take steps to provide the United States with its WTO rights in this respect.

Q: **Are WTO panels sticking to the DSU target timetables?**

The WTO procedures provide that as a general rule, a panel is to complete its job in six to nine months, and 9 of the 11 panels that have completed their work so far have met this target. Some cases have dealt with complex measures (the EU banana regime) or had thousands of pages of briefs to read (Japan film). In a few cases, consolidation of a later case with an earlier case has resulted in slowing the earlier case down - as happened to the U.S. hormones complaint when Canada brought a later complaint. Also, the need for the WTO Secretariat to translate dispute documents has caused delays in some cases.

Q: *Implementation of dispute results:* **Developing rules to ensure compliance with panel recommendations was a top U.S. priority during the Uruguay Round. What has been the compliance rate so far?**

A: One hundred percent compliance. So far, in *every* case where a panel or the Appellate Body has found measures of a WTO Member to be inconsistent with that Member's obligations, the Member concerned has agreed to meet its obligations.

Q: *Enforcement of new rules:* **A major goal of having a unified system of dispute settlement was to ensure that new rules on trade in services and TRIPS obligations would be enforceable. Is WTO dispute settlement working in this respect?**

A. A major objective of the new WTO dispute settlement procedures was to provide credibility and clout for the new rules on services and intellectual property. We needed to be able to have swift, sure dispute settlement for protection of intellectual property rights, and if another WTO Member was denying our firms IPR protection, we had to be able to retaliate against goods exports if we had to. The WTO dispute settlement procedures fulfill that promise.

We have now taken our first services and intellectual property cases all the way through dispute settlement.

-- In the recent case against India, the panel agreed with us one hundred percent that India was not carrying out its TRIPS obligations. India and the rest of the developing countries have been put on notice that we are serious about IPR protection *and that the WTO will back us up.* They may have a phase-in for some of their TRIPS obligations, but the phase-in period is not going to be a free ride.

-- The press hasn't noticed it, but the banana case we brought against the EU is the first time that the General Agreement on Trade in Services has been interpreted in dispute settlement. We now have real guidance on what the basic guarantees of national treatment and most-favored nation treatment mean in services.

Sovereignty concerns

Q: **Has the WTO infringed U.S. sovereignty in cases brought against the United States, as some feared it would?**

A: No. As we indicated when we sought implementing legislation for the WTO agreements, the new rules don't allow WTO panels to change our laws or impose solutions. Only Congress and State legislatures can change U.S. laws.

-- All panels can do is make recommendations that a country bring its laws into conformity with its obligations.

-- Once a panel report is adopted, it is up to the countries involved in the dispute to decide on the best way to settle their differences.

-- If a panel decides we haven't lived up to our obligations, we don't have to change our laws. We may offer the complaining country trade compensation (such as a tariff cut on a product we import) or reach some other agreement.

-- The worst thing that could happen is that the other country might withdraw a trade benefit (such as a lower tariff) they gave us in an amount equivalent to the injury caused by our measure.

-- Of course, without trade agreements like the WTO agreements, countries would be free to do that any time they wished.

Q: ***U.S. response to panel reports:* So far the United States has lost every case brought against it in WTO panels. What have we done in response? Have we had to change U.S. laws or regulations?**

A: In the only dispute so far that involved a change in U.S. regulations, the dispute on EPA's regulations on conventional and reformulated gasoline, we developed our response in close consultation with Congress and after a full process of public notice and comment. And we gave Congress 60 days' notice of EPA's final regulation and consulted with Congress on the contents of that regulation.

We also failed to prevail in two cases on U.S. textile safeguards - a safeguard on underwear from Costa Rica and a safeguard on wool shirts and blouses from India.

- -- The safeguard on underwear from Costa Rica was instituted effective March 27, 1995 for a two-year period. It ran to the full length of its term and expired on March 28, 1997, after dispute settlement proceedings had concluded.

- -- The safeguard on wool shirts from India was unilaterally terminated by the Committee on Implementation of Textile Agreements (the committee that oversees the U.S. textile import program) due to changed commercial conditions. U.S. production in this category had increased and imports from India in this category had plummeted. The panel never recommended that the United States make any changes. And of course, no action by the United States was necessary.

- -- In both of the textile cases, the panels only cited problems with particular CITA determinations made almost three years ago at the beginning of the WTO regime. Since that time, CITA has acquired more experience with the new rules, and we are confident that future CITA determinations will be able to withstand WTO scrutiny. The textile panels did *not* recommend any changes in CITA procedures or practices.

Q. ***State measures:* What has the Administration done to defend measures of state governments, for instance the Massachusetts laws on investment in Burma?**

A. The Uruguay Round Agreements Act provides for extensive Federal-state cooperation in cases that involve a law or regulation of a state, and we have fully cooperated with Massachusetts.

- -- We have established an ongoing Federal-state consultation process within USTR. We keep the states informed of trade developments that affect them, and we have identified regular contact points in state governments to facilitate rapid response in dispute settlement.

- -- When we received a request for consultations from the EU, we promptly notified the person who the Governor had designated as his contact point, and notified as well the Attorney General of Massachusetts. We have consulted with representatives of Massachusetts and have met with them to discuss legal strategy. We invited Massachusetts to send representatives as members of the U.S. delegation to the consultations held in Geneva on July 22. Both the EU and Japan initiated dispute settlement proceedings concerning the Massachusetts Burma law. As we go forward, we will involve Massachusetts at every step of the way in development of the U.S. legal position.

Q. ***Regulation and standard of review:* What is the Administration doing to ensure that international dispute bodies don't usurp our sovereignty by telling our regulators what to do?**

A. In the disputes we bring and the disputes we defend, the United States has consistently argued that WTO panels can't second-guess the decisions of national regulators.

-- In the two disputes in which we defended U.S. textile safeguard actions, we persuaded the panels that in reviewing factual determinations made by domestic investigating authorities, it is not the function of dispute settlement panels to engage in a *de novo* review of the facts or to second-guess the factual judgments of domestic authorities when those authorities have considered all of the factors required to be considered by a particular agreement. Instead, panels are to make an objective assessment of whether, in making a determination, the domestic authorities respected the requirements of the particular agreement. This principle is important not only for disputes involving textile safeguard actions, but for other types of disputes as well, such as those involving antidumping or countervailing duties.

-- In the hormones case, we challenged the EU ban on growth hormones because the EU's regulation had *no* scientific basis whatsoever. The SPS Agreement provides special rules for determining whether import bans and other trade-restrictive actions that governments may characterize as food safety measures protect public health or provide a competitive advantage for domestic producers. In particular, the SPS Agreement relies on science to distinguish legitimate food safety measures from disguised protectionism. The SPS Agreement clearly preserves the right of governments to apply food safety measures to protect human life and health, but at the same time it requires that such measures must in fact be for that purpose and not for protectionist purposes.

-- The SPS agreement also encourages dispute settlement panels to seek advice on scientific issues from experts chosen by the panel in consultation with the parties to the dispute. In making its findings in the hormones dispute, the panel sought the advice of independent scientific experts, the first time a WTO panel has made use of this procedure. The panel report summarizes the advice received from the experts and includes the transcript of the panel's meeting with the experts.

Improving WTO dispute settlement

Q. **What is the United States is doing to improve WTO dispute settlement?**

o Since entry into force of the WTO Agreement in 1995, the United States has been extremely active as a litigant and through participation in the WTO Dispute Settlement Body (DSB), which administers WTO's dispute rules. We have pursued the objectives Congress established to improve the operation of the WTO's dispute procedures.

o We are the leading user of WTO dispute settlement. Our experience in dispute settlement continues to inform the Administration's litigation and negotiating strategy and will be invaluable as we participate in the mandated review of the DSU scheduled to take place in 1999.

- o In the Uruguay Round Agreements Act (URAA), Congress mandated two particular objectives for dispute settlement: a code of ethical conduct for disputes, and improvements in transparency at the WTO.

- o Through hard negotiations, we achieved adoption in late 1996 of Rules of Conduct which stress disclosure of any possible conflict, and highlight the high ethical standard to be expected of participants in the WTO dispute process. The coverage of the Rules of Conduct exceeds the goals established by the Congress in Section 123(c) of the URAA, which directed the USTR to seek conflict of interest rules applicable to persons serving on panels and members of the Appellate Body. As adopted, the Rules cover panelists and Appellate Body members, as well as arbitrators, experts consulted by panels and members of the Secretariat assisting in a proceeding, the chairman of the Textiles Monitoring Body and his staff, and the Appellate Body staff.

- o Also during 1996, the WTO adopted greatly improved procedures on access to documents, as a result of a U.S. initiative. Under the new WTO rules, almost all WTO documents, amounting to thousands of documents each month, are issued and made immediately available to the public via the WTO's Internet Website. These documents include the notifications connected with disputes, making it possible for U.S. exporters to track the operation of the WTO dispute process.

Vitality of Section 301

Q: Some predicted that the new WTO procedures would render Section 301 meaningless as a tool for responding to foreign unfair trade practices. Were they right?

A: No. In fact, Section 301 and WTO dispute settlement procedures have been used effectively *in tandem* to address violations of the WTO agreements. For example, in our successful challenge of Canadian barriers to foreign magazines, the credible threat of mandatory retaliation under section 301 enabled us to obtain a WTO finding -- affirmed on appeal -- against Canada and a declaration by Canada that it will come into compliance, and all of that was accomplished within the 18-month period alloted for a section 301 investigation.

-- The WTO Dispute Settlement Understanding requires us to use the dispute settlement process when we seek to redress a violation of a WTO agreement. This is nothing new. Before the Uruguay Round, Section 301 already required that we take complaints involving GATT violations to the formal GATT dispute settlement procedure. As a matter of longstanding policy, the U.S. has never determined that another country's practice violated the GATT without having obtained a GATT or WTO panel finding to that effect; nor have we ever retaliated against a foreign practice that a GATT or WTO panel has determined to be consistent with the GATT.

-- But what is critical is that we are bound to follow the DSU procedures only when we are seeking redress for a violation of a WTO agreement. The WTO does not address many barriers to U.S. products that this Administration is committed to breaking down. In those cases, we retain our right to use 301, without going through any kind of dispute resolution process. And we will not hesitate to do so, when the situation makes it necessary or appropriate.

-- You might observe that if we retaliate under section 301, without going through any dispute settlement process, our retaliation would likely violate one or more of the WTO agreements. However, this is not new either. The truth is that almost every time that we have used Section 301 authority to retaliate -- *in only 10 out of 111 cases* -- that retaliation was GATT-illegal. We undertook to retaliate when we thought it was necessary, irrespective of GATT-legality or illegality. That continues to be our policy, and we continue to stand ready to take the heat and face the possibility of counter-retaliation if the case is important enough.

-- I might also add that, in the 10 cases over the past 23 years where we have used Section 301 to retaliate, half of them involved cases where we *did* resort to GATT procedures -- as required by Section 301 -- and we were compelled to use GATT-illegal retaliation because the losing defendant was able to block the process. There can be no question that we are better off with a dispute settlement mechanism that cannot be blocked.

Relationship to Commerce Department

Q: **How does USTR work with the Commerce Department and its Trade Compliance Center (TCC)?**

A: Commerce is a key link in the monitoring and enforcement process:

-- Commerce enforces our antidumping and countervailing duty laws.

-- Commerce has an especially important role in monitoring and enforcing the WTO Subsidies Agreement. Commerce has the statutory responsibility to review foreign subsidies and determine when subsidies are inconsistent with WTO obligations.

-- Foreign Commercial Service (FCS) officers in our embassies assist U.S. companies trying to enter new markets. They are often the first to know when a foreign government is not complying with a trade agreement. FCS officers play a vital role in identifying trade barriers for the annual National Trade Estimate Reports.

-- At home Commerce district offices assist small businesses in reaping the benefits of our trade agreements.

-- Commerce industry analysts and country specialists help us ensure that we go after the trade violations that hurt U.S. exports most.

-- The threat of retaliation is an effective tool in enforcing compliance and we rely heavily on Commerce whenever we have to craft a retaliation list that tells another country that we mean business.

Q: **How does the role of USTR's Monitoring & Enforcement Unit differ from that of the TCC?**

A: Most of the resources of USTR's unit are devoted to coordinating and supervising the litigation of all disputes to which the United States is a party in dispute settlement proceedings under the WTO, the NAFTA, and other multilateral and bilateral trade agreements. It maintains litigation files, tracking systems, and the USTR public docket for dispute settlement. In addition, it ensures the most effective use of U.S. trade laws to back up international enforcement of our WTO rights and to address problems that are outside the scope of the WTO. Finally, it ensures effective use of the Section 301 process, including self-initiation of investigations where appropriate, and responses to petitions from non-government sources.

Question

Is the Administration prepared to launch a campaign to subject export processing zones (EPZs) around the world oversight to ensure they do not exploit workers and ignore respect for core labor standards as a way to attract investment?

Answer

- The ILO is already looking at the issue of differential labor standards in EPZs as part of the work of the Working Party established in 1994 to examine issues involved in labor standards and trade.

- In fact, the ILO is examining a number of countries to determine whether they use differential labor standards in EPZs. We are encouraging this work in the ILO.

- The Department of Labor conducted a study of EPZs around the world in 1990, including field visits to 11 countries. That study concluded that some countries had special laws for their EPZs. In most instances, the intent of the special laws was to restrict unions, prohibit strikes, or limit the scope of collective bargaining.

- The Department of Labor is exploring what additional work could be done beyond this, including with the ILO.

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CHILD LABOR - Pakistan and Mexico

Mexico:

The law bans child labor and sets the minimum legal work age at 14 years. The activities of those 14 and 15 years of age are so restricted as to be uneconomic (no night or hazardous work and limited hours). The ILO reported that 18 percent of children 12 to 14 years of age work, often for parents or relatives. Enforcement is reasonably good at large and medium sized companies, especially in export industries and those under federal jurisdiction. Enforcement is inadequate at the many small companies and in agriculture. It is nearly absent in the informal sector, despite government efforts. Most child labor is in the informal sector (including myriad underage street vendors) or in agriculture and the rural areas. The agriculture union's success years earlier in obtaining free transport for migrant seasonal workers from southern states to fields in the north inadvertently led to a significant increase in child labor. The union has had some limited success in negotiating with employers to finance bilingual education near work sites and in obtaining social security child care centers, but it has had difficulty in persuading member families not to bring their children into the fields. The Government increased the number of obligatory school years from 6 to 9 in 1992 and made parents legally liable for their children's attendance as part of a reform to upgrade labor force skills.

Pakistan:

Child labor is common and results from a combination of severe poverty, employer greed, and inadequate enforcement of laws intended to control it. The current estimate of working children is between 8 and 10 million. The law allows children to work in factories and mines if they are 14. There is no law covering other employment activities and the informal sector is completely uncontrolled. In response to international criticism, however, the Government has begun to push provincial authorities to enforce child labor laws, with very limited results. The U.S. Embassy reported this week that the sporting goods and surgical instruments industries are now child free, in part due to our removal of GSP benefits. (I am dubious about the accuracy of this report and feel it may be based solely on interviews with manufacturers.) Private sector exporters and nongovernmental organization, supported by the Government, are creating an independent child labor welfare organization to oversee implementation of a child labor free certification system as well as education and welfare programs for working children.

While much child labor is in the traditional framework of family farming or small business, the employment of children in large industries and, according to labor activists, in state sponsored training programs, is also widespread. Child labor is widely employed in the carpet industry, another target of our GSP sanctions. Children also have been employed in other export industries, such as textiles, leather tanning, surgical instruments, and sporting goods, though the extent is unclear. Children sometimes are kidnaped to be used as forced labor.

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Divider Title: **100**

Gephardt's Labor Concerns

Question

Why doesn't the Administration adopt the view that core labor standards should be incorporated into the body of comprehensive trade agreements and be subjected to the same dispute settlement provisions (i.e., trade sanctions), just as is the case with IPR, tariffs and other measures already addressed in this manner?

Answer

- This Administration is strongly committed to the adoption of core labor standards on a global scale. In fact, we have spearheaded the effort internationally and done more than any Administration in history on this front.
- Our focus is on pursuing an approach that both advances core labor standards and ensures we are opening foreign markets. We believe that respect for core labor standards and market opening trade agreements are mutually supportive.
- In short, reciprocal trade agreements are in the interests of U.S.workers as is the adoption of core labor standards globally.
- We also believe that agreements regarding core labor standards should contain obligations and have mechanisms to encourage compliance, and we are committed to pursuing this approach. In this context, however, we believe it prudent to remain flexible in how you address compliance and enforcement in each case.
- At the same time, we are interested less in where these provisions are located in agreements, and more interested in advancing on this issue with our trading partners both in multilateral fora and in regional or bilateral contexts where appropriate.
- We believe it is also important to bear in mind that a comprehensive free trade agreement, for example, is a two way street where obligations are adopted on a reciprocal basis.
- There is no domestic consensus, nor will one be secured in the foreseeable future, to adopt in trade agreements provisions that would allow for trade sanctions to be imposed in regards industrial relations (i.e, right to associate, organize and bargain collectively).
  - The NAFTA's labor accord does allow for the imposition of monetary fines/trade sanctions vis-a-vis Mexico in regards certain labor law areas germane to core labor standards and other labor standards (i.e, child labor, but also occupational safety and health and technical minimum wage standards), but not in regards industrial relations (although rigorous investigations, public hearings and Ministerial consultations can be held on these topics).

- Similarly, there is no consensus within the international community at this time to incorporate such an approach either in the WTO or in regional or bilateral agreements.

- We believe we can progress on core labor standards through a variety of means in the global economy, and are committed to pursuing every means that is feasible. At the same time, we must also advance our interests in opening foreign markets and providing new high paying job opportunities for U.S. workers.

- We believe we have already made tangible progress in this regard and are committed to making yet more progress.

Drafted: USTR/Huenemann
Cleared: DOL/Samet/Perez-Lopez 9/15

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Divider Title: **B**

INTERNATIONAL LABOR ORGANIZATION

FACT SHEET

What is the ILO?

The International Labor Organization (ILO) is a specialized agency of the United Nations based in Geneva, Switzerland. It seeks the promotion of social justice and internationally recognized human and labor rights. It was founded in 1919 and is the only surviving major creation of the Treaty of Versailles which brought the League of Nations into being; it became the first specialized agency of the United Nations in 1946.

The ILO has currently 174 member countries represented by workers, employers and governments. It is the only international agency in which non-governmental sectors of society participate fully with governments.

What is the ILO's Mandate?

The ILO aims to advance economic and social stability around the world by promoting:

- human rights in the workplace;
- employment and job creation; and
- fair trade among nations through the adherence to basic labor standards.

How is the ILO Organized

The Governing Body is the executive council of the ILO, providing instructions and guidance to the Director General. It comprises 28 government members and 14 worker and 14 employer members. The International Labor Conference, open to all member states, meets annually in June to draft, debate and adopt international labor standards in the form of Conventions and Recommendations. The Conference also monitors the application of existing labor standards and, especially in its plenary sessions, serves as a forum for the discussion of international labor and social issues. The International Labor Office, based in Geneva, is the Secretariat of the ILO. Its current Director General is Michel Hansenne of Belgium.

How Does the ILO Accomplish Its Objectives?

In fulfillment of its mandate, the ILO:

- sets international labor standards in the form of Conventions and Recommendations, and supervises their observance (there are currently 181 conventions and 188 recommendations);
- provides advisory services to governments and workers' and employers' organizations;
- plans and carries out technical assistance and training programs to help governments meet agreed standards of working conditions and social policy, and to promote job creation; and

- conducts global research and transfers the findings through reports, publications, conferences, and computerized data bases, including the Internet.

What Are the ILO's Chief Concerns?

The ILO's chief concerns relate to a core group of Conventions that define basic rights of workers and set minimum standards for:

- freedom of association;
- the right to organize and bargain collectively;
- non-discrimination in employment;
- abolition of forced labor;
- elimination of exploitative child labor.

In addition to these core conventions, the largest number of ILO labor standards define acceptable levels of working conditions and worker protections, such as:

- occupational safety and health;
- working time; and
- social security.

U.S. Participation in the ILO

The United States joined the ILO in 1934. In 1977, the United States withdrew from the ILO (using the normal withdrawal procedure) because it felt that several trends were undermining the ability of the organization to carry out its basic aims. Those trends included: the erosion of tripartism, selective concern for human rights, disregard for due process and increasing politicization of the Organization. In 1980, the United States rejoined the ILO.

The United States participates actively in the work of the ILO. We have ratified a very small number of conventions (12 out of 181conventions) although it is USG policy to ratify more conventions, provided they are fully consistent with U.S. law and practice. The tripartite mechanism established for examining the legal feasibility of ratifying more ILO conventions ensures that U.S. law and practice is in complete conformity with a convention's provisions before ratification, thereby guaranteeing that ratification of ILO conventions is not used to change existing U.S. law and practice. As a result the process if complex and lengthy.

However, even in the absence of formal U.S. ratification, the U.S. had demonstrated on may occasions that our law and practice meets or exceeds virtually every ILO convention and our law is backed up by enforcement mechanisms.

Q: What is the time line for adoption and implementation of the ILO Declaration?

A: At its next sessions in November 1997 and March 1998, the ILO Governing Body is expected to place the Declaration on the 1998 ILO Conference agenda and produce a draft text for Conference negotiation and adoption in June 1998. The specifics of the Declaration's supervisory mechanism, most likely, will be ironed out by the Governing Body in November 1998. It's hard to say at this point when the supervisory procedures would be put into effect.

Q: How will the Declaration and its supervisory mechanism work?

A: Because the Governing Body has not yet formally begun to discuss the Declaration, it's hard to say with precision what it will look like. There is broad agreement that the ILO's reaffirmation of commitment to core labor standards will be in the form of a Declaration adopted by the Conference. We expect that the Declaration will mandate some type of mechanism, building to a large degree on existing procedures, to monitor the extent to which all countries -- including those which have not ratified the relevant international labor conventions -- respect core labor standards in law and practice.

Q: How is support stacking up for the Declaration?

A: The Workers' and Employers' Groups in the ILO are both in favor of the Declaration but don't agree on how the principles (i.e., the core labor standards) should be spelled out in the document or on how the supervisory mechanism would be implemented.

Most governments also favor the declaration, but have differing views on the supervisory mechanism:

Asia region -- virtually all strongly against the mechanism. Japan is unclear but apparently leaning against.

Latin America -- Mexico and Brazil against, Chile in favor; no clear indication from the others. Colombia, as chair of the 113 member country Non-Aligned Movement (NAM), announced that the NAM was opposed, but several NAM countries have indicated that Colombia does not speak for them and did not consult with member countries prior to the announcement.

Canada and Europe -- a variety of views on the mechanism, but favorable.

Africa -- Egypt is against the mechanism, some support from South Africa.

Missing

A

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Divider Title: B

TRADE AND INCREASED DISPARITIES IN LABOR COMPENSATION

Question: Trade agreements are pretty good for higher skilled workers with jobs supported by exports. But, what about lower skilled workers competing against imports? Don't market opening agreements suppress their wages and contribute to growing income disparities in the U.S.?

Answer:

- Your question is a legitimate one. It has been addressed a number of times in highly technical economic analysis. The OECD has also recently studied extensively the linkages between trade, employment and real compensation. The results of these studies vary considerably in their conclusions. **Let me, however, tell you in a nutshell what I believe is the closest we have to a consensus view on this issue, based on such work.**

- **The literature tends to suggest that the principal source of increased disparity in labor compensation is technological change.** New technologies in communications, information, manufacturing, transportation and number of other areas have increased the economy's needed for higher skilled workers while limiting the growth in demand for lower skilled workers. New technology, of course, creates new products, increases labor productivity and real income for the country as a whole, but possibly at some expense in demand for and remuneration of lower skilled workers.

- **Trade may act in a similar manner to technology, though its effects are usually considered to be considerably less.** The U.S. has on average the world's highest labor productivity and most creative and skilled labor force. Our exports embody, the work of skilled U.S. workers. Productivity is higher in exporting industries and the wages of export supported jobs are 13% to 16% higher than the U.S. national average. **Trade liberalization, by removing impediments to U.S. exports, therefore tends to shift job growth over time somewhat toward higher skilled jobs rather than lower skilled jobs and, at least theoretically, may contribute to changes in wage distribution.**

- **We are careful with regard to trade agreements about the interests of import impacted workers.**
  -- **First,** the reduction in any U.S. barriers is phased in gradually, with the longest phase in provided for the most sensitive industries to ease any burden of adjustment.
  -- **Second**, trade-related adjustment assistance such as for NAFTA provides more favorable support for trade impacted workers than for U.S. workers who face job displacement for purely domestic reasons.
  -- **Third,** we always reserve our rights and have in fact used provisions for temporary safeguard import relief to assist worker adjustment.
  -- **And, fourth,** of course, as the world's most open major market, our barriers are already very low, and U.S. workers do not face the type of substantial adjustments to trade agreements that elsewhere in smaller, currently more protected markets.

- **Whatever the impact of trade on wage disparity, import protection is a no more advisable policy to address it than a policy that would take punitive measures to persuade our scientists, researchers and high-tech companies to cease innovating.** Both would slow the rate of growth and real labor compensation. The economic costs of trade protections would certainly outweigh the benefits.

- **Ultimately, the best and most lasting solution to any increase in wage inequality growing out of properly functioning markets is better education and increased training.** The enhancement of job skills allow more lower wage workers to take greater of advantage of technological changes and more open markets to raise their productivity and incomes. The upgrading of the skill level of labor force should also contribute to bringing better balance between supply and demand for lower-skilled workers as well as between the supply and demand for higher skilled workers, thus helping to offset tendencies toward greater wage inequality.

  [Americans as individuals and families have always valued the sense of having an opportunity to get ahead. Education and training, on the one hand, job-enhancing technology and market-opening agreements, on the other, are among our principal means for expanding economic opportunity for U.S. workers.]

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Divider Title: **C**

COMPETING AGAINST COUNTRIES WITH LOW WAGES

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

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

    - A recent study published by the Federal Reserve Bank of San Francisco examining several Asian developing countries illustrates this point. According to its estimates, 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 United States because of productivity differentials. In Korea and Thailand, the study showed that productivity differentials significantly, though not completely, offset wage differentials in 1990. Perhaps even more significantly, the study showed that unit labor cost differentials favoring the four Asian countries examined had shrunk significantly, or turned into disadvantages between 1970 and 1990.

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

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

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

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

- o **The U.S. has competed successfully in the industrial sector.** U.S. industrial output is up 20% in real terms since 1992 (compared to an 7% rise for Japan and a 2% decline for Germany). Manufacturing employment since 1992 is up roughly one-quarter million due largely to strong U.S. productivity growth in the manufacturing sector (3% to 4% a year).

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

- **Real U.S. wages have started to increase again: up nearly 2% in the last 2 years. To the extent inflation is overstated, as many believe, real earnings growth may be understated.**

- Reducing barriers and expanding trade with low wage countries is more of an opportunity than a threat for most U.S. workers and the chance to help achieve basic domestic economic aspirations. Trade expansion with such countries increases the production of what we do best and the higher wage jobs supported by such exports. Average U.S. labor productivity and real labor compensation rise as result. And when we workers enjoy the fruits of our labor in the market place, we find that imports further raise the real purchasing power of our wages and salaries.

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

Question:

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

Answer:

- The fact is the U.S. economy has been rated by independent experts as the most competitive large economy in the world for the last five years. American workers are the best trained, most highly educated and productive work force in the world and they can compete.

- In the last 10 years, U.S. exports to low-wage countries have risen 240%, while exports to high-wage countries are up just 140%. Export to low-wage countries now account for 42 of total U.S. exports. And these are high-skilled, high paying jobs.

- Competition from low-wage countries does create competitive pressures in industries where skills and productivity are lower, but most such jobs don't compete with imports.

    - In fact, imports from non-oil developing countries account for only 4% of U.S. spending and have grown only 1.5% during the past decade.

Likely Source of Question:

Drafted: Bshpiece
Reviewed: Jhuenemann 8/22

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Divider Title: **D**

Question

Is the Administration prepared to upgrade the status of the NAFTA labor accord Secretariat to serve as a foundation within the FTAA effort? For example, will the Administration pursue a more independent Secretariat that would annually report on labor standards developments and thus bring more moral suasion to the effort to encourage the enforcement of core labor standards?

Answer

- First of all, we believe that the NAFTA labor accord has served as an effective instrument to encourage the effective enforcement of labor law in the signatory countries.

- Several public submissions under the NAFTA labor accord have led to tangible progress:

  - a union previously denied recognition was subsequently recognized, and

  - two secret ballots were held in regards union representation whereas previously such voting was not secret.

- Thus, we have good reason to believe the public submission process under the NAFTA labor accord is useful in bringing effective pressure to bear on labor law enforcement officials and we expect to see additional progress in the future.

- As to the role of a similar accord in the FTAA, we are currently exploring in the FTAA process how to fulfill the commitment by the democratically elected leaders in the hemisphere at the first Summit of the Americas to encourage the adoption of and respect for internationally recognized worker rights.

- We are interested in pursuing the most effective approach possible in this regard, which can include a variety of different methods of proceeding in these initial stages, including:

  - working through the hemispheric Labor Ministers and building upon their 1995 agreed upon action plan in regards core labor standards; and

  - pursuing a labor forum that would precede FTAA trade Ministerial meetings (i.e., like the current business forum).

- At the same time, we are willing to explore different approaches with Congress to advance respect for core labor standards recognizing that we have to contend with significant limitations in the degree to which our hemispheric partners are willing to move with us within the FTAA context, including our NAFTA partners.

Drafted: USTR/Huenemann
Cleared: DOL/Samet/Perez-Lopez 9/15

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Divider Title: E

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Divider Title: G

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Divider Title: **H**

DATA ON UPPER & MIDDLE INCOME COUNTRIES, INCLUDING WAGES

High Income Economies	GNP per Capita (1994) At PPP*	GNP per Capita (1994) At market exchange rates**	U.S. Trade (1996) ($billions) U.S. Exports	U.S. Trade (1996) ($billions) U.S. Imports	U.S. Trade (1996) ($billions) Balance	Hourly Compensation Costs — 1995 in U.S. Dollars —** (Manufacturing)
United States	25,880	25,880	na	na	na	$17.20
Switzerland	25,150	37,930	8.4	7.8	0.6	$29.28
Kuwait	24,730	19,420	2.0	1.6	0.3	na
Singapore	21,900	22,500	16.7	20.3	(3.7)	$7.28
Japan	21,140	34,630	67.5	115.2	(47.7)	$23.66
Belgium	20,270	22,870	12.5	6.8	5.7	$26.88
Norway	20,210	26,390	1.6	3.9	(2.3)	$24.38
Canada	19,960	19,510	132.6	156.5	(23.9)	$16.03
Denmark	19,880	27,970	1.7	2.1	(0.4)	$24.19
France	19,670	23,420	14.4	18.6	(4.2)	$19.34
Austria	19,560	24,630	2.0	2.2	(0.2)	$25.38
Germany	19,480	25,580	23.5	38.9	(15.5)	$31.88
Netherlands	18,750	22,010	16.6	6.6	10.0	$24.18
Italy	18,460	19,300	8.8	18.2	(9.4)	$16.48
Australia	18,120	18,000	12.0	3.9	8.1	$14.40
United Kingdom	17,970	18,340	30.9	28.9	2.0	$13.77
Sweden	17,130	23,530	3.4	7.2	(3.7)	$21.36
Finland	16,150	18,850	2.4	2.3	0.1	$24.78
New Zealand	15,870	13,350	1.7	1.5	0.3	$10.11
Israel	15,300	14,530	6.0	6.4	(0.4)	$10.59
Spain	13,740	13,440	5.5	4.3	1.2	$12.70
Ireland	13,550	13,530	3.7	4.8	(1.1)	$13.83
Portugal	11,970	9,320	1.0	1.0	(0.1)	$5.35
United Arab Emirates	na	na	2.5	0.5	2.0	na
Hong Kong	na	21,650	14.0	9.9	4.1	$4.82
Upper-middle Income						
Mauritius	12,720	3,150	0.0	0.2	(0.2)	na
Greece	10,930	7,700	0.8	0.5	0.3	$8.95
Korea	10,330	8,260	26.6	22.7	3.9	$7.40
Saudi Arabia	9,480	7,050	7.3	8.8	(1.5)	na
Czech Rep.	8,900	3,200	0.4	0.5	(0.1)	na
Chile	8,890	3,520	4.1	2.3	1.9	na
Argentina	8,720	8,110	4.5	2.3	2.2	na
Trinidad & Tobago	8,670	3,740	0.7	1.0	(0.4)	na
Oman	8,590	5,140	0.2	0.4	(0.2)	na
Malaysia	8,440	3,480	8.5	17.8	(9.3)	na
Uruguay	7,710	4,660	0.5	0.3	0.2	na
Mexico	7,040	4,180	56.8	73.0	(16.2)	$1.51
Slovenia	6,230	7,040	0.1	0.3	(0.2)	na
Hungary	6,080	3,840	0.3	0.7	(0.3)	na
Brazil	5,400	2,970	12.7	8.8	3.9	na
South Africa	5,130	3,040	3.1	2.3	0.8	na
Taiwan	na	na	18.4	29.9	(11.5)	$5.82
Gabon	na	3,880	0.1	1.9	(1.9)	na
Lower-Middle Income						
Phillipines	2,740	950	6.1	8.2	(2.1)	na

* Dollar values for foreign country per capita income derived by converting foreign currency values to dollars at purchasing-power-parity exchange rates (usually deemed more appropriate than conversion at market ·hange rates for the purpose of making real international comparisons).
Conversion to dollars at market exchange rates.

Source: World Bank ("World Development Report-1996"); USTR

High Income Economies	GNP per Capita (1994) At PPP*	At market exchange rates**	U.S. Trade (1996) ($billions) U.S. Exports	U.S. Imports	Balance	Hourly Compensation Costs — 1995 in U.S. Dollars —** (Manufacturing)
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United Kingdom	17,970	18,340	30.9	28.9	2.0	$13.77
Sweden	17,130	23,530	3.4	7.2	(3.7)	$21.36
Finland	16,150	18,850	2.4	2.3	0.1	$24.78
New Zealand	15,870	13,350	1.7	1.5	0.3	$10.11
Israel	15,300	14,530	6.0	6.4	(0.4)	$10.59
Spain	13,740	13,440	5.5	4.3	1.2	$12.70
Ireland	13,550	13,530	3.7	4.8	(1.1)	$13.83
Portugal	11,970	9,320	1.0	1.0	(0.1)	$5.35
United Arab Emirates	na	na	2.5	0.5	2.0	na
Hong Kong	na	21,650	14.0	9.9	4.1	$4.82
Upper-middle Income						
Mauritius	12,720	3,150	0.0	0.2	(0.2)	na
Greece	10,930	7,700	0.8	0.5	0.3	$8.95
Korea	10,330	8,260	26.6	22.7	3.9	$7.40
Saudi Arabia	9,480	7,050	7.3	8.8	(1.5)	na
Czech Rep.	8,900	3,200	0.4	0.5	(0.1)	na
Chile	8,890	3,520	4.1	2.3	1.9	na
Argentina	8,720	8,110	4.5	2.3	2.2	na
Trinidad & Tobago	8,670	3,740	0.7	1.0	(0.4)	na
Oman	8,590	5,140	0.2	0.4	(0.2)	na
Malaysia	8,440	3,480	8.5	17.8	(9.3)	na
Uruguay	7,710	4,660	0.5	0.3	0.2	na
Mexico	7,040	4,180	56.8	73.0	(16.2)	$1.51
Slovenia	6,230	7,040	0.1	0.3	(0.2)	na
Hungary	6,080	3,840	0.3	0.7	(0.3)	na
Brazil	5,400	2,970	12.7	8.8	3.9	na
South Africa	5,130	3,040	3.1	2.3	0.8	na
Taiwan	na	na	18.4	29.9	(11.5)	$5.82
Gabon	na	3,880	0.1	1.9	(1.9)	na

* Dollar values for foreign country per capita income derived by converting foreign currency values to dollars at purchasing-power-parity exchange rates (usually deemed more appropriate than conversion at market (change rates for the purpose of making real international comparisons).
Conversion to dollars at market exchange rates.

Source: World Bank ("World Development Report-1996"); USTR

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Divider Title: I

U.S. Still Needs to Address High Global Tariff Barriers

- **U.S. gets good deals form trade negotiations:** Most countries' tariff rates dropped substantially more than those of the U.S. during the Uruguay Round (column D), according to the World Bank.

- **Why U.S. needs to negotiate further:** Despite progress in the Uruguay Round many fast growing emerging markets still have high bound and applied tariffs (columns A and C).

Country	**A: Post-Uruguay Round Tariffs Faced by U.S. Exporters Could Be Raised As High As (Bound-Rates):**	**Applied Rates**		**Reductions in Applied Rates**
		B: Pre-Uruguay	**C: Post-Uruguay**	**D:%Point Difference**
Jamaica	**56.3%**	28.0%	15.5%	-12.5%
India	**52.2**	47.4	30.9	-16.5
Tunisia	**48.7**	31.7	24.8	- 6.9
Romania	**45.1**	13.5	11.7	-1.8
Colombia	**39.7**	14.5	10.9	-3.6
Sri Lanka	**38.9**	40.4	28.6	-11.8
Indonesia	**38.4**	21.8	10.7	-11.1
Zimbabwe	**35.3**	10.3	4.5	-5.8
El Salvador	**34.2**	14.5	10.7	-3.8
Peru	**33.7**	27.4	14.6	-12.8
Turkey	**33.3**	32.8	26.3	-6.5
Venezuela	**31.6**	15.0	12.4	-2.6
Argentina	**31.0**	14.5	10.3	-4.2
Uruguay	**29.4**	24.0	14.6	-9.4
Brazil	**29.0**	12.8	11.7	-1.1
Thailand	**27.5**	41.0	26.1	-14.9
Chile	**25.0**	11.0	11.0	0.0
Philippines	**21.9**	26.9	19.0	-7.9
Senegal	**16.6**	11.8	11.8	0.0
Korea	**16.4**	16.2	7.7	-8.5
Iceland	**12.6**	18.7	2.9	-15.8
Poland	**12.3**	11.1	6.9	-4.2
Australia	**11.1**	16.9	8.9	-8.0
New Zealand	**10.8**	14.6	6.8	-11.8
Malaysia	**9.3**	13.7	6.4	-7.3
Austria	**7.3**	7.8	3.3	-4.5
Singapore	**7.1**	16.2	1.3	-14.9
Hungary	**6.6**	9.6	6.8	-2.8
Finland	**6.2**	12.2	5.9	-6.3
Norway	**4.2**	4.4	1.0	-3.4
Czech & Slovak	**4.0**	5.2	3.8	-1.4
Japan	**3.7**	5.5	2.8	-2.7
UNITED STATES	***3.3***	***5.7***	***2.8***	***-2.9***
European Union	**3.2**	5.9	2.8	-3.1
Sweden	**2.9**	3.5	1.4	-2.1
Switzerland	**2.0**	3.1	1.7	-1.4
Hong Kong	**0**	0	0	0.0
Macau	**0**	0	0	0.0

Divider Title: **J**

EXPORT PERFORMANCE, 9/10/97

- From 1992 through 1997 (annualized from the first 6 months), U.S. goods and service exports are up 50% to a level of $928 billion.

  -- Goods alone are up 53% to $674 billion (annualized 1997)
  -- Services are up 44% to $255 billion.

- Looking at the most recent period, U.S. goods exports are up 10% in the first 6 months of 1997 versus the same period of 1996 (services up 7.5% and goods and services together are up 9.4%)

- Since 1992, exports have accounted for a little over one third of U.S. economic growth; since 1993, exports have accounted for 38% of growth.

- Jobs supported by exports in 1996 were 11.5 million, up 1.7 million from 1992. Between 1992 and 1996 exports accounted for about 1 in 7 of U.S. job growth. Also, one in five manufacturing jobs are supported by U.S. exports.

- In the period 1992 to 1997 annualized, exports of **manufactured products** are up 60% to $588 billion; exports of **high tech products** are up 66% to $178 billion and **agricultural** exports are up 29% to $55 billion.

  -- Looking at the most recent period (6 months of 1997 compared to same period of 1996), **manufactured** exports are up 12%, **high tech** up 15% and **agriculture** <u>down</u> 9%.

- Exports to our **NAFTA** trade partners are up 69% since 1992 to a level of $220 billion (annualized 1997).

  -- Exports to **Mexico** are up a strong 72% (through 1997 annualized). In the first 6 months of 1997 they are up 23% from a year earlier, following 1996's strong growth of also 23%. In April and June of this year Mexico for the first time displaced Japan as the United States 2nd largest export market. On an annualized basis, exports to Mexico are expected to reach $70 billion this year.

  -- Exports to **Canada** are up 67% since 1992 (through 1997 annualized). In the first 6 months of 1997 they are up 12% to an annualized level for the year of $151 billion.

- Exports to **Latin America, excluding Mexico** are similarly booming. They are up 79% since 1992 (through 1997 annualized). In the first 6 months of 1997 alone they are up 20% from a year earlier to an annualized level of $63 billion for the year.

- Exports to **Japan** are up 38% since 1992 (through 1997 annualized). In the first 6 months of 1997 they are <u>down</u> 3% to an annualized level of $66 billion.

- Exports to **China** are up 65% since 1992 (through 1997 annualized). In the first 6 months of 1997 they are up 3% to an annualized level of $12 billion. However, in April, May and June export growth showed a considerable improvement: each of these three months exceeded the export level to China from the preceding year by between 19% and 20%.

- Exports to **Asia, excluding Japan and China** are up 66% since 1992 (through 1997 annualized). In the first 6 months of 1997, exports are up 6% from a year earlier to a level of $115 billion.

- Exports to the **E.U.** are up 29% since 1992 (through 1997 annualized). In the first 6 months of 1997, exports are up 8% from a year earlier to a level of $138 billion.

Walters/Anderson/USTR/9/10/97

EXPORT PERFORMANCE, 9/10/97

- From **1992 through 1997** (annualized from the first 6 months), **U.S. goods and service exports** are up 50% to a level of $928 billion.
  -- **Goods** alone are up 53% to $674 billion (annualized 1997)
  -- **Services** are up 44% to $255 billion.

- **In the first 6 months of 1997 alone**, U.S. **goods exports** are up 10% (**services** up 7.5% and **goods and services** together are up 9.4%).

- Since 1992, exports have accounted for a little over **one third of U.S. economic growth**.

- **Jobs supported by exports** in 1996 were 11.5 million, up 1.7 million from 1992. Between 1992 and 1996 exports accounted for about 1 in 7 of U.S. job growth. Also, **one in five manufacturing jobs** are supported by U.S. exports.

- In the period **1992 to 1997** annualized, exports of **manufactured products** are up 60% to $588 billion; exports of **high tech products** are up 66% to $178 billion and **agricultural** exports are up 29% to $55 billion.
  -- Looking at **the first 6 months of 1997** (compared to same period of 1996), **manufactured** exports are up 12%, **high tech** up 15% and **agriculture** <u>down</u> 9%.

- Exports to **NAFTA** partners are up 69% to $220 billion (**1992 to annualized 1997**).
  -- Exports to **Mexico** are up 72% (through 1997 annualized). In the **first 6 months of 1997** they are up 23% from a year earlier, following 23% growth in 1996. **In April and June of this year Mexico for the first time displaced Japan as the United States 2nd largest export market.** Annualized exports to Mexico in 1997: $70 billion.
  -- Exports to **Canada** are up 67% **since 1992** (through 1997 annualized). In the **first 6 months of 1997 they are up 12%** to an annualized level for the year of $151 billion.

- Exports to **Latin America, excluding Mexico** are similarly booming. They are up 79% since 1992 (through 1997 annualized). In the first 6 months of 1997 alone they are up 20% from a year earlier to an annualized level of $63 billion for the year.

- Exports to **Japan** are up 38% since 1992 (through 1997 annualized). In the first 6 months of 1997 they are <u>down</u> 3% to an annualized level of $66 billion.

- Exports to **China** are up 65% since 1992 (through 1997 annualized). In the first 6 months of 1997 they are up 3% to an annualized level of $12 billion. **In April, May, and June of 1997 export growth improved considerably**: each of these three months exceeded the export level to China from the preceding year by between 19% and 20%.

- Exports to **Asia, excluding Japan and China** are up 66% since 1992 (through 1997 annualized). In the first 6 months of 1997, exports are up 6% to a level of $115 billion.

- Exports to the **E.U.** are up 29% since 1992 (through 1997 annualized). In the first 6 months of 1997, exports are up 8% from a year earlier to a level of $138 billion.

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Divider Title: **K**

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Divider Title: **L**

Trade Generally

Q: Why should be reach trade agreements with low wage countries? How can U.S. workers compete against foreign workers earning a fraction of U.S. wages?

A: The fact is that U.S. workers do compete successfully with low wage countries. In the last 10 years, U.S. exports to low-wage countries have risen 240%, while exports to high wage countries are up just 140% and domestic sales by 75%. Exports to low wage countries now account for 42% of total U.S. exports. And these are good jobs. Wages for export-related jobs pay 13-16% more than the national average.

Competition from low wage countries does create competitive pressures in industries where skills and productivity are lower, but most such jobs don't compete with imports. In fact, imports from non-oil developing countries account for only 4% of U.S. spending and has grown only 1.5% during the past decade.

For those workers who are affected, we need to maintain our commitment to education and worker retraining. That's why I have made them a priority. It must be part of a complete strategy to prepare us for global competition.

Q: The U.S. trade deficit has hurt the U.S. economy and cost American jobs.

A: It's hard to argue that the trade deficit is devastating the U.S. economy. We are growing at a steady pace of about 3% per year over the past five years, unemployment is at a 23 year low, income levels are rising and exports are at record levels.

But one way to attack the deficit is to break down foreign barriers - and I can't do that unless I have fast track authority.

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Divider Title: M

CHANGES 1992-1

U.S. TRADE DATA — THROUGH FULL YEAR 199

(In Billions of Dollars)

GOODS & SERVICES (BOP)

WORLD	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($38.3)	($101.9)	($111.0)	($9.2)	($72.8)
Exports	$617.7	$794.6	$848.8	6.8%	37.4%
Imports	$655.9	$896.5	$959.9	7.1%	46.3%

GOODS ALONE (BOP) WORLD

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($96.1)	($173.6)	($191.2)	($17.6)	($95.1)
Exports	$440.2	$575.9	$612.1	6.3%	39.0%
Imports	$536.3	$749.4	$803.2	7.2%	49.8%

SERVICES ALONE WORLD

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	$57.8	$71.7	$80.1	$8.4	$22.3
Exports	$177.3	$218.7	$236.8	8.2%	33.5%
Imports	$119.5	$147.0	$156.6	6.5%	31.1%

MANUFACTURING

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($66.1)	($144.7)	($134.1)	$10.5	($68.0)
Exports	$368.2	$485.0	$524.7	8.2%	42.5%
Imports	$434.3	$629.6	$658.8	4.6%	51.7%

HIGH TECH

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	$35.2	$13.7	$24.5	$10.9	($10.7)
Exports	$107.1	$138.5	$154.9	11.9%	44.7%
Imports	$71.9	$124.8	$130.4	4.5%	81.4%

AGRICULTURE

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	$19.7	$27.1	$28.1	$1.0	$8.4
Exports	$43.1	$56.4	$60.6	7.6%	40.6%
Imports	$23.4	$29.3	$32.6	11.3%	38.9%

JAPAN

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($49.4)	($59.1)	($47.6)	$11.6	$1.8
Exports	$47.8	$64.3	$67.6	5.1%	41.5%
Imports	$97.2	$123.5	$115.2	-6.7%	18.5%

CHINA

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($18.2)	($33.8)	($39.5)	($5.7)	($21.3)
Exports	$7.5	$11.8	$12.0	2.0%	60.5%
Imports	$25.7	$45.5	$51.5	13.1%	100.6%

PACIFIC RIM

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($15.8)	($15.2)	($14.7)	$0.5	$1.1
Exports	$69.2	$104.5	$108.6	4.0%	57.0%
Imports	$85.1	$119.7	$123.3	3.1%	45.0%

CANADA

	1992	1995	1996	Change vs 1995	Change vs 1992	Change vs 1993
Balance	($8.3)	($18.1)	($21.7)	($3.6)	($13.3)	($10.9)
Exports	$90.2	$127.2	$134.2	5.5%	48.9%	33.6%
Imports	$98.5	$145.3	$155.9	7.3%	58.3%	40.2%

APEC

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	($88.4)	($143.8)	($142.4)	$1.4	($54.0)
Exports	$262.1	$364.3	$390.6	7.2%	49.0%
Imports	$350.5	$508.1	$533.0	4.9%	52.1%

MEXICO

	1992	1995	1996	Change vs 1995	Change vs 1992	Change vs 1993
Balance	$5.4	($15.4)	($17.5)	($2.1)	($22.9)	($19.2)
Exports	$40.6	$46.3	$56.8	22.7%	39.9%	36.6%
Imports	$35.2	$61.7	$74.3	20.4%	111.2%	86.1%

EU15

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	$6.5	($8.2)	($15.2)	($7.1)	($21.7
Exports	$107.7	$123.7	$127.7	3.3%	18.5%
Imports	$101.3	$131.8	$142.9	8.4%	41.2%

NAFTA

	1992	1995	1996	Change vs 1995	Change vs 1992	Change vs 1993
Balance	($2.9)	($33.5)	($39.2)	($5.7)	($36.3)	($30.1)
Exports	$130.8	$173.5	$191.0	10.1%	46.1%	34.5%
Imports	$133.7	$207.0	$230.2	11.2%	72.2%	52.3%

LATIN AMERICA

	1992	1995	1996	Change vs 1995	Change vs 1992
Balance	$1.6	$7.7	$3.1	($4.7)	$1.4
Exports	$35.1	$50.0	$52.6	5.2%	49.7%
Imports	$33.5	$42.3	$49.5	17.3%	47.8%

Note: Latin America does not include Mexico; Pacific Rim does not include Japan or China

CHANGES 1992 1997 (Annualized)

U.S. TRADE DATA --- THROUGH JUNE 1997

(In Billions of Dollars)

Date of July Release Thursday - September 19, 1997

GOODS & SERVICES (BOP)

WORLD	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($38.3)	($111.0)	($118.0)	($7.0)	($79.3)
Exports	$617.7	$848.8	$928.3	9.4%	50.3%
Imports	$655.9	$959.9	$1,046.4	9.0%	59.5%

GOODS ALONE (BOP)

WORLD	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($96.1)	($191.2)	($204.5)	($13.3)	($108.4)
Exports	$440.2	$612.1	$673.7	10.1%	53.0%
Imports	$536.3	$803.2	$878.2	9.3%	63.8%

SERVICES ALONE

WORLD	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	$57.8	$80.1	$86.4	$6.2	$28.6
Exports	$177.3	$236.8	$254.6	7.5%	43.6%
Imports	$119.5	$156.6	$168.2	7.4%	40.8%

MANUFACTURING

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($66.1)	($134.1)	($129.3)	$4.8	($63.2)
Exports	$368.2	$524.7	$587.9	12.1%	59.7%
Imports	$434.3	$658.8	$717.2	8.9%	65.2%

HIGH TECH

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	$35.2	$24.5	$37.9	$13.4	$2.7
Exports	$107.1	$154.9	$177.7	14.7%	65.9%
Imports	$71.9	$130.4	$139.8	7.2%	94.5%

AGRICULTURE

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	$19.7	$28.1	$19.7	($8.3)	$0.0
Exports	$43.1	$60.6	$55.4	-8.6%	28.5%
Imports	$23.4	$32.6	$35.7	9.5%	52.2%

JAPAN

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($49.4)	($47.6)	($54.5)	($6.9)	($5.1)
Exports	$47.8	$67.6	$65.8	-2.6%	37.8%
Imports	$97.2	$115.2	$120.3	4.5%	23.8%

CHINA

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($18.2)	($39.5)	($52.7)	($13.2)	($34.5)
Exports	$7.5	$12.0	$12.3	2.6%	64.7%
Imports	$25.7	$51.5	$65.0	26.3%	153.3%

PACIFIC RIM

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($15.8)	($14.7)	($11.1)	$3.6	$4.8
Exports	$69.2	$108.6	$113.9	4.9%	64.6%
Imports	$85.1	$123.3	$125.0	1.4%	47.0%

CANADA

	1992	1996	1997*	Change vs 1996	Change vs 1992	Change vs 1993
Balance	($8.3)	($21.7)	($17.8)	$3.9	($9.5)	($7.1)
Exports	$90.2	$134.2	$150.7	12.3%	67.2%	50.1%
Imports	$98.5	$155.9	$168.6	8.1%	71.1%	51.6%

MEXICO

	1992	1996	1997*	Change vs 1996	Change vs 1992	Change vs 1993
Balance	$5.4	($17.5)	($16.0)	$1.5	($21.4)	($17.7)
Exports	$40.6	$56.8	$69.7	22.7%	71.7%	67.6%
Imports	$35.2	$74.3	$85.7	15.4%	143.6%	114.7%

NAFTA

	1992	1996	1997*	Change vs 1996	Change vs 1992	Change vs 1993
Balance	($2.9)	($39.2)	($33.9)	$5.3	($30.9)	($24.8)
Exports	$130.8	$191.0	$220.4	15.4%	68.6%	55.2%
Imports	$133.7	$230.2	$254.3	10.5%	90.2%	68.2%

APEC

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	($88.4)	($142.4)	($157.2)	($14.8)	($68.8)
Exports	$262.1	$390.6	$421.1	7.8%	60.7%
Imports	$350.5	$533.0	$578.3	8.5%	65.0%

EU15

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	$6.5	($15.2)	($17.1)	($1.9)	($23.6)
Exports	$107.7	$127.7	$138.4	8.4%	28.5%
Imports	$101.3	$142.9	$155.5	8.8%	53.6%

LATIN AMERICA

	1992	1996	1997*	Change vs 1996	Change vs 1992
Balance	$1.6	$3.1	$7.0	$4.0	$5.4
Exports	$35.1	$52.6	$63.0	19.8%	79.3%
Imports	$33.5	$49.5	$56.0	13.0%	67.0%

Note: Latin America does not include Mexico; Pacific Rim does not include Japan or China

* 1997 is annualized based on the first six months of data

Question: Why do we have a growing trade deficit and what do you intend to do about it?

Answer:

1)The trade deficit has increased since the recession of 1990/91, the increase during this business cycle being closely related to much faster job and output growth in the United States than in many of our major trade partners.
2)The U.S. trade deficit, however, is not skyrocketing. Relative to the size of the U.S. economy the deficit is less than half as large as it was at its peak during the last decade (attained in 1987).
3)Increased national saving is the mid to long term answer. It helps self-finance strong U.S. investment more fully, reduces net capital inflows and reduces trade deficits. Continued progress in eliminating the federal deficit -- or, even running surpluses -- will help strengthen U.S. national saving. Let me explain.

- The **U.S. economy** has grown at a rate of 3.1 % since 1992, roughly twice the rate of growth for our major trade partners in the G-7. **Industrial production** is up 20% in the U.S. since 1992, while up only 7 % in Japan and down 2 % in Germany. Similarly with **employment**: up nearly 13 million in the United States while up less than a half million in the other G-7 countries. **Faster growth in the U.S. means that U.S. imports have been stimulated more than U.S. exports (which nevertheless are up 50% between 1992 and the first 6 months of 1997).** The U.S. trade deficit -- particularly with an unemployment rate under 5% -- is in some ways more a sign of strength than a source of weakness.

- Despite the rise in the dollar value of U.S. trade deficit, relative to the size of our economy, it is much smaller than it was at the peak of the previous business cycle in the 1980s. **The goods and services trade deficit in 1996 was 1.4% of GDP, less than one-half the 1987 peak deficit of 3.3% of GDP.** The goods and services trade deficit has been stable as a share of U.S. GDP for 3 years and appears to be little changed so far in 1997. On a goods trade basis alone the figures are 3.4% for the deficit in 1987 and 2.5% in 1996.

- **Trade policy is extremely important** to expanding America's most competitive industries, the higher wage jobs they provide and thereby enhancing U.S. growth and living standards. However, trade policy is not the tool of choice for addressing the trade deficit because it has relatively little impact on the most important factor underlying our aggregate deficit: modest U.S. national saving rates.

- **A healthy economy, strong growth and modest saving rates -- the U.S. situation -- result in the attraction of foreign capital to finance internal investment and the creation of corresponding trade deficits. Lifting saving rates helps self-finance strong U.S. investment more fully, reduces net capital inflows and reduces trade deficits.** Great progress has already been made on this score through Congressional and Presidential action on the budget deficit. The trade deficit has as a result shrunk considerably relative to the size of the U.S. economy, compared to the similar point of the previous business cycle.

- Some argue that additional progress may come as the baby boom generation saves more out of current income to prepare for eventual retirement. This type of question, however, is not my bailiwick as U.S. Trade Representative. **I do know that efforts to further open foreign markets and expand U.S. exports is the natural complement to macroeconomic efforts to eliminate the trade deficit in the context of sustained U.S. economic growth.**

U.S. TRADE DEFICIT - GENERAL

Question: Why is the U.S. trade deficit skyrocketing?

Answer:

The U.S. trade deficit is not skyrocketing. It has increased since the recession of 1990/91, this increase being closely related to much faster job and output growth in the United States than in many of our major trade partners over the last 4 years. Relative to the size of the U.S. economy, however, the deficit is less than half as large as it was at its peak during the last decade (attained in 1987). Even the dollar value of trade deficit last year would have declined, but for a sharp rise in petroleum prices. Let me explain some of the details.

-- Last year, U.S. **goods exports** rose by 6.3% to a record $612.1 billion in 1996. **Advanced technology products** were up 11.9% to $154.9 billion. After a 22% surge in 1995, U.S. **agricultural exports** were up another 7.6% to $60.6 billion in 1996. In the 4 years of the President's first administration, U.S. goods exports were up by 39.0% or $171.9 billion.

-- The growth of U.S. **goods imports**, at 7.2% reflected both strong U.S. economic growth and a nearly 20% increase in the per barrel price of imported petroleum. The goods trade deficit overall rose by $17.6 billion to $191.2 billion in 1996. **The non-petroleum goods trade deficit however declined by $3.6 billion to $107.1 billion.**

-- **At 2.5% of GDP, last year's goods trade deficit was significantly below the 1987 peak of 3.4%.**

-- **Looking at goods trade alone, however, does not do justice to U.S. strength in international trade.** We have, in fact, increasing large U.S. surpluses in **services trade**. The goods and services deficit in 1996, at $111.0 billion, reflected a U.S. surplus in services trade of $80.1 billion, up from 1995's surplus of $71.7 billion. **The deficit for goods and services combined rose by $9.2 billion in 1996, but would have shown no growth except for the sharp rise in petroleum import prices.**

-- **The goods and services deficit in 1996 represented 1.4% of GDP, less than one-half the 1987 peak deficit of 3.3% of GDP. The goods and services trade deficit, even with petroleum included, has been stable as a share of U.S. GDP for 3 years -- 1994, 1995, 1996.**

-- **For 1997, the goods and services balance as a share of GDP is expected to be 1.5% (annualized from first 6 months). The goods only balance is projected to be 2.6%.**

-- Nevertheless, the trade deficit, annualized from the first 6 months is slightly larger in dollar terms in 1997 than in 1996: for goods and services, $118 billion for 1997 versus $111 billion in 1996 (deficit up 6.2%; exports up 9.4%; imports up 9.0%); for goods alone, $204 billion for 1997 versus $191 billion for 1996 (deficit up 7.0%; exports up 10.1 percent; imports up 9.3 percent).

-- **Why has the goods and services trade deficit been so sharply reduced as a share of GDP since it previous cyclical peak in the late 1980s?** Good market-opening agreements have certainly helped contain and/or reduce the deficit in certain bilateral markets, such as Japan. And, strong export growth has helped achieve this progress on the trade deficit front in the context of sustained U.S. economic growth. However, the outsized trade deficits of the 1980s fundamentally reflected reduced U.S. saving rates, in part resulting from outsized federal budget deficits. **The progress made on the budget deficit through cooperation of the President and Congress has 1)** helped strengthen national saving relative to investment, **2)** reduced the need for large net capital inflows to the United States to sustain a healthy investment rate, and **3) contributed directly to the reduction in the goods and services trade deficit from 3.3% in the near business cycle peak of 1987 and to 1.4% last year.**

-- The differential growth rates that helped bring the goods and services trade deficit from $31 billion in the recession year of 1991 to $111 billion last year are clearly visible in the data:

o Since 1992, **U.S. industrial production** (manufacturing -- by far the largest component -- utilities and mining) has increased by nearly 20% in real terms, compared to 10% increase for Japan and a 3% decline for Germany.

o **Employment** in the United States has risen nearly 13 million since 1992, compared to an increase of under 1 million (400,000) for the all the other economies of the G-7.

<u>Additional Background</u>

-- U.S. **jobs supported by goods and services exports** rose by an estimated nearly 355,000 in 1996 to a total level of 11.5 million, up 1.7 million since 1992.

-- Vis a vis **Japan** in 1996 U.S. goods exports rose 5.1% to $67.6 billion. Imports from Japan actually declined by 6.7%. As a result the deficit with Japan fell by 19.5% or by $11.6 billion to a level of $47.6 billion in 1996.

-- Also on the positive side, the U.S. trade deficit with the **Pacific Rim, excluding Japan and China** fell slightly in 1996, from $15.2 billion in 1995 to $14.7 billion. With other regions either the U.S. surplus was smaller or the deficit larger. With **Latin America, excluding Mexico**, the U.S. trade surplus fell from $7.7 billion to $3.1 billion. With the **EU-15**, the deficit rose from $8.2 billion to $15.2 billion in 1996 and with **Canada** the deficit rose from $18.1 billion to $21.7 billion.

-- With **China**, the deficit reached $39.5 billion in 1996, up from $33.8 billion in 1995. Exports to China increased quite dramatically in November and December, helping to offset earlier declines and to bring the overall export performance to China into positive territory for the year as a whole (up 1.9%)

-- Exports to **Mexico** recovered sharply in 1996, 22.7% to $56.8 billion. Relative to 1993, the year before NAFTA, exports to Mexico are up 36.6%. The recovery of U.S. exports to

Mexico reflect its success in dealing with its balance-of-payments difficulties, its rapid return to economic growth and the NAFTA-supported decisions of the Mexican government to continue opening its markets to U.S. exports, even during a period of great economic difficult. The deficit rose somewhat (from $15.4 billion to $17.5 billion), but, U.S. export growth (22.7%) was faster than import growth (20.4%) in 1996. Jobs supported by exports to Mexico totaled an estimated 749,000 in 1996, an increase of an estimated 122,000 since 1993.

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Divider Title: N

DOES THE TRADE DEFICIT COST JOBS?

Question: The Administration argues that exports support around 15,000 jobs per billion dollars. If imports cost us jobs in similar proportions, isn't the trade deficit overall costing us a couple of million jobs/

Answer:

- **The Commerce Department does a careful study each year of the total U.S. labor content required to produce U.S. exports. They do not do a study of jobs displaced by imports,** in large part because that is a much more difficult question to answer. We produce exports and can measure the U.S. labor content. We do not produce imports and know that imports vary greatly in their effect on U.S. jobs. Some imports of inputs into U.S. production may complement U.S. production and enhance U.S. jobs. Some may be non-competing with U.S. production -- tea would be an obvious example. Others clearly compete against U.S. production and have a job displacing effect. **However, there is no justification for taking a ratio of jobs-to-exports and applying it to jobs to imports.**

- **Aside from this measurement question, the broader issue remains: would we have more jobs if trade were in balance? Answering this question depends in part on understanding the underlying causes of the U.S. movement to trade deficit beginning in the early 1980s.** In a nut shell, under the impact of large increases in the federal budget deficit and reductions in private sector savings, the overall U.S. saving rates fell in the early 1980s. The underlying attractiveness of our economy, however, put us in a position where foreign savers and investors were quite willing lend to and invest in the United States. **In fact, since 1982, the U.S. has experienced net cumulative inflows of foreign capital totaling roughly $1.3 trillion. These funds supplemented U.S. saving and financed a healthy investment rate in the U.S. economy. But, net capital inflows necessarily correspond to trade deficit -- actually deficits on the current account, the broadest measure of trade -- of like amount.** This is true for any country. Capital account surpluses correspond to current account deficits of like amount and vice versa.

- **The trade deficit is a problem.** The President and Congress working together over the last 4 years have made substantial progress in reducing the federal budget deficit and strengthening national saving rate. In fact, although the trade deficit has increased in dollar terms during this recovery, **substantial progress has been made in that trade deficit has been brought down substantially relative to the size of the overall economy -- down from 3.3% of GDP in 1987 to approximately 1.5% today.**

- **Has our deficit experience of the last cost U.S. jobs? My first observation is that in light of our saving problem since the 1980s, the interests of U.S. labor have probably been helped by in the inflow of supplementary saving from abroad.** Without the ability to attract foreign capital, investment would have been lower in the United States, on average every worker would have had fewer or less effective tools to work with.

Productivity, average real labor compensation and living standards probably would have been lower.

- **My second observation is that if you look at the pattern of our trade deficits over the last 15 years, they show that jobs have been scarcest when the trade deficit was at its lowest, and growing the most rapidly when the trade deficit was rising.** For example, in the recession of the early 1990, the current account came close to overall balance at a time when the unemployment rate reached close to 8%. Conversely since 1992, net employment in the United States has grown by nearly 13 million -- in stark contrast to the near zero (400,000) growth in jobs in the other high-income countries of the G-7 -- even as the current account deficit expanded from $56 billion to $148 billion. The point is that, in fact, the trade deficit has grown when strong growth of the U.S. economy has:

  -- 1) caused strong job growth at home as well as imports growing faster than exports; and
  -- 2) when the net capital inflows corresponding to the expansion of the trade deficit were needed to support strong growth of investment in the United States.

  Also, despite the rise in the trade deficit, the increase in U.S. exports since 1992 has accounted for over one-third of real GDP growth, and the 1.7 million increase in export supported jobs has accounted for one out of seven jobs in U.S. overall employment expansion.

  Looking at the facts, therefore -- that large trade deficits have occurred at times of high demand for U.S. labor and reduced trade deficits at times slack in U.S. labor markets -- I find the argument that trade deficits is costing millions of U.S. jobs implausible.

- **You are concerned about the trade deficit, I am concerned and so is the President. Our approach, I believe is right one: first, to focus on the trade policy side in eliminating foreign barriers in priority areas that will expand U.S. exports and support the expansion of higher wage U.S. jobs; second, to continue strengthening national saving through eliminating the federal budget deficit and measures to encourage stronger private sector saving.**

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Divider Title: O

Trade Balance Not the Measure of Our Trade Competitiveness or Economic Success

The President's trade policy has been criticized in some quarters because the trade deficit has increased during the Administration. Some have argued that the increase reflects an underlying lack of competitiveness in the U.S. economy and has been responsible for a loss of jobs overall and of economic growth. Nothing, however, could be further from the truth.

For the past four years the United States has been ranked as the world's most competitive major economy by the World Economic Forum. (For the past five years, the United States has been ranked as the world's most competitive country by the International Institute for Management Development). The United States has the highest per capita income in the world ($26,781). [World Bank] The U.S. figure is 22% higher than for Japan ($21,140 at purchasing power parity exchange rates), 33% higher than for Germany ($19,480), and 267% higher than for Mexico ($7,040).

In industry after industry -- in agricultural, manufacturing and service sectors -- the U.S. produces some the world's best products and some of the best value for the price. Our exports, as noted earlier, have accordingly grown rapidly. Since the beginning of the Administration the expansion of **exports has accounted for one third of the increase in our GDP.**

Relative to the size of the U.S. economy, however, the goods and services deficit is nearly half (1.5 percent) as large as it was at its peak (3.3 percent) during the last decade (attained in 1987). For goods alone, the deficit accounts for 2.5 percent of the U.S. economy as compared to 3.4 percent during its peak in 1987.

United States has enjoyed a sustained period of healthy growth, rising employment, falling unemployment and moderate inflation. The rise in our trade deficit during the Administration is, in fact, related to the favorable performance of the U.S. economy. **The U.S. economy began to recover earlier than other countries from the global recession of the early 1990s and to grow faster than the markets of many of major trade partners. As a result our demand for imports rose at a time when foreign demand for U.S. exports was dampened by lack of growth in foreign purchasing power.** The U.S. economy has grown almost twice as fast as the major economies of the G-7 (Germany, U.K., France, Italy, Japan, Canada) over the last four years.

No previous Administration has made a greater effort, nor had more success, in reducing barriers to U.S. trade. Foreign trade barriers do have some influence on the trade balance, and we address these barriers vigorously. However, more recent increases in the deficit largely reflect superior performance of the U.S. economy. The figures tell the story. Even as our trade deficit has risen, **U.S. industrial production has grown nearly 20 percent** in real terms over the last four years. In contrast, the level of industrial production in **Japan** -- a country with which we still have a large deficit -- is just 7.4% above where it was in 1992. In Germany, another country with which we run a significant deficit, industrial production is currently 1.7 percent below 1992 levels.

Similarly for **employment.** The nearly 13.0 million job increase since the President took office stands in sharp contrast to near zero job growth in the other high-income, large industrial economies of the G-7 combined. In the United States, the **unemployment** rate is currently below 5.0 percent compared to an average rate over 12 percent for France, 10 percent for Germany, and 11 percent for the European Union. The point is made not to criticize our foreign trade partners, but only to provide some context for the rise in the U.S. trade deficit, a context that is reassuring with regard to the relative U.S. economic performance over the last four years.

It is true that in the last two decades the U.S. trade balance has fluctuated with business cycles between smaller versus larger deficits, whereas a country like Japan has experienced fluctuating trade surpluses. This structural tendency toward trade deficits, in part, reflects the weakening of U.S. saving rates in the early 1980s. Given the inherent -- and growing -- strength of the U.S. economy -- reduced national saving has been offset by greater foreign capital inflows. These in turn have both supported U.S. domestic investment and, of necessity, created corresponding deficits on the U.S. current account. In fact, **the U.S. has experienced net cumulative inflows of foreign capital, and cumulative current account deficits of roughly $1.3 trillion since 1982** (adjustments made for statistical discrepancies).

In recent years a good deal of progress has been made in lowering the trade deficit relative to the U.S. economy. The goods and services deficit has fallen from a peak of 3.3% of GDP in 1987 to about 1.5% currently. The President and Congress working have set the country on a course to eliminate the federal budget deficit. That together with some expected enhancement of household saving rates, due to the aging of the baby boom generation, should contribute to high national saving and further progress on the trade deficit.

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Divider Title: **P**

TRADE AND EXCHANGE RATES

(Not Cleared by Treasury)

Q: Why should we have trade agreements if currency fluctuations can wipe out the benefits of trade and turn them into losses? For example, Mexico reduced its tariffs by 10 percent but then devalued its currency by 50 percent.

Answer.

- We certainly recognize the potential for a country to manipulate its exchange rates for commercial advantage whether a trade agreement exists or not. The Department of Treasury, as required by Congress, produces an annual report on exchange rates that, among other things, determines whether in their view a country is manipulating its exchange rate for commercial advantage. Mexico was not cited for the 1995 peso crisis.

- The broader question involves whether trade agreements to lower barriers are important in its own right, which they are. Irrespective of currency fluctuations, the existence of tariffs distorts a countries resources, inefficiently allocating investment, and costs the full realization of benefits to an economy. Remember, an average 10% tariff may be composed of individual tariffs, some very high and some very low, the overall pattern being very distortive. Trade agreements help lower these barriers to facilitate the full and efficient allocation of a countries resources.

- Moreover, we should also be very careful not to create a precedent (without good cause) that may allow other countries a right to determine the correct value of the dollar for commercial purposes, even possibly determining that the value is too low and therefore actionable with trade remedies.

- In the case of Mexico, its balance of payments crisis required that country to eliminate a large current account deficit (7% of GDP) in a year. The peso was the instrument of adjustment -- the proximate, not the fundamental, cause of the crisis which lay more with a loss of investor confidence and net capital outflows.

  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 7 years to recover.

Divider Title: Q

(Last updated 9-12-97)

Performance of the U.S. Economy

Gross Domestic Product

- In the first half of 1997 the U.S. real GDP was a strong 3.7 percent higher than a year earlier. and is $26,781 per capita.

- 1997 marks the seventh year of U.S. expansion. In real dollars, the U.S. GDP has been growing at an average annual rate of 2.8 percent per year since the beginning of this Administration.

- The U.S. has the highest per capita real income in the world ($25,150 in 1994 - latest year available for global figures). This U.S. figure is 22% percent higher than for Japan ($21,140 at purchasing power parity rates), 33% higher than Germany ($19,480) and 267% higher than Mexico ($7,040).

- The recent economic success of the United States is unmatched by other industrial countries. Since 1992, the U.S. has grown 2.8 percent, nearly twice as fast on average as the other G-6 countries (1.5 percent).

- Since the beginning of the Administration, one-third of our economic growth has come from increased U.S. exports.

Employment and Job Growth

- As of August (latest available) unemployment was 4.9 percent, compared with 5.4 percent for full-year 1996. Recent rates have been the lowest in 24 years.

- Since 1992, almost 13 million (12,946 million) jobs have been created by the U.S. economy and nearly half a million (439 thousand) of this job growth has been located in the manufacturing sector. The strength of these gains is reflected in the fact that for as long as annual statistics have been taken, the percentage of the population (noninstitutional) employed has never been higher.

- Most of these new jobs are good jobs--a CEA-Department of Labor study found that 68 percent of the net job growth in full time employment during the period of February 1994 to February 1996 occurred in the higher paying job categories.

- Since late 1994, unemployment has been below 6 percent. The nearly 13 million jobs created by the U.S. also stands in sharp contrast to the performance of many other countries. Since the President took office there has been near zero job growth (400,000) in the other high-income, large industrial economies of the G-7 combined. The average rate of unemployment in France is more than 12 percent, that of Germany is 10 percent and is 11 percent for the European Union as a whole.

- 11.5 million jobs are supported by U.S. goods and services exports--an increase of 1.7 million jobs in the last four years. The incresase in export supported jobs accounts for 1 in 7 net new U.S. jobs in the last four years.

- One of every 5 U.S. manufacturing jobs are supported by exports.

Inflation

- Since the beginning of this expansionary period, inflation (CPI) has averaged less then 2.9 percent. Furthermore, rates have been trending down despite low unemployment and sustained economic growth. In the twelve months thru July 1997 (latest available), consumer prices were 2.2 percent higher than a year earlier. In July, the rate was 0.2 percent higher than the previous month.

- July 1997 was the seventh consecutive month that overall producer prices (PPI) experienced a drop. Over the past 12 month period, PPI has declined 0.2 percent. For July, the rate decreased 0.1 percent over the previous month.

- At 7.0 percent (July 1997), the U.S. has one of lowest misery indexes (unemployment + inflation) of any major economy and has the lowest index in the U.S. since the 1960's.

Industrial Production and Productivity

- Industrial production is currently almost 20 percent higher than in 1992.

- Despite the current expansion, industrial capacity utilization, at 83.1 percent (July), is below the traditional 85.0 percent trigger for price pressures.

- This excellent record has been made possible by strong investment that has resulted in industrial capacity growing at 3.5 percent a year, its fastest rate since the 1970's.

- Strong investment has also made possible rapid growth of productivity in the manufacturing sector. In the first 4 and 1/2 years of the Administration, manufacturing productivity has been rising at a rate of nearly 3% per year.

- For all private sector employment -- not just manufacturing -- measured productivity gains were very modest earlier in the recovery growing less than 0.2% a year during the first 3 years of the Administration. However, now even these have begun to pick up, growing at a rate of 1.6 percent for the last 2 years. Stronger productivity growth for the overall labor force is a vital factor in raising average real labor compensation.

- Jobs supported by exports tend to have higher than average output per hour worked. Job shifts from expanded trade thus raise our average labor productivity, the basis for real compensation increases.

- Also, in contrast to the 20 percent growth in U.S. industrial production, the level of industrial production in Japan--has grown only 7.4 percent since 1992 (thru June 1997). In Germany, industrial production is currently slightly below its level in 1992 (down 1.7 percent thru June 1997).

Earnings and Income

- Earnings measures for workers such as real wages and weekly income have increased in recent years. Between 1993 and June 1997, real hourly earnings were up 1.9 percent, and real weekly earnings were up 1.6 percent.

- Average real hourly earnings totaled $7.53 (constant 1992 dollars) and real weekly earnings were $258.90 (July 1997). Real disposable personal income per capita reached $19,428 (2nd quarter 1997).

- After a fourteen-year period in which income gains were concentrated in the top half of the income distribution, the real incomes of every quintile of the income distribution have increased since 1993, and the largest percentage increase has been seen by those in the poorest quintile. Between 1993 and 1995, the most recent year for which data was available, the poverty rate fell from 15.1 percent to 13.8 percent. Furthermore, those who have had the hardest time finding work, the long-term unemployed, have also seen their numbers trend downward this year.

- Between 1993 and 1996, real disposable per capita personal income increased by 8 percent. Annual disposable income is now more than $1,207 (constant 1992 dollars) higher on average for every man, woman and child in the United States (between 1993 and 2nd quarter 1997). According the World Bank, U.S. per capita income is the highest in the world and is 22 percent higher than Japan (at purchasing power parity rates), 33 percent higher than Germany, and 267 percent higher than Mexico (based on 1994-latest year for which global figures available).

- To the extent the consumer price index overstates inflation, government measures are likely to understate the gains to real wages and incomes.

- Jobs supported by exports are good paying jobs, paying 13-16 percent higher wages than non-trade-related jobs in the economy.

Domestic Investment

- Total domestic investment in 1997 is estimated to reach $1.3 trillion ($1,256 billion, annualized). Total domestic private domestic investment 1996 was $1.1 trillion.

- Investment by businesses has been expanding since the middle of 1992 and no end is forecasted. U.S. non-residential fixed investment increased in real terms by 9.9 percent in 1994, 9.5 percent in 1995, and an additional 7.3 percent in 1996--strong rates for the relatively advanced stage of the U.S. economic recovery. For the first half of 1997 non-residential fixed investment has increased 10.0 percent over the prior year's period. Business investment now accounts for more than 7.6 percent of GDP--its highest level since the 1950's.

- Strong demand for U.S. products abroad has also been a stimulant to enhance domestic investment.

Foreign Direct Investment

- The stock of U.S. investment abroad was $796.5 billion in 1996, compared with $630.0 billion in foreign direct investment stock in the United States.

- The U.S. was the world's largest recipient of foreign direct investment in 1995 with slightly over $60 billion (latest global figures available). Nearly one-fifth of the world total FDI in 1995 flowed into the United States. FDI in the U.S. was more than 60 percent greater than the world's second largest recipient of FDI, China ($37 billion)

- Over 4.9 million jobs are supported by foreign affiliates in the U.S. during 1995. This accounts for approximately 6.3 percent of total employment in nonbank private industries in the United States. Nearly 44 percent of this employment is in manufacturing.

- U.S. multinational companies accounted for 66 percent of total U.S. exports in 1994 (latest year available). 25 percent of total U.S. exports were between affiliates and parents. U.S. multinational companies accounted for 38 percent of total U.S. imports in 1994. 17 percent of total imports were between affiliates and parents.

- The stock of U.S. FDI abroad totaled $796.5 billion in 1996, up 11.0 percent from 1995. More than two thirds of U.S. FDI was in industrialized countries. Manufacturing investment accounted for 34.0 percent of the total U.S. FDI abroad. More than 75 percent of manufacturing investment was in industrial countries in 1996.

Budget Deficit

- The federal budget deficit is expected to continue its decline shrinking to -$34.0 billion for FY 1997. As a percent of GDP, the budget deficit is estimated to be 0.4 percent by year-end 1997.

- The budget deficit has been cut every year of the Clinton Administration and in 1996 was 60 percent lower in 1996 than its dollar value in 1992. In the most recent complete fiscal year (which ended in September 1996) the deficit was $107 billion--its lowest dollar level since 1981. This deficit at 1.6 percent in FY 1996 was smaller as a percent of GDP than any other major world economy and was at its lowest level since 1974.

- This year is projected to be even better since the Congressional Budget Office recently forecasted a $34 billion deficit for fiscal year 1997--the smallest deficit in dollars since 1979 and less than one-half a percent of GDP as well as one-eighth the size of 1992's deficit.

Consumer Confidence

- The consumer confidence index stood at 129.1 (August 1997).

- The index has reached a level as high as 129.1 only five other times in the last thirty years.

Trade Facts

- The goods and services balance as share of GDP is expected to be 1.5 percent during 1997 (annualized from first 6 months). The goods only balance is projected to be 2.6 percent during 1997. This compares with the goods and services share of GDP of 3.3 percent and goods deficit share of GDP of 3.4 percent in 1987.

- Nevertheless, the trade deficit, annualized from the first 6 months is slightly larger in dollar terms in 1997 than in 1996: for goods alone, $204 billion for 1997 versus $191 billion for 1996 (exports up 10.1 percent; imports up 9.3 percent); for goods and services $118 billion for 1997 versus $111 billion in 1996 (exports up 9.4 percent; imports up 9.0 percent).

- For 1996, the U.S. deficit on trade in goods and services expanded by 9.0 percent to $111.0 billion in part due to the strong performance of the U.S. economy combined with weaker growth in foreign markets.

- Another major factor in the increase of the deficit last year was the significant rise in petroleum prices (up 20 percent since 1995). In fact, the non-oil goods and services deficit fell by 2.5 percent ($2.7 billion) in 1996. For the first half of 1997, the goods and services deficit is up by 6.2 percent.

- The just released current account deficit, the broadest measure of trade (goods, services, and earnings on investment), declined nearly $1 billion, from $40.0 to $39.0 billion between the first and second quarter 1997. For goods trade alone the deficit declined by $2.9 billion (to $46.9 billion) in the second quarter. For services trade the balance was virtually unchanged and the balance on net foreign investment income deteriorated.

- Total exports set new records in each of the past three years, sustaining the United States as the world's leading exporter. Exports of goods and services increased 6.8 percent in 1996 and are up 9.4 percent for the first 6 months of 1997. Indeed, the World Trade Organization reports that exports from the United States grew three times faster than the world average during 1996.

- For the past four years, the U.S. has been ranked as the world's most competitive economy by the World Economic Forum. Also, for the past five years, the International Institute for Management Development has ranked the U.S. as the most competitive country.

(Last updated 9-12-97)

- With the U.S. economy at or near full employment, its recent growth record unmatched by other major countries, and domestic investment, as well as employment booming, recent increases in the trade deficit have been more a sign of strength than a source of weakness. Capital inflows have helped fuel the investment boom, while import increases have helped restrain inflation, thus lengthening the U.S. expansion.

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Divider Title: **R**

FAST TRACK: RELATIONSHIP TO APEC

Q: What role will FT play in promoting our objectives in APEC? Will APEC become an FTA?

A: While all APEC members have agreed to establish free and open trade and investment in the region, there is no commitment or agreement to create an APEC-wide free trade area. Frankly, given the economic and cultural diversity of the economies which make up APEC, I think the prospects for an APEC-wide FTA are remote.

However, there is agreement within APEC that it should be a leading force for global liberalization in specific sectors, for which FT is necessary.

Fast-track authority is extremely important to advance our market-opening objectives in this dynamic and vitally important region:

-- First of all, as noted above, we will need FT to successfully pursue and conclude agreements in the sectoral liberalization initiatives (separate Q & A's prepared on this point) that is underway in APEC.

-- Secondly, we should recognize that APEC is still developing the tools necessary to achieve the objectives of free and open trade and investment in 2010/2020. Sectoral liberalization is one such tool. But other initiatives may be considered or proposed for which FT would be needed. Having such authority will give us the needed flexibility to promote free and open trade in the region.

-- Finally, I would note that FT authority will demonstrate to the APEC region that the US will continue to assume its leadership role in setting the global trade agenda. More specifically, our ability to pursue FTA's with countries in the APEC region that have vigorously pursued a trade liberalizing agenda will act as an incentive to market-opening policies throughout the region.

ADDITIONAL APEC Q & A

NOTE: The Minority Staff Director of the Ways and Means Trade Subcommittee asked USTR staff the following question last year:

Q: What does the Administration's decision to pursue sectoral initiatives in APEC mean for the future of a new round of multilateral trade negotiations?

A: Industry has indicated quite clearly that it is very interested in the pursuit of sectoral liberalization in APEC, as well as in the WTO. Last year, U.S. companies looked upon the ITA as the most commercially significant outcome of APEC's work, and as a pivotal part of the package that emerged from the WTO Ministerial Conference in Singapore.

In addition, the work in APEC this year on sectoral and functional initiatives, as well as future work in this regard, could take the form of a package of initiatives, thereby approximating the comprehensive approach to liberalization one sees in a multilateral round of trade negotiations. In most cases, we would foresee the results of APEC sectoral initiatives being brought into the WTO system and bound -- in a manner similar to the ITA.

NOTE: A Korean academic asked C. Fred Bergsten (the former Chairman of APEC's Eminent Persons' Group) the following question at a recent luncheon sponsored by the Institute for International Economics on fast-track authority:

Q: How does APEC's voluntary, individual, non-negotiated approach to liberalization jive with the U.S. Government's residual authority to reduce tariffs, which is reciprocal in nature? How would APEC's approach to liberalization jive with broader fast-track negotiating authority, which also would be reciprocal in nature?

A: First, APEC members clearly **do** negotiate, despite assertions to the contrary. In fact, one of the general principles in the Osaka Action Plan -- that is, the 1995 plan for achieving APEC's goal of free and open trade and investment by 2010/2020 -- calls for comparability of members' trade and investment liberalization and facilitation measures, thereby signaling the need for negotiation and balancing of individual offers.

Second, although it is true that APEC has embraced a method for liberalizing that is premised partly on member economies' **individual** action plans, last year, it became clear that APEC could deliver collective liberalization results, as well. Recall that APEC Ministers and Leaders endorsed the ITA, which later was multilateralized and bound in the WTO. This year, APEC members are discussing a variety of sectoral and other initiatives that could follow the same course.

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APEC-LABOR AND ENVIRONMENT

QUESTION: What is APEC doing on labor and environmental issues? What policies has the United States advocated on labor and environment in APEC?

ANSWER:

1. Environment in APEC

> Environmental initiatives are underway in APEC in several working groups; there is no single APEC group devoted to environmental issues. Most generally, APEC's objective in environment can be expressed as promoting "sustainable development." The U.S. has actively encouraged APEC work on environment, including recent initiatives on sustainable cities, clean production, and the marine environment.

Background: APEC has a full work program on environment; but since its approach to the environment is through specific initiatives of existing working groups or integrating environmental concerns within the ongoing work/scope of existing working groups, a separate working group to deal with the environment has not been established. Environmental issues are addressed within APEC working groups on energy, tourism, transportation, marine resource conservation, and fisheries, and human resources development. The U.S. Government participates actively in each of these groups.

In July 1996, APEC environment ministers endorsed sustainable development as a priority APEC concern and launched three new initiatives --clean production, sustainable cities and the marine environment. Of the three initiatives, the U.S. has taken the leadership on clean production and the marine environment. APEC's Industrial Science and Technology Working Group has the lead on developing the work plan for the clean production initiative. The goals of this initiative are two-fold: (1) to reduce pollution in key industry sectors by promoting appropriate cleaner production technologies, policies and practices while (2) also striving to achieve broader adoption of cleaner production technologies through institutional and professional partnerships.

The key goals of the marine environment initiative are to: (1) develop integrated approaches to coastal management, (2) prevent, reduce and control marine pollution and (3) manage marine resources in sustainable way. Under the draft action plan, developed by the Marine Resource Conservation Working Group, APEC would not duplicate the efforts of existing regional organizations but rather contribute to them.

The third initiative, sustainable cities, is promoted primarily by Canada as one of the goals of its APEC leadership, and supported by the U.S. and Japan. This initiative was the inspiration for Canada's proposal to liberalize the environmental goods and services sector. There are thirteen program initiatives under the sustainable cities rubric; among them a U.S. proposal to require the use of unleaded gasoline, and a Hong Kong

proposal to encourage sustainable investment.
In addition to the three initiatives identified above, a priority for the U.S. is integrating environmental issues in the work of other APEC working groups. For example, the energy working group is looking at issues of energy efficiency and clean technology, and the HRD is working on a Sustainable Development and Training Network.

2. Labor in APEC

Labor issues in APEC are dealt with in a group on Human Resources Development, in which the United States has been active in promoting labor, workplace and gender initiatives. At the upcoming HRD Ministerial, the USG hopes to win approval for a government-business-labor approach within the human resources development group.

Background: In APEC, labor issues are treated in the working group on human resources development, or "HRD." The HRD working group is engaged in more than 50 projects, including developing human resources in small- and medium-sized enterprises, building a quality workforce through on-the-job training, and compiling comparable education and labor market statistics on APEC member economies.

Prior to 1996, US participation in the APEC Human Resources Development working group (HRD) was minimal. However, the Department of Labor has recently worked to heighten U.S. participation by actively engaging in HRD projects, assuming the role of International Coordinator in one of the HRD networks, providing consistent representation to every HRD plenary and network meeting, contributing to HRD coordination and strategic planning dialogues, and increasing the size and quality of the U.S. delegation. No labor or workplace issues were included in the HRD's original mandate. However, labor, workplace, and gender issues are now among the HRD strategic objectives.

Recent U.S. contributions to the group include:

- acceptance of labor union representatives as members of delegations to the HRD (an Asian American Free Labor Institute representative - the AFL-CIO's Office in Jakarta - is a member of the U.S. delegation);
- revision of HRD priorities to include "enhancing the quality, productivity, and equitable development of labor forces and workplaces";
- endorsement of HRD activity on workplace safety and health; and,
- recognition in the first HRD Ministerial Declaration that workers have a role to play in achieving the APEC vision of sustained growth and dynamism.

The second HRD Ministerial will be hosted by the Koreans on September 23-26, 1997. One of the main themes being addressed is "enhancing the participation of labor and management in HRD," which evolved from DOL proposals. The DOL hopes to develop a framework for more formal labor participation in APEC HRD, as an outcome of this Ministerial, and to institutionalize a government-business-labor approach within HRD.

Drafted by: J. Earley, 9/15/97
Cleared by: B. White, L. Anderson

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Divider Title: T

Possible FTAs in Africa

Q. Does the Administration intend to negotiate free trade agreements with countries in Africa?

A. The Administration's Africa initiative, "Partnership for Growth and Opportunity," seeks to encourage increased U.S. trade and investment with those countries of Sub-Saharan Africa that are undertaking economic and political reform programs and embracing open markets and privatization. Africa is a region rich in resources and potential and a number of African nations that are making dramatic strides toward democracy and prosperity. As African economies grow, America's prosperity and security will benefit. We intend to work closely with reform-minded African nations to promote these goals. We will be prepared to negotiate free trade agreements with countries that have successfully implemented reforms to further integrate them into the international trading system when we and they agree that it is mutually advantageous to do so.

Possible FTAs with Asia Pacific Countries

Q: Are there APEC members with which the United States is considering bilateral free trade agreements? If so, under what circumstances would you pursue such agreements?

A: While we have not made any final decisions on FTAs in the Asia Pacific region, we are open to that possibility in the coming years, as one way of spurring further market opening in the region. Singapore and New Zealand have expressed strong interest in pursuing an FTA with the United States, and we understand that there is also discussion in Australia on the issue.

These countries have high environmental and labor standards generally, and are already largely open economies. Singapore and New Zealand have noted that bilateral FTAs would have a strategic value beyond their commercial significance, because they would give other countries in the region desiring to participate in open trade a powerful incentive to move in the direction of more openess and higher standards.

Q: What are the chief advantages of seeking FTAs with such countries?

- In general, there are significant potential gains from achieving greater market access in countries in the world's fastest growing region. Not only do we expect these markets to be expanding in the coming years, but note that there are already efforts to create preferential trading blocks that do not include the United States: most notably the ASEAN Free Trade Area, and the Australia-New Zealand Closer Economic Relations agreement.

- An FTA with Singapore, for example, would give us a foothold in the large and growing ASEAN market, which comprises 400 million people, and which is already our fourth largest trading partner. Singapore is the financial, transportation, and communications hub of this region, and one where access to goods and especially services markets would have both bilateral and broader regional benefits. (N.B.: ASEAN includes: Indonesia, Malaysia, Phillipines, Thailand, Singapore, Brunei, and as of 1995, Vietnam. In 1997, Laos and Burma were also let in, and will eventually participate in the AFTA.)

- Agreements with New Zealand and Australia could both further open agricultural, manufacturing and services markets in these developed economies, and have a demonstration effect on other countries in the region, which in turn could spur market opening more throughout the Asia Pacific.

- Again, however, we have not made any final decisions on pursuing such agreements at this time. These are serious decisions that we would want to make in close consultation with Congress and with our private sector.

Key Issues: Bilateral Trade Agreements with Asia-Pacific Countries

Issue: In negotiating market opening bilateral trade agreements, the United States would need authority to cut tariffs, and beyond that, to address key issues of concern to the other country, or to possibly to reciprocate in bilateral issue areas which we might raise.

Singapore, New Zealand, and to a lesser extent Australia, are all very open economies already, meaning that a fairly comprehensive agreement on the basis of current practices could be envisaged without significant difficulties. The issues listed below are not the full range of issues that would be on the table in any agreement (presumably market access for goods and services, IPR, and investment issues would be disussed in all cases, for example), but key or special areas of bilateral interest.

Singapore

Key U.S. Objectives

- Services (telecom, financial services)
  - -- *U.S. market is open; no need for additional authority foreseen*
- IPR ("TRIPs plus")
  - -- *U.S. laws already reflect IPR objectives*
- Transshipment (rules of origin, enforcement)
  - -- *Issue is whether Congress would insist on special rules of origin or customs enforcement procedures.*

Key Singapore Objectives

- Standards (MRAs)
  - -- *Can be concluded without legislative authority*
- Antidumping?
  - -- *Any preferential treatment of Singapore under AD laws is presumably a non-starter; small commercial issue for Singapore compared to benefits from U.S. tariff cuts.*

Australia

Key U.S. Objectives

- Industrial subsidies

  -- *Phase out of Australian programs requires no action by us*

- Government Procurement

  -- *Australia is not a signatory of the WTO agreement. A strictly bilateral deal on procurement would probably require a statutory exemption from Buy America, as NAFTA did.*

- Investment screening

  -- *An important matter of principle, though commercial impact of New Australian screening not large. Requires no action by us.*

Key Australia Objectives

- Increased Agriculture access (expansion of TRQs)

  -- *A bilateral agreement without meaningful agriculture commitments would be politically unthinkable for Australia. It would probably thus be necessary to seek authority to expand our market access commitments made in the context of the Uruguay Round, at least improve the bilateral access levels for Australia (question: can this be done within existing global commitments?).*

- Limitation of EEP and DEIP effects on Australia

  -- *EEP and DEIP limitations outside of the context of new multilateral negotiations would presumably be very difficult.*

- Jones Act exemptions (e.g., for ferries)

  -- *Could make the agreement politically unviable for us (as did an early version of the Canada FTA).*

- Standards (MRA for conformity assessment)

  -- *Could be concluded without legislative authority*

New Zealand

<u>*U.S. Objectives*</u>

- Eliminate Dairy Board export monopoly

  -- *Requires no legislative authority, though it puts U.S. dairy issues on the table. Also, there's some doubt about the commercial signficance of the Board.*

- Government Procurement

  -- *New Zealand is not a signatory of the WTO agreement, and claims that its system, where government agencies purchase like private sector from any source, is superior to the WTO standard. Any bilateral agreement would presumably require statutory exemption of New Zealand from Buy America.*

- Investment screening

  -- *Again, an important matter of principle. Requires no action by us.*

<u>*New Zealand Objectives*</u>

- Agriculture access

  -- *Would presumably require legislative authority*

- Limitation on EEP and DEIP

  -- *Little flexibility outside of multilateral context.*

- Antidumping exemption

  -- *New Zealand's FTA with Australia prohibits dumping actions between the two countries, instead making such issues the purview of competition laws. New Zealand will most likely request a similar deal from the United States.*

Drafted: J.Damond, 6/3/97

Australia/New Zealand

Australia and New Zealand are members of the Common External Relations (CER) free trade arrangement which eliminates market access barriers to bilateral trade in goods and services. New Zealand currently is negotiating a free trade arrangement with Chile which, if successful, would be the first free trade arrangement across the Pacific. The CER countries are also engaged in a dialogue with ASEAN countries on how to link the CER with the ASEAN Free Trade Arrangement (AFTA). Australia and New Zealand are both active participants in APEC and frequently share U.S. objectives of reducing barriers and obstacles to more open markets in the Asia/Pacific region. Both would likely view an FTA with the United States from a strategic regional perspective rather than strictly bilaterally, i.e., in terms of how such an agreement would advance their broader objective of integrating more closely into the Asia-Pacific economy.

The United States enjoys a trade surplus with Australia and New Zealand as those countries have progressively eliminated their previously high protective barriers and expanded their trade ties with Asian Countries. Protective barriers continue to persist in key sectors of U.S. interest such as autos and auto parts and agricultural products. The benefits of a free trade arrangement lie in the expanding U.S. presence in high technology products and services where U.S. companies dominate Japanese competition as well as in agricultural products where non-tariff barriers continue to protect domestic producers. An FTA based on NAFTA rules and standards would solidify those rules and norms as the standard in the Pacific region thus boosting U.S. objectives in APEC.

In 1996, U.S. exports to Australia were $12.0 billion, and imports were $3.8 billion. U.S. exports to New Zealand totaled $1.7 billion, while imports were $1.5 billion.

Pros

- Would open markets of key commercial interest for automobiles (and parts) and agriculture.

- Would solidify U.S. rules as the norm for APEC and would have a significant demonstration effect on other APEC economies for achieving the Bogor goals of free and open trade.

- Further strengthens our bilateral strategic and political ties through expansion of trade and economic ties in what is the strongest strategic, military and political relationship in the Pacific region: ANZUS.

Cons

- Because of the strong competitive nature of the Australian/New Zealand agricultural sector, certain U.S. agricultural interests may feel threatened.

- Some countries may view an FTA as dividing the Pacific into Asians and Non-Asians.

Singapore

Singapore has long been interested in negotiating an free trade agreement with the United States, to secure its access to United States markets. Though a small economy of only 3 million people, Singapore combines the infrastructure, legal system, and skill levels of a developed country (indeed, according to the World Bank, it is the 6th richest country in the world), with the dynamism of the other ASEAN tigers (its growth has been averaging about 9% annually, though it is currently "only" 7%). Perhaps more importantly, as both an entrepot country, and the region's financial, telecommunications, and transportation hub, Singapore provides an entre into the entire ASEAN, and to some extent, even the Chinese market.

In 1995, Singapore was the fourth largest market for U.S. exports in East Asia and U.S. exports have grown at over a 15% annual rate since 1990. While the Singapore market is largely an open market for goods, the benefits of an FTA lie in opening the services sector which is relatively closed and in the demonstration effect it will have on other ASEAN economies as well as other Asian countries.

In 1996, U.S. exports to Singapore totaled $16.7 billion, and imports were $20.3 billion.

Pros

- Would provide the United States with a strategic advantage over the EU and Japan in Singapore, and the ASEAN, as the first developed country to establish an FTA with a country.
- Could provide tangible economic benefits far beyond Singapore, a member of the ASEAN FTA, with close ties with China and would likely be a critical factor in moving the APEC process forward -- the first Asian country with an FTA across the Pacific.
- Would provide significant advantages in the services sector, where access is still restricted for U.S. financial, professional and telecommunications companies.

Cons

- Is likely to be viewed as a threat by U.S. textile and apparel industry, as well as those other industries that would be concerned about transhipments.
- Will engender the opposition of human rights groups, unhappy with the repressive nature of Singapore's society.

Philippines

The Philippines is the country in Southeast Asia with which the United States has the strongest historical, political and cultural ties. It is a large and growing market of approximately 70 million which has both implemented a significant and far-reaching economic and trade liberalization program, and which has finally begun to join its ASEAN neighbors in attaining dynamic levels of growth (i.e., above 5 %). It has probably the most English speaking natives of any country in East Asia, and the highest proportion of citizens who have obtained secondary education of any developing country in ASEAN (i.e., all except for Singapore). While its agricultural sector is still quite sensitive politically, the Philippines government might well welcome the opportunity to have this strategic advantage over its competing ASEAN neighbors, not to mention China.

In 1996, U.S. exports to the Philippines totaled $6.1 billion, while imports totaled $8.1 billion.

Pros

- Would send a strong signal in support of both economic and trade liberalization, which the Philippines is implementing in earnest, and for democracy and human rights, in which the Philippines is generally much superior to its ASEAN colleagues.

- Would establish a strong U.S. presence in one of the large ASEAN economies, giving us a strategic advantage over Japan, Korea and the EU.

- Would act as a demonstration effect for APEC.

Cons

- We could expect to hear opposition from labor groups and others for the same reasons they opposed NAFTA: Philippines is a low-wage developing country whose labor standards are below ours. (N.B: The worker rights and democracy situation in the Philippines is probably superior to Mexico's; however, the wages are lower).

- Textile and apparel groups would strongly oppose for a number of reasons, not the least of which is the prospect of transhipment from neighboring countries including China.

Argentina

Argentina has the second largest economy in Latin America after Brazil. Its per capita annual GDP has recently surpassed $8,000, qualifying it as a developed country. Argentina has an export-oriented agricultural sector and a diversified industrial base. The U.S. had trade surpluses with Argentina of $2.2 billion in 1996 ($4.5 in exports; $2.3 in imports). Following decades of mismanagement and statist policies, President Menem, elected in 1989, has undertaken major reforms of the economy. As a result, inflation has dropped dramatically and growth resumed.

Argentina has strong labor unions supported by adequate labor legislation, but enforcement is spotty. Enforcement of environmental regulations is also uneven because the country's federal system; responsibility lies with the States, some of which have good laws, whereas others have none.

President Menem floated the idea of a free trade area with the United States a few years ago but has not pursued it. In the interim Argentina has become politically committed and economically linked to its Mercosur partners (Brazil, Paraguay and Uruguay). The Mercosur countries now have a common external tariff and, in theory, a coordinated external trade policy, though in practice this has worked better on some issues than others. Argentina is committed to negotiating the FTAA. Brazil has pressed for Mercosur to take positions that ensure that the negotiations not proceed too quickly, allowing time for Mercosur to consolidate and negotiate its own FTAs to become a more formidable counterweight to the United States in the negotiations.

Pros

- Would open market access to the largest Latin American economy after Mexico and Brazil. Its GDP is nearly three times that of Chile.
- Would establish a partnership with a member of Mercosur. Moreover, Argentina is a highly influential country in the region.
- Would further the FTAA negotiations by stimulating the other countries in the region to want to catch up as soon as possible rather than drag the negotiations out until 2005.

Cons

- Could engender resistance by several of our agricultural interests.
- Other Latin American nations -- particularly Brazil -- may perceive the United States playing a divide and conquer strategy in the region.

South Africa

South Africa has made significant strides in recent years to implement economic and legal reforms, including participation in the Uruguay Round in which it bound 90 percent of its tariffs. It had a GDP of $215 billion in 1995; our exports in 1996 were $3.1 billion; imports were $2.3 billion. South Africa has been eligible for GSP since May 1994, and has increased its imports under this program. Our market share in South Africa (6.7%) does not compare favorably with that of the Europeans (30%) and the increasing share for the Japanese (7.2%) and we would be further disadvantaged if the EU concludes an FTA with South Africa.

South Africa has a large and politically active labor movement, with many former trade unionists in key government positions. At the same time, there is over 30 percent unemployment in the formal sector and 11 percent work in the informal economy and are underemployed. It has a good record with respect to environmental, particularly conservation issues, but there are concerns about the effect of industrialization on the environment.

The President's Africa initiative has focused attention on the region and developing stronger economic ties is seen as important to solidifying the democratic process. While there is substantial support for strengthening ties in the region, focusing on South Africa to the exclusion of other countries, rather than as a process towards integration in the region, could draw criticism and may not be in South Africa's short term interest.

Pros

- Consistent with Africa initiative; support transition to democracy
- Most significant economy in sub-Saharan Africa; begin process towards larger regional bloc.
- Maintain parity with others (Europe) looking to reach agreements.
- May garner support from CBC and other liberal Democrats

Cons

- Textile and apparel industry concerns about potential production and transshipment; steel industry, wine and agriculture interests concerned about increased imports from competitive supplier.
- Criticism of dealing with country with low wages, with no minimum wage and substantial unemployment.
- Some will say that too focused on South Africa, not rest of Africa.

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Divider Title: U

REGIONAL TRADE AGREEMENTS

Question: Can you comment on the proliferation of free trade arrangements and their compliance with international rules on regional trade agreements? It appears that many of these agreements continue to pick winners and losers and are distorting and diverting trade for the rest of the world.

Answer: Free trade agreements have indeed increased in the world. In early 1996, the WTO created a new Committee on Regional Trade AGreements. The Committee was created specifically to provide a central forum to review oversee compliato fulfill several needs: to oversee the compliance of individual regional integration agreements with WTO rules, particularly those that have the potential to distort trade; to consider more broadly the effects of such agreements on the multilateral system and to evaluate whether existing rules are adequate to ensure that these agreements are complementary to this system. The United States is an active participant in this Committee.

Question: Will the U.S. Government insist that other countries adhere to the General Agreement on Tariffs and Trade (GATT) rules on regional trade agreements and that all regional trade agreements phase out export subsidies and tariff on all agriculture by a date certain?

Answer: WTO members created a Committee on Regional Trade Agreements (CRTA) to address the proliferation of regional trade agreements that WTO members have negotiated or are in the process of concluding. Part of the CRTA's work is to review the agreements for their compatibility and consistency with WTO rules governing customs unions and free trade areas pursuant to Article XXIV of the GATT 1994, Article V of the General Agreement on Trade in Services (GATS) and other provisions dealing with agreements negotiated between developing countries.

Among the requirements of Article XXIV, and the Uruguay Round Understanding on its provisions, countries are required to: (1) ensure that substantially all trade is covered; (2) ensure that the reasonable length of time allowed for full implementation should not exceed ten years (except in exceptional circumstances)[1]; and (3) ensure in respect of trade with members not parties to the agreements, that the result in terms of duties assessed or other regulations of commerce shall not on the whole be higher or more restrictive than the general incidence of duties and regulations imposed prior to the formation of the FTA or Customs Union. These are the guidelines that WTO members are required to follow and relevant to the questions raised about agricultural duties and other regulations such as export subsidies. Obviously, the United States, along with other agricultural exporting countries, has been aggressive in seeking to ensure that agriculture is fully covered in these agreements. In addition to the provisions in Article

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[1]It should be noted that duty elimination between the parties would be required in the case of an FTA; for a Customs Union, no duties are imposed between members, although there is a common external tariff.

XXIV, governments are to comply with the provisions of the WTO Agreement on Agriculture, which required reduction of export subsidies on a volume and value basis.

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Divider Title: **V**

FAST TRACK - HARD QUESTIONS FOR SENATE FINANCE HEARING

Q. The Senate Finance Committee just reported out legislation which would permit the U.S. to join the OECD Shipbuilding Agreement. That legislation has advanced despite the absence of "fast track" as a result of the commitment of both the Executive Branch and the Senate to the normal legislative process and the mutual desire to identify and advance U.S. interests. Why do we need "fast track" if the Congress and the Executive Branch can work this well together on as controversial a piece of legislation as the Shipbuilding Agreement?

A. First, let me make very clear my appreciation for the leadership and perseverance shown by members of the Senate and their staffs which resulted in the important action taken by the Senate Finance Committee last Thursday. It was the culmination of over three months hard work over the Summer and gives me renewed hope that final Congressional action can yet be achieved on legislation that will allow the U.S. to participate in this important international agreement.

At the same time, we cannot allow this positive development to blind us to the actual record with respect to this Agreement. The OECD Shipbuilding Agreement was initialed by the negotiating parties (including the United States) in July, 1995. It was signed in December 1995 and was supposed to go into effect on January 1, 1996. In order to go into effect, the Agreement must be ratified by all of the countries. All of the parties except the U.S. have completed the necessary ratification procedures. As a result of the failure of the U.S. to act in a timely manner, the Agreement already has been delayed by almost 2 full years. Even with the recent positive development in the Senate Finance Committee, we still cannot be certain when necessary Congressional action will be completed.

"Fast track" would not have interfered with a full dialogue between the Executive and Congressional Branches over the most appropriate legislation to implement this Agreement consistent with U.S. interests. It would have ensured that Congressional action would have occurred in a timely manner.

We also shouldn't forget that most of the negotiations were conducted while the Executive Branch had fast track authority and it was anticipated that it would be extended. Given our difficulties in passing implementing legislation for this agreement without fast track, we can assume that our trading partners would not be willing to close out other negotiations with the U.S. without fast track.

Q. I understand that Australia has made a proposal in APEC that would result in the elimination of duties in energy commodities, including crude oil and uranium, and non-ferrous metals, including zinc alloy. I understand that one of the sectors in which the Administration would intend to utilize the new negotiating authority also would be in energy-related activities. Would the Administration intend to use this authority to eliminate U.S. oil and refined product tariffs, which are the only tariffs the U.S. has not even bound in the WTO? Would the Administration intend to use this authority to eliminate tariffs on uranium or zinc alloy, each of which are very import sensitive?

A. Discussions in APEC regarding sectors for early market liberalization negotiations are still at an early stage. APEC leaders are scheduled to identify a list of sectors at their meeting in late November. We are consulting with the private sector regarding these and all other nominations made by APEC countries. With respect to the energy sector, the Australian proposal would appear to overlap to some extent with the U.S. proposal for liberalization of energy-related equipment and services. The U.S. nomination does not, however, include energy commodities such as crude oil or uranium. We are still reviewing the Australian proposal, in close consultation with U.S. industry.

With respect to non-ferrous metals, we have indicated support in principle for liberalization in this sector but have reserved judgment with respect to the details of the proposal -- in particular, the specific products to be covered. Without prejudice to the specific item of zinc alloy, I would point out that U.S. non-ferrous metals producers supported zero-for zero treatment on a broad range of non-ferrous metals throughout the Uruguay Round and continue to do so.

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Divider Title: W

FAST TRACK
SANITARY AND PHYTOSANITARY ISSUES

Q. Our trading partners are increasingly using unjustified sanitary and phytosanitary measures to block U.S. agricultural exports. What is the Adminstration doing to remove SPS trade barriers?

- The Administration's track record demonstrates our commitment to using all available means to aggressively remove unjustified SPS trade barriers.

- We have had a number of important accomplishments in this area, such as the resolution of differences over Russia's sanitary standards for poultry, Korea's shelf-life standards, and Japan's phytosanitary restrictions on tomatoes.

- The WTO dispute settlement panel's recent decision on the EU hormones ban demonstrates that the international agreements we have already negotiated are effective tools in removing unjustified trade barriers.

- We continue to push hard on outstanding bilateral issues, such as new EU restrictions on products derived from animal tallow and gelatin, China's TCK wheat measures, and Japan's testing requirements for apples and other fruits.

- We're insisting that our trading partners comply with their WTO obligations to maintain transparent regulatory systems and eliminate restrictions that are not scientifically justified.

- In addressing SPS trade problems, we increasingly need to draw on the technical expertise and resources of the regulatory agencies. Continued success depends on a strong interagency effort. We are cooperating closely with USDA, the Food and Drug Administration, and other interested agencies.

- In USTR, we are devoting increasing staff and budgetary resources to these issues. We already have some important accomplishments under our belt, and I'm confident that more are in store.

Q. What are you doing to ensure that the WTO doesn't force America to lower its food safety standards?

- During the Uruguay Round, we worked hard to safeguard America's right to maintain our high food safety standards.

- Both the WTO and the NAFTA agreements protect each member's rights to establish and maintain its chosen level of protection of public health and safety.

- America continues to apply the same strict science-based food safety standards to imported products as we do to domestic products. FDA figures show that, in general, agricultural imports are no more likely to present health risks than the same domestic products.

- In May, Vice President Gore announced the Administration's "Food Safety from Farm to Table" initiative. As part of this initiative, we are enhancing surveillance of potential food safety hazards both domestically and at the border.

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Divider Title: **X**

MULTILATERAL AGREEMENT ON INVESTMENT
Fast Track

Q: *How will the Administration implement the agreement? Will the Administration seek Fast Track authority for the MAI?*

A: The Administration is in the process of deciding the specific uses of Fast Track. We do not presently intend to use Fast Track to implement the MAI. We can use the treaty procedures to implement the MAI.

- This is a complicated and difficult negotiation both at home and at the OECD. We welcome the interest in the agreement and will continue to work closely with interested parties on the agreement.

- (If appropriate) There is a great deal of misunderstanding among the general public about the MAI. I am sure you have heard some of this. We continue to reach out to interested groups so that they understand the agreement better and appreciate the overall merits of it. Of course, we continue to work with Congress to ensure that the agreement meets our mutual objectives for U.S. industries and their workers.