

FOIA MARKER

**This is not a textual record. This is used as an
administrative marker by the William J. Clinton
Presidential Library Staff.**

Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: Council of Economic Advisers
Series/Staff Member: Laura D'Andrea Tyson
Subseries:

OA/ID Number: 5061
FolderID:

Folder Title:
Trade Policy [4]

Stack:	Row:	Section:	Shelf:	Position:
S	20	6	11	3

FOR INTERNAL GOVERNMENT USE ONLY

Appendix 2: Communication Activities

We recognize that to develop and maintain a strong, productive partnership with the private sector, we must establish an effective channel of communication which is truly two-way. Such communication is vital not only at the senior policy-making level, but also at the operational level where policies and programs are implemented; day-to-day interaction with American exporters enables us to test the effectiveness of our programs. In the process of formulating the National Export Strategy, we consulted with thousands of representatives from the private sector, including Fortune 500 CEOs, small business owners, bankers, export intermediaries, trade consultants, workers, industry associations, labor unions, and chambers of commerce. In fact, our outreach extended beyond national borders when officials met with American executives based overseas to learn how the U.S. Government could support their efforts to sell more U.S. products.

Since the release of our Report last September, we have maintained and expanded our dialogue with U.S. exporters through a variety of means. Discussions with American business around the country (and indeed around the world) continue to be an important way for us to publicize our programs and to learn how we can serve American exporters better. In Washington, the heads of various trade promotion agencies convened several roundtables with the leadership of key trade and business associations to assess progress we have

made and to solicit new ideas on directions for the future. In July and August, we took our outreach effort on the road — from Amarillo to Boston to San Francisco to Atlanta — to take the pulse of America's exporters. These outreach meetings supplemented the dozens of events held throughout the year at which top officials discussed particular elements of the National Export Strategy with exporters in more than 25 cities. [See Graphic 1] We also consulted closely with key committees of Congress and their staffs, both in Washington and the districts.

In addition, we have begun publishing our *National Export Strategy Update*, a monthly newsletter highlighting new programs, publications, and events. It is available on-line via the National Trade Data Bank and the Electronic Bulletin Board as well as through Commerce District Offices, and selected trade associations.

DRAFT

Graphic 1

National Export Strategy Outreach



[This list needs to be refined.]

New Orleans, LA:
Milwaukee, WI:
Minneapolis, MN:
Cleveland, OH:
San Francisco, CA:
Dallas, TX:
Amarillo, TX:
Little Rock, AR:
Boston, MA:
Atlanta, GA:
St. Louis, MO:

Burlington, VT:
Houston, TX:
Seattle, WA:
Des Moines, IA:
St. Louis, MO:
Lexington, KY:
Portsmouth, NH:
Miami, FL:
Denver, CO:
Burlington, VT:
Manchester, NH:
Boston, MA:
Baltimore, MD:
Pittsburgh, PA:
Houston, TX:
Seattle, WA:
Middletown, CT:
San Diego, CA:
Houston, TX:
St. Louis, MO:
Los Angeles, CA:
Baltimore, MD:
Denver, CO:
Las Vegas, NV:
Middletown, CT:
Miami, FL:
Seattle, WA:

Representatives from Commerce met with National Council of State Legislatures on July 24, 1994.
Commerce and Ex-Im Bank representatives met with Milwaukee business executives on July 27, 1994.
Commerce, Trade & Development Agency and the Ex-Im Bank representatives met with business leaders on July 25, 1994.
Commerce and the Trade and Development Agency representatives met with the business community July 20, 1994.
Representatives from Commerce met with business representatives August 1, 1994.
Commerce representatives met with business leaders from the World Council on Foreign Relations August 3, 1994.
Commerce representatives met with Amarillo business leaders.
Commerce representatives met with business representatives on August 5, 1994.
Commerce, Ex-Im Bank, and the Overseas Private Investment Corporation representatives met with business executives.
Chairman Brody, Commerce and Trade and Development Agency representatives met with business leaders July 27, 1994.
Director Grandmaison, Commerce, Ex-Im Bank and OPIC staff met with Missouri DEC members August 10, 1994.
President and CEO Harkin traveled to Senator Leahy's conference.
President and CEO Harkin attended the OPIC's conference on the oil and gas sector January 25, 1994.
President and CEO Harkin attended the OPIC's conference on Russia/Far East, April 25, 1994.
President and CEO Harkin hosted OPIC's investor conference for Ukrainian agricultural entrepreneurs.
Director Grandmaison attended the briefing at USIA conference on Russia and NIS October 16, 1993.
Director Grandmaison attended a briefing on the National Export Strategy October 22, 1994.
Director Grandmaison attended a briefing on the National Export Strategy November 9, 1994.
Director Grandmaison participated in a US&FCS conference on Latin America and the Caribbean November 15, 1994.
Director Grandmaison attended a briefing and reverse trade mission on the Aviation Sector December 6, 1994.
Director Grandmaison attended a Trade Finance Business conference February 15, 1994.
Director Grandmaison participated in an Export conference with Ex-Im, OPIC, and Commerce March 21, 1994.
Director Grandmaison attended TDA briefing hosted by Senator Kerry for Massachusetts businesses March 30, 1994.
Director Grandmaison attended a briefing on opportunities in the Indonesian Aviation Sector April 15, 1994.
Director Grandmaison attended a briefing on TDA at the US&FCS European conference April 29, 1994.
Director Grandmaison attended a briefing at the annual meeting on Administration's export policy May 11, 1994.
Director Grandmaison attended a briefing on Aviation opportunities in Eastern and Central Europe May 24, 1994.
Director Grandmaison attended a briefing on TDA at the Export conference June 10, 1994.
Director Grandmaison attended a conference on Opportunities in Mexico's Healthcare Sector July 18, 1994.
Director Grandmaison attended a conference on Opportunities in Kyrgyzstan's Oil and Gas Sector July 19, 1994.
Director Grandmaison participated in a briefing as part of the TPCC Outreach effort August 10, 1994.
Director Grandmaison gave a briefing on TDA for the Foreign Trade Association August 19, 1994.
Secretary Brown attended the opening of the USEAC January 31, 1994.
Secretary Brown attended the Latin America conference March 4, 1994.
Secretary Brown attended Las Vegas Day with Senator Bryan April 8, 1994.
Secretary Brown was guest speaker for the Trade conference June 10, 1994.
Secretary Brown attended the opening of the USEAC June 24, 1994.
Secretary Christopher gave the Asia Policy Address at the University of Washington on November 17, 1994.

134

FOR INTERNAL GOVERNMENT USE ONLY

Appendix 3: Product Standards -- Major U.S. Government Efforts

The U.S. Government is involved in promoting the development of U.S. product standards. In addition, we also participate in international standards activities as well as support private sector activities. This section elaborates on specific actions that we are taking in each of the categories outlined in the main text of the Report.

Promotion of U.S. standards, certification, and accreditation requirements

- **Promoting the Adoption of U.S. Standards**—Russia now accepts Food and Drug Administration (FDA) product approval for U.S. drugs, biologics and medical devices without additional regulations. In addition, many FDA standards are followed by the World Health Organization for its drug and vaccine standards and by the Codex Alimentarius (the international standards body for food products).
- **Training for Foreign Governments**—We are advancing our business interests by exposing foreign government officials to U.S. approaches to regulation, procurement and standards. The FDA and the National Institute of Standards and Technology (NIST), for example, have ongoing exchange programs with Chinese and Russian scientists to enhance mutual understanding of differing standards regimes.

- **Bilateral Agreements**—The Office of the U.S. Trade Representative (USTR), the Departments of Commerce and State, with broad support from technical and regulatory agencies and many private certifiers, entered into negotiations to establish bilateral agreements with the European Union for the acceptance of U.S. test results, plant inspections and, in some cases, certification of products. The resulting Mutual Recognition Agreements will cover potentially \$40 billion of U.S. exports to the European Union in such sectors as information technology equipment, machinery, telecommunications equipment, and medical devices.

Enhanced U.S. Government participation in international standards activities

- **NIST** has organized a continuing dialogue with representatives from each of the major private sector standards organizations, industry, professional societies, and federal agencies to achieve a more integrated and cooperative standards

FOR INTERNAL GOVERNMENT USE ONLY

posture for the United States.

- **The USTR and the Commerce Department** are collaborating with regulatory agencies responsible for heavily-traded product sectors to improve international cooperation.
- **The FDA** is active in the development of international drug standards and harmonization. In the medical devices area, the FDA is active in the Global Harmonization Task Force, an international effort to harmonize standards in this growing sector.
- **The Federal Communications Commission** amended its rules to harmonize the U.S. standards for radio frequency emissions from digital devices with international emissions standards. This affects more than \$30 billion of U.S. exports and introduces cost savings of as much as \$100 million per year in design and testing costs.
- **The NIST, the Environmental Protection Agency and the Department of Energy** are participating in the new International Standards Organization (ISO) initiative to develop harmonized environmental management standards. NIST published an information document on ISO environmental management standards activities in July 1994 that will enable a wider audience in both

the public and private sectors to track this standards activity.

- **The Department of Agriculture, EPA, and FDA**, as members of the Codex Alimentarius, are working to harmonize international pesticide and residue tolerances to make export certification for many food products less burdensome.

Increased U.S. Government support of private sector activities

- **Commercial Information**—NIST is managing a grant to develop a National Standards System Network. The network will create an electronic infrastructure linking the databases of developers, producers, distributors, and users of technical standards in the United States. It will also include information on regional and international standards. In addition, NIST and the Commerce Department's International Trade Administration introduced new business information programs on the ISO 9000 quality management standards, a guide to Russian consumer protection requirements, and exporter guidance on Canadian and Mexican standards in support of NAFTA.
- **Training**—Through its Manufacturing Technology Centers and Manufacturing Extension

FOR INTERNAL GOVERNMENT USE ONLY

Centers, NIST has undertaken training and education activities designed to assist small- to mid-sized companies in learning about the requirements of the ISO 9000 Standards Series. The number of centers rose from seven to 30 over the past 12 months, with a projected increase to 100 by 1997.

- **Administrative Changes**—Based on industry response to a TPCC request for public comments, the FDA and the Commerce Department have, for example, begun to develop options for modifying the export requirements for medical equipment which the FDA administers.

Appendix 4: Geographically-Targeted Programs for Small- and Medium-Sized Businesses: Export Mexico and Destination ASEAN

We have launched two new interagency programs aimed at helping small- and medium-sized businesses take advantage of the ever-increasing export opportunities in Mexico and the ASEAN. These programs are designed to provide U.S. businesses with the specific tools needed to sell their products in these markets.

Export Mexico. In August 1993, Secretary of Commerce Brown announced the Export Mexico program, an interagency effort to focus the Administration's export promotion arsenal on our fastest growing export market. In our last report, we outlined the program's basic features. Since then, the program has produced a significant number of export success stories for U.S. companies [See Graphics 1-2]. Through Export Mexico, the Commerce Department, the Small Business Administration (SBA) and the Export-Import Bank of the United States have provided small businesses with user-friendly information, personalized export finance counseling, trade and marketing events that focus on targeted clients and sectors, and industry-led export initiatives.

Key components of the program include:

- **Seminars:** Since September 1993, we have participated in more than 300 Export Mexico seminars across the country that have instructed small businesses on the "nuts and bolts" of doing business in Mexico. Since approval of NAFTA, an additional 70 seminars have taken place that instruct U.S. companies on the practical impact of the agreement on customs procedures,

tariff rates, and documentation.

- **Matchmaker Trade Missions:** In December 1993, Secretary Brown led a 38-member Minority Business Matchmaker Trade Delegation to Mexico City. Participants displayed their products at Rep Com, a U.S.-sponsored tradeshow and met potential agents, distributors, and business partners at pre-arranged meetings in Mexico. We provided the participants with pre- and post-event counseling. Recognizing that the ability to obtain financing often makes or breaks a deal, the Commerce Department, SBA and the Ex-Im Bank held briefings both in the United States and Mexico on resources available to finance exports to Mexico. The success of the first Minority Business Matchmaker led to a second such mission to Monterrey in April 1994. Others are planned for Canada and Mexico later this year.

- **Market Information and Dissemination:** NAFTA FACTS, an automated information delivery system in the Commerce Department, faxes marketing information to exporters free of

FOR INTERNAL GOVERNMENT USE ONLY

charge. An average of 500 callers per day use this system, which has sent out over 175,000 documents in the first six months of 1994.

Destination ASEAN. This interagency program, first developed by the Office of the U.S. Trade Representative and the Department of Commerce, focuses a broad range of export-promotion services on the dynamic markets of Southeast Asia (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand). It offers nuts-and-bolts market information, industry-specific materials, "matchmakers" and other trade missions targeted to key sectors, and trade-finance counseling.

Our trade specialists throughout the country, who are part of an interagency Asia-Pacific team, follow-up with U.S. companies that take part in Destination ASEAN events. Team members will be linked by computer with our posts in the ASEAN countries, and they will have access to up-to-the-minute regional market information. They will work with U.S. companies to create export strategies.

Destination ASEAN concentrates on those sectors that hold the most export potential for U.S. companies in the region. In the coming year we are planning trade missions for the auto parts, telecommunications, airport infrastructure,

and healthcare sectors. They will link U.S. firms with potential agents, distributors and business partners overseas. We are also planning an event that matches U.S. and ASEAN trading companies, to get more American companies involved in infrastructure projects in the region.

In California, district offices of the Commerce Department's U.S. and Foreign Commercial Service reported almost twice as many export actions to Mexico in the first five months of 1994 than for the entire year of 1992. An export action measures the number of export sales by a company into a particular market.

Graphic 1

Inc. magazine rated the Commerce Department's publication, NAFTA FACTS, as the number one source for marketing information on Mexico, based on speed, cost and accuracy.

Graphic 2

Appendix 5: Description of Big Emerging Markets

Listed below are brief descriptions of each of the 10 BEMs. These summaries broadly outline country developments, market size, major projects, and future economic trends.

Chinese Economic Area. One of the most striking developments in East Asia in recent years is the emergence of a growing triangular economic relationship within the Chinese Economic Area (CEA), composed of China, Taiwan, and Hong Kong. Since the mid-1980s, the growth of gross domestic product in the CEA has been among the fastest in the world. The CEA has the largest number and highest total dollar value (approximately \$560 billion) of infrastructure projects on the drawing boards over the next seven years and holds the world's largest foreign exchange reserves with which to pay for these projects.

Indonesia. A population of 188 million and a GDP projected to grow at 7 percent annually through the end of the decade, combined with a central position in the Association of Southeast Asian Nations (ASEAN), make Indonesia a regional economic driver, whose growth will result in further economic expansion into neighboring markets. Infrastructure projects again top the list of opportunities for U.S. businesses, as the Indonesian Government plans ambitious projects in power generation, telecommunications, air traffic, and pollution control. Demand for consumer goods, particularly in Jakarta, is expected to grow rapidly. The world class

petroleum and mining sectors offer significant export opportunities for U.S. companies. Private consumption, currently in the range of \$75 billion a year, should exceed \$100 billion by the year 2000.

India. Historically one of the world's most closed and difficult business environments, India has begun a measured but steady movement toward a more open, market-oriented system. As India's largest foreign trade and investment partner, this bodes particularly well for the United States. Indian imports from the United States rose by 44 percent last year to a record \$2.8 billion. In 1993, the Government of India approved approximately \$1.2 billion of U.S. investment, which is roughly equal to the cumulative investment for the last four decades prior to 1991. India's huge population of nearly 900 million, with a "consumer" class of 100 to 250 million people, and its diverse and relatively developed industrial base (the world's 12th largest) make it a market with potentially unprecedented commercial opportunities.

South Korea. South Korea is our eighth largest trading partner, receiving \$14.6 billion in U.S. exports in 1992. However, it is one of the most difficult destinations in Asia for exports of goods and services, and

FOR INTERNAL GOVERNMENT USE ONLY

for foreign investment. President Kim's five-year economic plan promises a "new Korea" of liberalized domestic economic and international trade policies to restore growth to 7 percent and double per capita incomes by 1998. This potential rise in income levels, combined with Korea's 44 million people, could create an appealing and dynamic consumer market. Major project opportunities over the next several years include \$20 billion in superhighway expansion, \$12.5 billion for port expansion and construction, \$15 billion for a new Seoul international airport, \$2 billion in telecommunications projects, \$50 billion in power projects, and \$12 billion in environmental projects.

Mexico. The passage of the North American Free Trade Agreement (NAFTA) in November 1993 opened the door to the Mexican market for many U.S. firms. Mexico's 87 million consumers make it the 11th largest market in the world. Mexico's economy is growing rapidly, pulling in durable goods and industrial materials to modernize infrastructure and plant facilities. Almost all of Mexico's imports of these materials come from the United States, which accounted for the 136 percent increase in U.S. capital goods exports to Mexico between 1987 and 1993. The biggest potential export sectors for U.S. products and services to Mexico are: environmental technology and capital equipment; telecommunications equipment; medical equipment; and infrastructure related services and capital equipment.

Argentina. The Argentine market — 33

million people with the highest per capita income in Latin America and an advantageous agriculture and natural resource base — has been the world's third fastest growing economy for the past three years. In addition, the integration of the economies of Argentina, Brazil, Paraguay, and Uruguay into the "Southern Common Market" (Mercosur) by 1995-96 will create a broader potential market of 200 million people. Major export opportunities will arise in the following sectors: mining, gas and petroleum exploration and development, processed foods and beverages, health and medical services, environmental products and services, communications equipment, and tourism-related equipment.

Brazil. In 1990, the Government of Brazil began significant market liberalization efforts, lowering import duties from over 100 percent to a current average of 14 percent and reducing trade and investment barriers. Liberalization policies continue under the current Franco Administration, albeit at a slower pace. Brazil's GDP grew by 4.5 percent in 1993, dampened by inflation and economic uncertainties. U.S. exports to Brazil amounted to \$6 billion in 1993, placing Brazil among our top 20 export markets in the world. The United States continues to be the top supplier to Brazil, accounting for almost one-third of total Brazilian imports. Brazil's telecommunications and informatics markets offer tremendous potential for U.S. equipment manufacturers and service providers. Brazil's energy sector also offers significant potential for

FOR INTERNAL GOVERNMENT USE ONLY

U.S. technology and equipment. In addition, state and municipal governments in Brazil have undertaken major environmental and infrastructure projects.

South Africa. The May 10 inauguration of the Government of National Unity capped South Africa's historic four-year transition to a multiparty, non-racial democracy, with a market based economy. All the major political parties in South Africa have expressed a clear and unwavering commitment to encouraging U.S. firms to return to the South African market. President Nelson Mandela has made several appeals to the American business community to explore commercial opportunities in South Africa. American firms considering trading and investing in South Africa face the fewest U.S. restrictions in more than 30 years. There are no longer any foreign policy export controls on U.S. shipments to South Africa. South Africa's \$20 billion import market should expand as its economy continues to emerge from a four-year recession and as business confidence solidifies. The United States' 14 percent market share should increase as the few remaining states and municipalities eliminate the last of their anti-apartheid measures. South Africa is the economic powerhouse of the African continent; it boasts a GDP of \$114 billion and a global trade surplus of nearly \$1 billion. Moreover, it is being viewed increasingly by international firms as the springboard to additional markets throughout the continent.

Poland. Starting in 1990, Poland adopted

a "shock therapy" approach to economic reform, abolishing controls and instituting tight monetary and wage policies. The reforms have led to an explosion of private entrepreneurial activity. By dint of its 38 million people, its 1993 GDP of \$85 billion and its strategic location, Poland is easily the most important single market in Eastern Europe. Poland remains the United States' principal trading partner in the region, buying \$1 billion of U.S. exports in 1993, and U.S. investment in Poland amounts to another \$1 billion. Poland's GDP growth is expected to reach 4.5 percent in 1994. Promising sectors for U.S. investment include food and beverage production and distribution, electronics and telecommunications, energy, construction, and consumer products. U.S. exporters can expect the most fertile ground for their wares in the aircraft, computer hardware and software, telecommunications equipment, consumer goods, and medical equipment sectors.

Turkey. Turkey has become an important market for U.S. firms. Real GNP growth has averaged 5 percent annually since 1981. Despite the worldwide economic slump, GNP grew by 7.5 percent in 1993. Turkey's foreign trade sector has surged even faster than the economy as a whole. U.S. exports to Turkey jumped from \$540 million in 1980 to \$43.4 billion in 1993. The Turkish Government strongly encourages foreign investment and has made major strides in the last decade to enhance the investment climate. Major infrastructure projects include the \$30 billion Southeastern Anatolia Project, an extensive complex of dams, hydropower

FOR INTERNAL GOVERNMENT USE ONLY

plants, and irrigation infrastructure development such as airports and highways. The market for telecommunications is expected to expand to \$1.5 billion by 1995. The market for pollution control equipment is estimated at \$325 million and is growing rapidly.

The Big Emerging Markets will be the competitive battleground of the future. Japan, Europe, and several developing countries can be expected to be fierce rivals in these markets. Pursuing U.S. interests in these countries will require deft balancing of commercial and foreign policy considerations, for it is in the BEMs that commercial opportunities co-exist so closely with other important U.S. priorities such as human rights, worker rights, nuclear nonproliferation, and violations of intellectual property right laws.

Appendix 6: Description of Key Sectors In the Big Emerging Markets

We have identified six industry clusters of special consideration in our export promotion efforts. The summaries below highlight the opportunities and foreign competition in each sector and identify export strategies in the coming year.

Environmental Technologies

The U.S. environmental technologies industry, the world's largest producer and consumer of environmental goods and services, is widely regarded as the leader in the following technologies: design and construction services; stationary and mobile source air pollution control; solid and hazardous waste management; and contaminated site remediation. In 1992, the U.S. environmental technologies industry produced \$133.7 billion in revenue.

The environmental technologies industries of Germany, Japan, France, and the United Kingdom are our strongest competitors. Japan and Germany are especially strong in air pollution control technologies while the French and the British perform well in the wastewater treatment markets. These countries devote more resources to export promotion, conduct more high-level advocacy, provide more domestic and export financing, and are traditionally more export intensive than the U.S. For instance, Japan will spend \$2.2 billion over a 10 year period on grants and loans to transfer anti-pollution measures and to support international joint research and development projects for the global environment under its Green Aid

Program. The Germans are taking a long-term approach toward their export markets by attempting to get their country's environmental standards, practices, and testing protocols adopted as the European Union (EU) standardizes its environmental controls.

To help counter these programs, we are developing a comprehensive strategy to increase U.S. environmental technologies exports. The strategy, discussed in more detail in the section "Promoting U.S. Exports of Environmental Technologies and Services", has several components: offering coordinated U.S. Government advocacy efforts on major projects; providing competitive financing for the sale of U.S. environmental equipment and services; training foreign nationals to support the development of environmental management policies that are compatible with U.S. standards, practices, and technologies; and strengthening public-private partnerships. Currently, we are developing action plans to target five nations or regions: Mexico, Argentina/Chile, the Chinese Economic Area and Poland/Czech Republic.

Information Technologies

FOR INTERNAL GOVERNMENT USE ONLY

The Information Technologies sector is at the core of our productivity edge in manufacturing and services. U.S. export growth in information technologies has not, however, kept pace with its competitive potential. Trade barriers and unfair trade practices, such as dumping and intellectual property rights violations, have largely constrained export growth. With U.S. Government trade promotion assistance, information technologies export growth could be as high as 9 percent. Growth at this rate would add a cumulative \$700 billion to exports over the 1993-2010 period.

The strongest competitor that the U.S. faces in this sector are the Japanese who have narrowed the technology and market gaps in computer equipment by building a strong domestic base in semiconductors and other enabling technologies. The bulk of these Japanese gains, however, have resulted from the substantial growth of their domestic market of which Japanese firms hold about a two-thirds share.

In the field of telecommunications satellites, U.S. suppliers dominate the global market, consistently winning over 70 percent of the contracts. Yet, European telecommunications equipment suppliers are among the most competitive in the world. They have diversified their research and development (R&D) and production activities across Europe and are no longer heavily dependent on their domestic market for the bulk of their revenues.

Japanese semiconductor suppliers have focused and thrived in the past on high-volume commodity devices, such as memory products. Their overall competitive position, however, has recently declined in these market segments as the result of rising challenges from the South Koreans and the Americans. U.S. firms have steadily regained market share lost to the Japanese, acquiring 43 percent share of the world semiconductor market as a result of its excellent production of technologically advanced, high value-added devices, such as microprocessors.

In the coming year; we plan to initiate a special export promotion program in Japan, where investments of over \$1 trillion are planned in the information technology sector.

An active program of trade promotion events, focused particularly on Big Emerging Markets, also is planned. Events include: telecommunications trade missions to South Africa, Poland, India and China; computer hardware and software trade missions to Brazil, South Korea, Mexico, South Africa, and Taiwan, as well as trade shows in Brazil and Poland; and an information services trade mission to China. We will facilitate contact and cooperation between U.S. and foreign entities through participation in business development committees such as the U.S.-China Business Development Committee for Information Technologies.

Health Technologies

In biotechnology, the United States

FOR INTERNAL GOVERNMENT USE ONLY

is the world's leader in terms of research, patents, and the number of products that have been brought on the market. The healthcare delivery management companies, considered leading exporters in the U.S. healthcare services sector, are expected to expand their services in international markets.

The U.S. medical device and pharmaceutical industries maintain their competitive positions as global leaders. However, Western European and Asian companies, particularly Germany and Japan, have gained ground over the past decade. In addition, European firms are ahead of U.S. companies in exploring emerging markets in Eastern Europe. Similarly, Japanese companies lead U.S. firms in market share in China.

Competitive edge in health technology is often gained through government assistance. For example, the governments of Germany, Japan, and other countries assist their health technology companies in developing new products and entering new markets with a variety of assistance ranging from research subsidies to preferential export credits.

We have developed an export strategy to promote exports in the U.S. health technology industry. This strategy includes several events planned for the coming year including: a seminar on business opportunities in Russia, business development missions to South Africa and Central Asia, a trade fair in Mexico City, and a pharmaceutical trade mission to Mexico. In addition, industry specific

working groups are being established to promote exports and other business opportunities in the health technology sector. Other measures include a review of the health technology regulatory environment.

Transportation Technologies

Aerospace Technologies: The world market for commercial jet airplanes is expected to increase from a 1992-1993 average of \$26.1 billion per year to \$40.9 billion in the 1993 - 2000 time period. For the years between 2000 and 2010, the world market is forecast to increase to an average of \$48 billion a year. The great majority of this growth will occur in the BEMs in Asia and Latin America, which will have the two largest markets for new sales opportunities for U.S. aerospace products. China alone is expected to need over \$40 billion in new aircraft over the next 20 years.

Foreign aerospace industries are mounting effective competitive challenges to the United States. Among the most formidable contenders, European manufacturers have formed partnerships and alliances, often crossing national boundaries, to spread their risk, gain greater leverage from their resources, and strengthen their successful programs. By consolidating their industries, European aerospace firms have begun to create intra-European aerospace monoliths such as Airbus and the European Space Agency's Ariane Program. These resulting alliances, mergers, and consolidations often receive direct support from the governments of

FOR INTERNAL GOVERNMENT USE ONLY

participating members to assist in the development of their product lines and services. This places their U.S. counterparts at a competitive disadvantage.

Initiatives aimed at improving export performance of the U.S. aerospace sector include: GATT aircraft negotiations to revise the 1979 GATT Aircraft Agreement, bilateral consultations under the 1992 U.S.-EC Airbus Agreement, and Russian and Chinese Commercial Space Launch Agreements. Additional initiatives which could further improve the export performance of the sector include added refinements to our export control policy, coverage of air traffic control entities under the GATT Government Procurement Code, and progress in addressing the issue of foreign offsets (for example, the practice by which foreign purchasers of aerospace equipment are given some form of "offset" or compensation, such as local production, as a condition of the purchase).

On the promotion front, the U.S. Government will continue advocating in support of the aerospace industry. A full range of trade events is scheduled for the coming year, notably the premier aerospace event — the Paris Air Show in June 1995. Additionally, an executive trade mission is traveling to China in October 1994. It will be followed by a mission to the ASEAN countries of Thailand, Malaysia, Singapore, and Indonesia in January 1995.

Automotive Industry: The automotive industry produces and stimulates the development of new products and advanced technologies critical to the

competitiveness of many U.S. industries, including the metal, plastics, and electronics. In 1992, the automotive industry accounted for approximately 5.3 percent of the total U.S. manufacturing employment.

U.S. motor vehicle and automotive parts manufacturers are faced with mature, fully saturated markets, both in the United States and in their traditional export markets. Competition in new markets is incredibly fierce and distorted by foreign government actions that support existing exporters or that protect domestic start-up operations. The industry will benefit from U.S. Government action to open foreign markets through multi- and bilateral trade initiatives such as the GATT, U.S.-Japan Framework Talks, and Asian Pacific Economic Cooperation.

The U.S. Government has participated in major automotive trade and foreign buyer shows, such as the Tokyo Motor Show, Automechanika (Germany) and Automotive Aftermarket Industry Week. Planning for new trade shows and missions will focus on the Big Emerging Markets, such as the Mexican Pan American Auto Components Expo (PAACE), an important new annual trade showcase that made its debut in 1994. Proposed activities include Matchmakers -- missions designed to introduce U.S. companies to prospective representatives and distributors, commercial vehicle trade missions to Latin America, India and East Europe, an automotive trade mission to China, and an automotive parts trade mission to South Korea. To help reduce

FOR INTERNAL GOVERNMENT USE ONLY

the impact of high trade promotion event fees for small- and medium-sized U.S. automotive firms. Government agencies will investigate ways to help finance company participation.

Automotive trade promotion efforts will also include sponsoring business facilitation seminars to educate U.S. automotive executives on BEM business practices and environments. Advocacy efforts in the BEMs will focus on industry sectors most likely to benefit from this type of government intervention, such as light, commercial and specialty vehicle manufacturers and small- and medium-sized parts producers. Finally, through the Market Development Cooperator Program, automotive trade associations are encouraged to open offices in BEMs to help U.S. automotive companies establish or increase their presence in these markets.

Transportation Infrastructure:

The United States remains the world's leading source of skilled engineering, management, and financial talent for foreign transportation infrastructure. U.S. engineers account for approximately 25 percent of current overseas engineering business, while American contractors have about 45 to 50 percent of foreign construction work. Both have played a leading role in many of the showcase transportation projects in BEMs in Asia, including: Check Lap Kok International Airport in Hong Kong, Kimpo International Airport in Seoul, Chiang Kai-shek International Airport in Taipei, and the new subway systems in Singapore, Taipei, Shanghai, and Kaohsiung.

The ability of foreign competitors to obtain concessionary project financing from their governments is the greatest hurdle which U.S. firms face in international infrastructure competition. U.S. export performance can be improved in this sector through effective advocacy on behalf of U.S. firms bidding on transportation infrastructure projects overseas.

Energy Technologies

The energy technology sector in the U.S. will benefit significantly by the development and prosperity of the BEMs. The United States is internationally competitive both in advanced petroleum and power generation equipment. For example, U.S. exports of newly made power generation equipment increased 85 percent from \$3.3 billion to \$6.1 billion over the period of 1989-1993.

Of the BEMs, China's electric power generation capacity is forecast to expand a substantial 55 percent over the next 6 years, an increase that domestic Chinese manufacturers will not be able to meet. Moreover, with the advantages of NAFTA, U.S. firms are in an excellent position to increase power generation equipment exports to Mexico, whose demand for electricity production is rising 8 percent per year.

The member countries of the Organization for Petroleum Exporting Countries (OPEC) will continue to be the largest market for U.S. oil and gas field equipment. However, some of the Big Emerging Markets with major oil and

FOR INTERNAL GOVERNMENT USE ONLY

natural gas exploration and production operations, such as Mexico, the Chinese Economic Area, Indonesia, India, and Argentina, are important markets for U.S. export growth.

The U.S. industry faces a number of barriers to increasing exports in this sector. These include lack in compatibility of standards and technical specifications, competitive financing available to foreign suppliers in the form of mixed credits and other subsidies underwritten by their government, and "buy national" policies of certain regional markets. Addressing these barriers and increasing the availability and ease of financing through U.S. agencies will help increase the competitive position of U.S. firms. Active advocacy by the U.S. Government on behalf of qualified U.S. firms bidding for foreign major project contracts should also be of invaluable assistance.

Despite the continual growth of U.S. exports of power generation equipment, increased competition has decreased U.S. world market share. This trend results from a lack of competitive financing for U.S. suppliers and an increase in global competition. U.S. petroleum equipment manufacturers face strong international competition from both U.S. joint venture and foreign subsidiary production as well as from wholly owned foreign firms. European competition is stronger than ever, with many important strategic alliances being forged between European suppliers.

To encourage energy technology

exports, we will advocate on behalf of U.S. exporters competing for major power projects in foreign markets where governments often play key roles in purchasing decisions. Through business development committees with Russia and China, contacts between the U.S. industry and the energy sectors in those countries will be developed and expanded. We will also continue to organize and support petroleum equipment shows and conferences in major petroleum-producing countries including Mexico, Argentina, and China. We are also planning trade missions to Argentina and Chile in November, 1994. Plans for FY 1995 call for a mission to Mexico and Brazil, and Bolivia in May 1995.

Financial Services

U.S. securities firms are world leaders in financial innovation and development of financial instruments. In addition to assisting corporations and other entities in raising capital through traditional debt and equity issues, U.S. securities firms have pioneered the use of derivative products to mitigate currency, interest rate, and other risks associated in underwriting major infrastructure projects overseas.

Private financial flows to developing countries now surpass official development finance and have increased dramatically since 1991. The recipients of the private capital flows in 1993 were generally the middle-income Asian and Latin American countries, plus China, India and Indonesia. The Big Emerging Markets of Mexico, Brazil, and Argentina,

FOR INTERNAL GOVERNMENT USE ONLY

respectively, led bond issuers in 1993. Turkey and South Korea follow closely. China was the largest receiver of foreign direct investment and commercial bank credits in 1994.

In order for infrastructure projects in developing countries to come to fruition and realize the full measure of U.S. exports, the full participation of the U.S. financial services sector will be required. The U.S. Government can encourage and provide incentives to financial services providers to increase their international activity; the incentives should lead to improved sector earnings and enhanced support for the exports of other U.S. sectors.

Many U.S. banks disengaged from overseas lending in the 1980s in response to the debt crisis in developing countries, and many have not returned to the international markets. Foreign lending, when it does take place, often occurs under the protection of official guarantee programs. To fill the vacuum, many foreign bank branches in the United States offered their expertise in trade finance.

The U.S. Government can further improve prospects for the U.S. financial services industry by focusing on removing market barriers to our highly competitive financial services and products in markets where capital flows are already strong. In many other markets, government financing may be needed for some time. Private capital is likely to be inhibited in many countries, including most Big Emerging Markets, particularly South Africa, Poland,

and Turkey, which have good but not excellent credit worthiness.

The U.S. Government will continue to work to remove market barriers to our highly competitive financial services industry in the context of ongoing GATS and other negotiations with major foreign markets. Significant progress has been made already under NAFTA and under the Canadian Free Trade Agreement. In addition to our efforts to reach a comprehensive and effective agreement on financial services in the Uruguay Round, efforts are being intensified to reach a financial services agreement with the Japanese under the U.S.-Japan Economic Framework. Major efforts also are underway vis-à-vis Korea, China, Taiwan, the ASEAN countries, and a number of other commercially important industrial and developing countries. Consideration is being given to a liberalizing Capital Movement Code for Latin America similar to the OECD's Code on Capital Movements.

FOR INTERNAL GOVERNMENT USE ONLY

Appendix 7: List of Acronyms and Abbreviations

AMCHAMS	American Chambers of Commerce
AMG	Alliance for Mutual Growth
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BDC	Business Development Committee
BEMs	Big Emerging Markets
BFP	Builders for Peace
BISNIS	Business Information Service for the Newly Independent States
BXA	Bureau of Export Administration
CABEE	Consortia of American Business in Eastern Europe
CABNIS	Consortia of American Business in the NIS
CEA	Chinese Economic Area
CEO	Chief Executive Officer
CFTA	U.S.-Canada Free Trade Agreement
COCOM	Coordinating Committee on Multilateral Export Controls
EAA	Export Administration Act
EBRD	European Bank for Reconstruction and Development
EEBIC	Eastern Europe Business Information Center
EU	European Union
Ex-Im Bank	Export-Import Bank of the United States
FAS	Foreign Agricultural Service
FCPA	Foreign Corrupt Practices Act
FTA	Free Trade Agreement
FY	Fiscal Year
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade

FOR INTERNAL GOVERNMENT USE ONLY

GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GII	Global Information Infrastructure
GLX	General License Export
IPR	Intellectual Property Rights
ISO	International Standards Organization
ITA	International Trade Administration
MDB	Multilateral Development Bank
MTOPS	Million Theoretical Operations per Second
NAFTA	North American Free Trade Agreement
NIS	Newly Independent States
NIST	National Institute of Standards Technology
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
PEFCO	Private Export Funding Corporation
SABIT	Special American Business Internship Training Program
SBA	Small Business Administration
SEDESOL	Secretariat of Social Development
TDA	Trade and Development Agency
TPC	Tourism Policy Council
TPCC	Trade Promotion Coordinating Committee
TRIPS	Trade Related Intellectual Property Rights
US-AEP	U.S. - Asia Environmental Partnership
US&FCS	U.S. and Foreign Commercial Service
USDA	U.S. Department of Agriculture
USETI	U.S. Environmental Training Institute
USIA	U.S. Information Agency

FOR INTERNAL GOVERNMENT USE ONLY

USTR

U.S. Trade Representative

9/02/94

153

ELLEN L. FROST
COUNSELOR TO
THE U.S. TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20506

FAX: (202) 395-7206
TEL: (202) 395-5636

DATE:

NUMBER OF PAGES, INCLUDING COVER SHEET:

TO:

PHONE:

FAX:

Laura Tyson - CEA

395-6947

Jonathan Sallet - Doc

482-3610

COMMENTS:

IN VIEW OF YOUR INTEREST IN THE ITC/332
STUDY, HERE'S WHAT MK SIGNED TODAY -

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

June 9, 1993

The Honorable Don E. Newquist
Chairman
U.S. International Trade Commission
500 E Street S.W.
Washington, D.C. 20436

Dear Mr. Chairman:

The new Administration is committed to enhancing U.S. employment, growth and competitiveness. Trade policy is one of a number of important tools by means of which the Administration intends to reach its objectives. I intend, therefore, to use the authority pursuant to section 332(g) of the Tariff Act of 1930, as amended, delegated to the USTR by the President, to request investigations by the Commission which have the greatest bearing on these objectives.

In accordance with your letter of March 2, 1993, I have reviewed our near term priorities for Commission investigations under section 332(g). This review has included the January 15, 1993 request by Ambassador Hills on the economic effects of U.S. import restraints resulting from final affirmative determinations in anti-dumping and countervailing duty investigations.

I have identified two priority areas for new Commission investigations. These concern the results achieved under past market opening agreements with Japan and analytical tools which will be needed to evaluate the results of the Uruguay Round. I will shortly forward to the Commission requests for investigations in these two areas.

With respect to the January 15, 1993 request by Ambassador Hills, I believe that the scope of the investigation needs to be expanded. An expanded investigation will assure greater balance in the analysis. It should enhance our understanding of the economic consequences of foreign subsidies and dumping as transmitted through unfair imports to the United States, and the effectiveness and economic impact of the remedies provided. It should also prove useful in developing possible future efforts to improve the effectiveness of remedies provided by our antidumping and countervailing duty laws. However, the specifics of this current request for economic analysis should not be interpreted as reflecting any particular Administration position on how U.S. laws concerning foreign subsidy or dumping practices are currently interpreted or implemented.

I am, therefore, restating and expanding the original request to the Commission, as provided below.

I request that the Commission investigate the economic effects of existing antidumping and countervailing duty orders and/or suspension agreements, and the economic effects of the dumping and subsidy practices, as transmitted through unfair imports to the United States, which the orders and agreements address.

The investigation should include a comprehensive empirical analysis of conditions in the US domestic industries impacted by unfairly traded imports both for a proximate period prior to the provision of relief and for a period sufficiently later than the date relief was accorded for the condition of the industry to fully reflect the effects of the relief. These reviews should include relevant industry information on employment, wages, production, prices, investment, trade and other factors internal and external to the industry, including but not limited to the relevant unfair foreign trade practices, affecting its general economic health and competitiveness. This empirical analysis should include an assessment of the degree to which offsetting duties (in CVD cases) were collected or price changes (in AD cases) occurred.

In addition to the comprehensive empirical analysis described above, I further request that the Commission provide formal quantitative economic estimates of the effects of the unfair trade practices and remedies (as defined above), employing a standard comparative static framework. This part of the investigation should be structured to answer the following questions with regard to relevant factors and parties (listed in items 3, 4 and 5 further on):

1. a) What would the U.S. position (with respect of factors listed in items 3, 4 and 5 below) have been in a proximate period prior to the provision of relief (same time period as covered by the comprehensive industry review requested above), if the unfair foreign subsidy or dumping practices had not been in effect? b) What was the U.S. position in fact in this period? c) Measured as the difference between a) and b) above, what was the effect of the unfair practice?
2. a) What was the effect of the remedy provided? b) How closely did the remedy move the U.S. position to what it would have been had the foreign unfair practices not occurred in the first place? (please consider same time periods as covered by the comprehensive industry review requested above) c) If the remedy did not fully restore the U.S. position to what it would have been, why did a gap remain (e.g. because of the nature of the remedy, because of effects in third country markets

beyond the reach of the remedy, because of irreparable initial effects of the unfair practice, because of foreign circumvention)?

The investigation should answer these and any related questions to cover the parties and factors listed below:

3. Petitioning Industries

Employment, wage, income, production, price, trade and competitiveness effects (including trade effects in country markets other than the United States and country of origin of the product subject to the order or suspension agreement).

4. Upstream Industries

Employment, wage, income, production, price, trade and competitiveness effects for U.S. industries supplying components and other inputs into the petitioning industries' production or production of the subsidized or dumped product (including any trade effects in country markets other than the United States and country of origin of the product subject to the order or suspension agreement).

5. Downstream Consumers/Industries

Employment, wage, income, production, price, trade and competitiveness effects for consumers of the petitioning industries output, including industries consuming intermediate products as well as consumers of final products (including any trade effects for downstream consuming industries of components or other intermediate products in country markets other than the United States and country of origin of the product subject to the order or suspension agreement).

The quantitative economic analysis called for above often assumes as a theoretical construct the instantaneous and complete adjustment of all markets and actors to both unfair practices and remedies. In fact, there are real costs to firms, to individual workers and to taxpayers. Thus, the Commission should complement its comparative static economic assessment of dumping and subsidy practices (as defined above) and remedies with quantitative and other estimates of the labor and other domestic adjustment costs involved.

Finally, for each of the cases examined, I request that the Commission provide an assessment of the economy-wide net economic welfare effects of a) the original unfair practice and b) the remedy provided.

This investigation should provide appropriate time series data for the affected industries for a period beginning some time before the imposition of the order or suspension agreement. To the extent possible, the Commission should collect data similar to that collected in a normal Title VII investigation. However, given the expanded scope of the investigation called for in this request, I encourage the Commission, where appropriate, to make full use of existing analytical work from all available sources, even when available from sources outside the Commission.

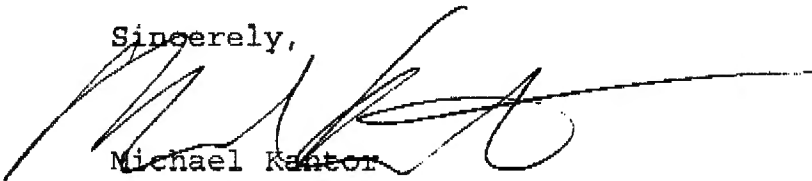
I understand that because of resource and other constraints the Commission cannot conduct the type of in-depth analysis called for in this request on all outstanding orders and/or agreements. However, the Commission should evaluate a representative sample of orders and agreements, taking into account the potential conflicts that would arise from an investigation of any order or remedy that is currently before an appellate body or may result from currently pending proceedings, and the limitations imposed by statutory restrictions on the use in any other proceedings of business proprietary information obtained in Title VII investigations.

The Commission should also consider holding a public hearing as part of these studies. A report on the investigation should be submitted by June 30, 1995. In view of the outstanding instruction to the Commission on the security classification of reports prepared by the Commission at the request of the U.S. Trade Representative, the report on this investigation should be made available to the public at the same time it is submitted to this Office.

In addition, I request that the Commission provide USTR a briefing on the status of the study in early 1994 to which interested representatives of the Congressional committees of jurisdiction would be invited.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,



Michael Kantor

Ellen Frost
741



EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

March 22, 1993

THE CHAIRMAN

Dear Mickey:

I understand that you have been requested to cancel the study of U. S. dumping subsidy laws ordered by Carla Hills shortly before she left office. Although it is likely that such a study will produce controversial results, I think it might be unwise to cancel it. Perhaps instead you could make sure that those responsible for the study have an objective view from the outset and are not committed to any particular outcome in advance. Our dumping laws have legitimate use, but they can also be misused, and we may want to consider how to modify them. An objective analysis could provide useful input to our efforts to formulate a sensible forward-looking trade strategy.

Sincerely,

Laura D. Tyson

The Honorable Michael Kantor
U. S. Trade Representative
209 Winder Building
Washington, D. C. 20506

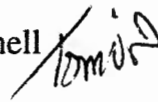
*CCs to Fred Montgomery
Nancy Lee Mason
"Frank Office"
Jim Ruff
Assigned to Guya*

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

June 25, 1993

TO: Bob Rubin

FROM: Tom O'Donnell



Here's the Council's thoughts on steel. Sorry for the delay. I was told that you knew a longer memorandum was in the works. It seems, however, that Joe Stiglitz was communicating directly with Bo Cutter on this issue. Again, please accept my apologies.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

June 24, 1993

MEMORANDUM FOR ROBERT RUBIN
ASSISTANT TO THE PRESIDENT FOR ECONOMIC POLICY

FROM: JOSEPH STIGLITZ, MEMBER-DESIGNATE *JS*

SUBJECT: Trade Policy and the Steel Sector

The recent determination of substantial anti-dumping and countervailing duties on steel imports by the Commerce Department highlights concerns by many observers that U.S. trade policy is not being implemented in a manner that maximizes the economy's potential for efficiency and growth. This note focuses on two related issues: (1) the appropriateness of the Commerce Department's methodology for determining anti-dumping and countervailing duties, and (2) the U.S. government's broad trade strategy vis-a-vis the steel industry. The note argues that anti-dumping and countervailing duty laws may be being used more as a means of protecting the domestic steel industry than as a means of promoting fairness in international trade. The use of the trade laws in this manner, by raising steel prices for domestic consumers, may compromise more fundamental objectives of competitiveness and growth for American industry.

Anti-dumping and countervailing duty determination

- o The Commerce Department recently determined anti-dumping duties on steel imports from 19 nations, ranging as high as 100 percent or more. The process of determining these duties is extremely involved, and we do not have concrete evidence that these duties are excessive. However, there are various aspects of the methodology that suggest the duties are indeed likely to be too high.
 - One means used to calculate these duties is to calculate the industry's cost of production, including 8 percent in profits and 10 percent in administrative costs. In a recessionary environment, and especially given the excess capacity in the global steel market, few steel firms, including our own, are likely to be able to sell their steel at or above such cost estimates.
 - The economic definition of "dumping" includes the practice of predatory pricing. However, there is little support for the view that predatory motives underlie the pricing practices of foreign firms selling steel to the United States.

- o The high countervailing duties imposed on steel imports from 12 countries -- ranging up to 70 percent or more -- also are likely to be too high. The steel subsidies extended by many countries in the past undoubtedly has helped to promote the current level of excess supply in the global market, thereby lowering prices. However, it is not clear that removal of subsidies at present would raise steel prices much, and moreover, the Commerce Department's treatment of past subsidies may unfairly penalize some foreign firms.
 - In the short run, the market will bring steel prices down to their marginal cost. To the extent that foreign steel subsidies are mainly covering the difference between price and average cost, thereby keeping foreign steel firms afloat, they do not directly alter marginal costs and therefore depress steel prices. Removing steel subsidies would force some firms into bankruptcy, leading them to be sold at low prices, but would not necessarily take their production off the market.
 - Commerce Department assumes that subsidies granted even 15 years before continue to benefit foreign firms through the plant and equipment purchased with those funds. Aside from the excessive length of the depreciation period, this penalizes privatized firms, especially in former communist countries, since these firms are sold at their market value, thereby returning the subsidy to the government.
 - It is extremely difficult to calculate production costs in non-market economies, and recent Commerce Department efforts, such as assuming that Poland shares the same cost structure as Thailand or Malaysia, are likely to be highly misleading.
- o As far as the recent steel cases are concerned, the Commerce Department's role is complete for the time being, unless the ITC remands some portion of the case back to it. Moreover, there is little leeway for the inter-agency process to affect specific duty determination decisions. However, there may be more scope for an inter-agency process to initiate a broad review of the process for determining anti-dumping and countervailing duties. Additionally, the Commerce Department may have occasion to revisit its duty determinations on steel in the future.

Our long-run strategy for the U.S. steel sector

- o Anti-dumping and countervailing duty laws potentially play two key roles for the steel industry:

- They could act to discourage foreign subsidies and dumping, although they do not appear to have been successful in this role.
 - They constitute de facto protection of the steel industry from (both fair and unfair) foreign competition. This is the more practical role of our trade laws.
- o At the end of the 1970s, the U.S. steel industry was highly uncompetitive, suffering from obsolete technology, poor management, high wages, and restrictive labor practices. The industry asserts that import protection afforded by Voluntary Restraint Agreements (VRAs) with other steel producing countries gave it the breathing room to substantially restructure. Depreciation of the dollar in the later 1980s and the slow growth of real wages contributed to this favorable climate.
- o Today, the U.S. steel industry is competitive with its foreign rivals.
- Production costs at U.S. integrated mills are 12% lower than in Japan, and 8% lower than in Germany for comparable products; note that production costs are sensitive to exchange rate fluctuations.
 - Rationalization and restructuring during the 1980s severely cut costs in the integrated sector.
 - U.S. minimills, which have specialized in lower-end products, are the world's most competitive, and have been very profitable.
- o Notwithstanding improvements in efficiency, the U.S. integrated steel mill sector is only marginally profitable (in the sense of operating profits) based on various factors.
- As a result of the prior subsidy policies of many foreign nations, there is an excess supply of steel on global markets, depressing prices below average costs. Foreign firms also have experienced declines in profitability, which has led to continued subsidies in many countries.
 - In the U.S., the highly efficient minimill sector is expanding out of its niche markets to compete head to head with the integrated mills in their major area of flat-rolled products.

- The lingering recession has weakened steel demand worldwide; prices for some important products dropped 25% between 1989 and 1993.
- o The most important priority for our trade policy vis-a-vis the steel sector should be to reduce global excess capacity in steel by completing the Multilateral Steel Agreement (MSA). The MSA would lead member countries to reduce or eliminate their steel subsidies. Negotiations on the MSA are in progress.
 - Talks on the MSA had broken down at the EC's insistence on retaining certain subsidies, as well as the U.S. government's reluctance to restrain its use of certain trade laws in exchange for a subsidies agreement.
 - In recent weeks, Kantor has tried to push the MSA talks forward again.
- o Even if the MSA is agreed to, considerable excess capacity will remain in the world steel market as the legacy of past foreign subsidies. This means that the U.S. integrated mill sector probably will continue to be marginally profitable for some time to come. Based on this view, some observers (and particularly the U.S. steel producers) argue that the anti-dumping and countervailing duty laws should continue to be rigorously enforced, thereby protecting U.S. steelmakers.
 - On the other hand, with the end of the recession, producers can expect a partial recovery of prices.
- o From a policy standpoint, however, there are a number of important objections to using our trade laws to continue protecting the steel industry.
 - First, some observers argue that the main threat to U.S. integrated steel firms comes from U.S. minimills, not from foreign producers. To the extent that this is true, U.S. integrated steel mills will require higher and higher protective barriers to maintain their profitability.
 - Second, in the face of prolonged excess capacity in the world steel market, the U.S. government faces a tradeoff between prolonged implicit subsidization of the U.S. steel industry through protective barriers and allowing domestic steel consumers to enjoy the benefits of low steel prices. The more prolonged the excess capacity, the lower the probability of predatory behavior by other nations, and the dimmer the future of the integrated mill sector in the face of minimill

competition, the greater is the case for removing protection for the U.S. steel sector altogether.

- o In formulating our trade policy, we should keep in mind that increases in the domestic price of steel caused by our trade laws create competitive disadvantages to users of steel at least to the same extent that they create advantages for steel producers.
 - If there is dumping, so that foreign steel prices exceed domestic prices, anti-dumping and countervailing duties remove the competitive advantage that domestic consumers of steel would otherwise enjoy.
 - However, if there does not exist dumping, then U.S. producers of products using steel are put at a disadvantage relative to foreign producers, because they will face higher steel costs than their foreign competitors.
- o As noted above, the Europeans may require that we relax our implementation of anti-dumping and countervailing duty laws in exchange for their agreement to MSA. Domestic steel producers oppose this compromise strenuously. For the reasons outlined in this note, we should give such a bargain serious consideration, although we probably should not commit to complete abstention from anti-dumping and countervailing duties in the face of truly egregious and unfair trade acts.
 - Lower domestic steel prices would considerably enhance the competitiveness of key U.S. manufacturing industries, such as autos.
 - U.S. integrated steel mills may face a greater threat from domestic minimills than from foreign producers. Continued high protective barriers would only lead to excess profits in the minimill sector while delaying inevitable adjustments in the integrated mill sector.
 - Our highest priority should be to take steps to create an orderly, non-subsidized global steel market that is not characterized by excess capacity. Toward that end, some curtailment of our trade laws may be an acceptable price for completing MSA.
 - Anti-dumping and countervailing duty laws should be used, as much as possible, for their stated purposes of countering foreign subsidies and dumping, not to protect domestic industry. Replacing the excessive application of these laws with the MSA would be a step in the appropriate direction.

- o In sum, what is required is a careful balancing act, weighing the long run interests of users of steel against those of the producers. Assuming that in the long run, an international agreement can eventually be arrived at that would establish a level playing field in steel, and that the more efficient U.S. integrated steel producers are competitive with integrated steel producers in other countries, then our policy should be to look for the minimum level of protection which will sustain the more efficient integrated steel producers through the current recessionary period and until such an international agreement is reached. It seems likely that the duties currently being proposed may be, from this perspective, excessive.

A note providing further background on the steel industry and the recent anti-dumping and countervailing duty investigations is attached.

DRAFT

BACKGROUND ON TRADE AND THE STEEL INDUSTRY

Summary

- o On June 30, 1992, U.S. producers, no longer protected by bilateral arrangements or VRA's, filed 84 countervailing duty (CVD) and anti-dumping cases investigations against imports of 4 types of steel products--plate, hot-rolled, cold-rolled, and corrosion resistant--from 21 countries.
- o The final Commerce Department report, based on the investigations initiated in mid-1992, was announced to the public on June 22.
 - The Commerce Department found that companies from 19 countries dumped steel in the United States. 12 countries (11 of the above 19 countries plus one) subsidized their steel industries, and thus will face countervailing duties. This decision was expected by most parties involved.
- o The reaction of foreign governments to the imposition of antidumping and countervailing duties is likely to be small because many expected a ruling in favor of the domestic industry.
- o After the Commerce Department finds either dumping or subsidies, the cases return to the ITC for a final decision on material injury on July 27, 1993.
- o Either steel producers or steel consumers will be unhappy with the results of the investigation.
 - If anti-dumping and countervailing duties are imposed steel prices will continue to increase, which will hurt the consumers of steel. Because of the recent economic recovery, steel prices have risen since the beginning of the year.
 - If no duties are imposed, the steel industry will claim that it is being hurt by "unfair" competition from abroad.
- o Under the VRA's, imports of steel were limited to 20.3 percent of apparent supply, which has not occurred since 1989. The implication is that the domestic industry is competitive with foreign producers.
- o The steel industry is no longer as important as it once was.

- o Most of the problems in the industry have been concentrated in the large integrated mills. The integrated mills have had financial problems because:
 - Demand for steel has declined steadily since the mid-1970's.
 - Integrated mills were slow to adopt new technology, which kept their operating costs high.
 - Growth in labor compensation outstripped growth in labor productivity.
 - The appreciation of the dollar in the early 1980's made it difficult for American steel to compete internationally.
- o Minimills account for 25 percent of the steel market. New technology will permit them to compete with the large integrated mills for the whole range of steel products.
- o The late 1980's marked a period of recovery for the industry due to restructuring, a domestic economic boom, and the depreciation of the dollar.
- o Other industrialized countries continue to face problems with their steel industries, especially chronic overcapacity. The government policies that have supported ailing firms have impeded the restructuring of the steel industries in Europe and Japan. As a result, U.S. integrated steel mills are about as efficient as producers abroad, on average, while U.S. minimills are the world's most efficient.

I. Organization of Paper

- o This paper is divided into two sections.
 - The first details the anti-dumping and countervailing duty process.
 - The second summarizes the state of the U.S. steel industry, and briefly mentions international developments.

II. Countervailing and Anti-dumping Cases

- o On July 25, 1989, the Bush Administration established the Steel Trade Liberalization Program to gradually phase out government intervention in the international steel market.
 - The first phase of the program consisted of ten bilateral agreements to eliminate trade-distorting practices in the steel sector, as well as extension of the steel Voluntary Restraint Arrangements; the bilateral agreements and the VRA's were terminated as scheduled in March 1992.
 - To replace the bilateral arrangements, the previous and current Administrations have worked to develop a Multilateral Steel Agreement that would prohibit subsidies and non-tariff barriers in the steel industry. The rules would be modeled on the GATT. These negotiations are still in progress.
 - Other countries are in favor of exemptions to the prohibition of subsidies and the removal of trade barriers. The current dispute centers on what should those exemptions be, whether a nation can impose punitive duties against a country that abuses the exemptions, and how a country could get approval from the other steel producing nations.
- o On June 30, 1992, U.S. producers, no longer protected by bilateral arrangements or VRA's, filed 84 countervailing duty (CVD) and anti-dumping cases investigations against imports of 4 types of steel products--plate, hot-rolled, cold-rolled, and corrosion resistant--from 21 countries.¹
 - In August 1992 the ITC's preliminary investigation found injury to U.S. producers in 72 of the 84 cases.
 - After the injury determination, the Commerce Department (Import Investigation) investigates whether or not countries subsidize their industry (countervailing duty investigation), and whether or not the specific companies are dumping their steel in the U.S. market (anti-dumping investigation).
 - On November 26, 1992, the Commerce Department concluded their preliminary countervailing duty investigations, and concluded that most countries were subsidizing their steel industries.

¹ There are new and ongoing cases on the downstream steel products such as rods, wires, pipes and tubes.

- On January 26, 1993, the Commerce Department made preliminary findings that producers from 19 countries were dumping their steel in the United States.
- The timetables for the two types of investigations have been combined, and the final Commerce Department report was due on June 21, 1993, and was announced to the public on June 22.
- The Commerce Department found that companies from 19 countries dumped steel in the United States. 12 countries (11 of the above 19 countries plus one) subsidized their steel industries, and thus will face countervailing duties. This decision was expected by most parties involved.
- After the Commerce Department finds either dumping or subsidies, the cases return to the ITC for a final decision on material injury. If either the dumping or subsidies are found to be a cause of injury, then duties recommended by the Commerce Department will come into effect.²
- The ITC is scheduled to render its final findings of material injury on July 27, 1993. The new duties, therefore, would begin in August 1993.
- o The reaction of foreign governments to the imposition of antidumping and countervailing duties is likely to be small because many expected a ruling in favor of the domestic industry.
- Some countries may choose to protest the U.S. decision before GATT.
- This decision may heighten tensions with Mexico and Canada on the eve of NAFTA negotiations.
- o The foreign countries and foreign firms can choose to sign a Suspension Agreement with the United States instead of facing anti-dumping and countervailing duties. The Suspension Agreements differ for the two types of cases.

² A rule of thumb that has evolved for predicting the outcome of ITC cases is if the imports contribute more than 10 percent of the injury of domestic producers, duties will be imposed. If imports account for less than 5 percent of the injury of domestic producers, then the ITC will rule in favor of the foreign producers.

- In the anti-dumping case the Suspension Agreement will stipulate the price that the companies from foreign countries can charge for their products for a specific time period.³
- In the countervailing duty case, the Suspension Agreement will impose a quota on all companies from a foreign country for a particular steel product. As a hypothetical example, New Zealand would not be able to account for more than a 0.05 percent of the U.S. market for zinc-plated corrosion resistant steel.
- o The Commerce Department initialed Suspension Agreements with 10 countries, mostly smaller producers such as Argentina, Australia, Austria, Brazil, Finland, Mexico, New Zealand, Poland, and Romania. Germany is the only large steel producing country to initial a suspension agreement.
 - These countries account for 20-25 percent of U.S. steel imports.
 - The other large steel producing countries such as Japan, Korea, Canada, and the EC (other than Germany) did not reach an agreement with the Commerce Department.
 - June 11 marked the end of the 20-day public comment period on the Suspension Agreements.
- o The U.S. steel industry objected to the Agreements, and opposes any final Suspension Agreements.
 - The industry stated that even if the government signs the Suspension Agreements, they will exercise their rights to demand that the investigation continues. They want the effect of these imports to be included in the ITC's final determination of injury.
 - Even though the Suspension Agreements are in line with industry requests, domestic producers may also oppose them in order to be able to claim, at a later date, that they had not gotten fair treatment from the government and therefore deserve additional protection.

³ The price will be based on an estimate of the cost of production, transportation to the United States, and an 8 percent profit margin. Further, these prices will be regularly updated to reflect changes in economic environment, such as exchange rate movements. The prices will not reflect market conditions, where prices tend to fall when demand is low due to events such as a recession.

Why Do Some Countries Choose to Sign Suspension Agreements?

- o The size of the new duties specified in the Suspension Agreements will differ from the anti-dumping and countervailing duties, because of how the duties are calculated.
 - Anti-dumping and countervailing duties will be calculated on the basis of prices and economic conditions at the time the cases were filed. In this case this would be the spring and summer of 1992.
 - The prices and quotas established in the suspension agreements will be determined by the prices and economic conditions prevalent at the time the Agreements are negotiated, in this case Spring and Summer of 1993.
 - Because the steel market is sensitive to economic conditions, it may be to some countries' advantage to sign a Suspension Agreement. For instance, Germany has entered into a recession. As a result, steel prices in Germany fell during the last year due to reduced demand. Since the margins and quotas established in the Suspension Agreement are based on 1993 prices instead of 1992, these margins may be lower than the anti-dumping and countervailing duties that would be established.
- o Because there is a chance that the ITC will not find injury in their final investigation, some countries and companies do not enter into a Suspension Agreement even when it would be to their advantage relative to the anti-dumping and countervailing duties.
- o Ending Suspension Agreements may be easier than ending anti-dumping and countervailing duties.
 - At the end of the Suspension Agreement period, the Commerce Department will review the behavior of the companies and countries party to the Agreement. If, during the period of the Suspension Agreement, the foreign companies have been found in compliance with the terms of the agreement, then they would be able to compete freely once again.
 - Alternatively, if duties are applied, there is a yearly administrative review of the firm and government behavior. The duties may be removed only after the governments and companies have been found to not subsidize or dump for at least three years.

III. The U.S. Steel Market

- o The steel industry is not as important as it once was.
 - In 1958 the steel industry accounted for 5.8 percent of U.S. manufacturing value added; by 1986, this had dropped to 1.2 percent.
 - Similarly, the steel industry accounted for 1.4 percent of U.S. manufacturing employment in 1988, down from a high of 5.4 percent in 1940.
- o Minimills currently account for around 25 percent of shipments. They have specialized mainly in long products such as steel bars and wire rods that are sold principally in the construction industry, as well as specialty alloy products.
 - Recent developments in technology (e.g. thin slab casting) will allow minimills to compete with the integrated mills for the sheet and strip products.
- o The old-line integrated steel producers' output consists of flat rolled carbon steel products, and until recently faced little competition from the minimills for these products.
- o As Chart 1 shows, steel prices fell steadily between mid-1989 and mid-1992, reflecting the effect of the recession. At the end of last year steel prices began to pick up slightly.
- o In the past 10 years the steel industry has had positive returns on sales and capital only in 1987 and 1989. The industry still had large losses in 1992, and is unlikely to return to profitability until mid-1993 at the earliest.
 - The financial performance of the minimills has been much better than the integrated mills.
- o Under the VRA's imports of steel were limited to 20.3 percent of apparent supply, although imports haven't achieved this share since 1989. In the first 10 months of 1992, imports of steel accounted for around 17.7 percent of apparent supply, the same level as in 1991.
- o The steel industry, like the automobile industry, has become more globally integrated. Between 1985 and 1990, Japanese steel companies entered into no fewer than 19 technical agreements and 12 major joint ventures with U.S. steel firms. The total value of Japanese owned or joint-ventured steel plants in the U.S. is estimated to be around \$7 billion.

Causes of Industry Difficulty

- o Demand for steel has declined steadily since the mid-1970's, accounting for the bulk of the steel industries problems (see Chart 2).
 - Reduced demand arises from several sources:
 - Reduced output of domestic products that make steel, especially consumer products and automobiles.
 - Increased use of substitutes such as plastics, aluminum, ceramics and glass.
 - Changes in consumer preferences such as smaller cars and increased use of frozen and microwavable foods over canned foods.
- o The large integrated steel companies were slow in absorbing technological innovations.
 - The open hearth method of producing molten steel was the standard through the early 1960's. Since then it has been replaced by the basic oxygen furnace (BOF) and the electric arc. BOF is more efficient than the open hearth method. The large U.S. integrated mills were slow to adopt the BOF.
 - Continuous casting allowed thin slabs and rods to be produced continuously from raw molten steel. This allowed producers to dispense with the capital and energy costs associated with the rolling, reheating and transport equipment required under the older process. In 1992 about 77 percent of the steel produced in the United States was continuously cast. In 1980, this number was only 20.3 percent. In Japan, by comparison, 86 percent of raw steel was continuously cast by 1983, and over 90 percent is currently continuously cast.
 - It should be noted, however, that this may not have been an irrational decision, given the large costs associated with adopting the new technologies for integrated mills.
- o Wages and benefits grew far more rapidly than productivity growth in the steel industry. As a result, the labor costs became much higher than international competitors. Unfortunately labor costs remain high, not only relative to other countries, but compared with other manufacturing industries.

- Hourly compensation of production workers in the steel industry grew at annual rate of 3.7 percent in real terms between 1970 and 1980, while productivity grew at only 1.7 percent. Since 1982, real wages have risen little, even though productivity grew rapidly throughout the 1980's. This has helped to restore the competitiveness of the large, integrated mills.
- Part of the slowdown in the growth of real wages stems from the downsizing of the unionized firms, combined with potent competition from both minimills and imports. In some sense, steel workers have paid, and continue to pay, for their overcompensation in the 1970's with layoffs and slow real wage growth.
- Hourly compensation for production in the steel industry has been greater than in all of manufacturing for many years. In the 1970's, compensation in the steel industry increased far faster than in the rest of manufacturing. By 1982 the rate of compensation in the steel industry was nearly twice that of all of manufacturing.
- o The advantage that the United States enjoyed in raw material costs in the 1950's disappeared by 1980. The discovery of low cost iron ore outside the U.S. and lower international shipping costs, allowed the large integrated mills combined with deep water ports, first pioneered in Japan, to raw materials such as iron ore, limestone and coal at prices similar to those in the United States.
- o The large appreciation of the dollar in the early 1980's, combined with a domestic recession, severely hurt the domestic steel industry, and forced it to restructure.
- o In addition to restructuring, the depreciation in the dollar in the latter half of the 1980's, combined with the recovery, has helped make the steel industry more competitive.
- Capacity utilization rose from a low of 48.2 percent in 1982 to just over 82 percent by the end of 1992.
- o Most of the problems in the industry have been concentrated in the large integrated mills.

Minimills and Specialty Steel Producers

- o Minimills using new technology and additional flexibility have been the most successful, and in many of their product niches are the low cost producers in the world.

- The electric arc furnaces use steel scrap as an input, thus eliminating the steps of coke production, iron ore agglomeration, and iron making, which require large capital investment. As a result the minimills can operate profitably at much smaller scales. Not only does the lower investment costs reduce the barriers to entry, hence making the industry more competitive, but it also gives the mills flexibility in changing their product line to match changes in demand.
- Originally scrap metal was cheaper than iron ore, helping launch the minimills. However, this price advantage has disappeared in recent years as the price of scrap metal has risen.
 - As integrated mills become more efficient, they will reduce the supply of scrap metal for the minimills, adding further pressures to the price of scrap metal.
- Over 95 percent of minimills use continuous casting whereas 65 percent of the integrated mills use continuous casting.
- Minimills can locate near customers, thus reducing transportation cost. Since their source of supply is scrap, they are less tied to the iron ore producing areas.
- Some of the worst pollution problems that occur in the steel industry occur in the production of raw steel from iron ore (Big smoke stacks). Since minimills use scrap iron as their input, they face lower pollution control costs.
- Advances in technology not only have improved labor productivity in minimills, but has allowed them to expand their product lines.
- o Technology in the steel industry is embodied in the plant and equipment of a firm. As a result adoption of new technology is expensive, especially in large integrated mills. The growth of the minimills may be expected eventually to make the U.S. steel industry more flexible, dynamic and profitable than that of other nations.

Developments in Foreign Countries

- o The problems of large integrated mills are not unique to the United States. Japan and Europe have faced the same problems of decreased steel consumption, overcapacity and unprofitable integrated mills.

- o The policy response overseas has been different than in the United States. Foreign governments supported their industry by subsidizing companies that are in trouble, as well as by restricting imports. As a result, inefficient producers remain in the market, the world steel industry remains characterized by overcapacity, and has become less competitive internationally.
 - Western European countries intervened in the steel markets to prevent the collapse of the industry and failing producers. Between 1980 and 1985, subsidies to steel producers are estimated to have been around \$35 billion.
 - Japan also supported its industry with research funds to help firms produce higher end products, adopt newer technologies (this particularly helped the Japanese rapidly adopt continuous casting technology), and reduce the level of capacity utilization needed to be profitable.
 - The Japanese government has not been completely successful in getting their industry to restructure. The support that the ailing plants received has kept them operating when they should have shrunk. Furthermore, because the industry is organized as a cartel, Japan has not witnessed the emergence of a minimill industry as in the United States.
- o Since 1970 developing countries have made a huge investment in steel making capacity, leading to greater capacity than their domestic industries could consume.⁴
 - Korea and Brazil are the biggest producers of steel from the developing countries.

⁴ Several developing countries began investing in steel in the late 1950's and 1960's. However, the big expansion came after 1970.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

CDT
cc: KC
~~ABC~~
AB

March 18, 1993

To: Laura Tyson
The Saturday Group
From: Ellen L. Frost *ELF*
Subject: "Trade and the Domestic Economy" --
Staff Paper

As promised, attached is a copy of an in-house paper done by our chief economist, entitled "Trade and the Domestic Economy."

The cover page is a one page summary.

The author, David Walters, can be reached at 395-3583.

cc: Amb. Kantor
D. Walters

USTR Transition Paper: "Trade and the Domestic Economy"
A Summary (with Updated Data)

- o Real exports are on growth trajectory, up 85% 1986 to 1992, and accounting for half of GDP growth over the 6 years.
 - Goods and services exports are up from 7.5% of GDP in 1986 to 10.7% in 1992.
- o 1986 and 1990, U.S. jobs supported by merchandise exports rose by more than 2 million to a total of 7.2 million.
 - Exports accounted for 20% of the total job expansion, with manufacturing jobs related to exports rising from 1 in 8 in 1986 to 1 in 6 in 1990.
- o Exports are likely to remain strong stimulus to growth.
 - Further trade liberalization, competitive dollar, technological change and pro-growth reforms in many developing countries should support U.S. export growth.
 - Some forecasts suggest non-residential fixed investment and exports will be strongest U.S. growth components, growing twice as fast as overall GDP.

Trade liberalization complements domestic policies aimed at enhancing growth in output, jobs, productivity and real wages.

- o Export expansion encourages our most advanced industries.
 - U.S. advanced technology products trade surplus: \$33 billion in 1992.
 - U.S. exports oriented toward high-tech producer goods.
- o Export-related jobs paid 17% more than U.S. average.
 - Export-related manufacturing jobs pay 10% more than the all manufacturing average; export-related service jobs paid 20% more than the all services average (and more than the national average for manufacturing jobs).
- o Katz and Summers, and others suggest that trade expansion encourages shift to high-skilled, higher-paying jobs.
 - Expanded worker retraining/assistance programs will help workers take advantage of new, attractive job opportunities resulting from trade and other factors.
 - Successful Round could increase employment 1.4 million, productivity 2.2% and real wages 1.6% in 10 years.

Trade and the Domestic Economy

ISSUE:

Since the mid-1980s, export expansion has become a principal pillar of the U.S. economy and promises to support U.S. economic growth for years to come. The reduction of foreign trade barriers -- and domestic trade barriers as well -- facilitates the expansion of U.S. exports. Trade liberalization, in fact, helps achieve the domestic policy goals of stronger growth in the overall economy, in jobs, in labor productivity and in real wages and incomes.

DISCUSSION:

U.S. Exports on High Growth Trajectory in Recent Years. Since 1986 U.S. exports have been growing very rapidly (figure 1). Merchandise exports increased by 67.4 percent in real terms over the 5 year period to \$421.7 billion in 1991.

Manufactures, accounting for 82 percent of U.S. merchandise exports in 1991, have grown by 92 percent (in nominal terms) over the past 5 years. Finally, services exports (excluding U.S. foreign investment earnings) totaled \$163.6 billion in 1991, up 90 percent from 1986.

Export growth continues, despite the economic slowdown in a number of the United States' major trading partners. In the first three quarters of 1992, real exports of goods and services were 5.9 percent higher than the same period a year earlier.

Exports are a Growing Share of the U.S. Economy. Exports of goods and services have risen from 7.5 percent of U.S. GDP in 1986 to 11.2 percent in 1991 (figure 2). In manufacturing, exports were 12.1 percent of U.S. manufacturers total shipments, compared to 7.9 percent 5 years earlier. Strong export expansion, in fact, helped U.S. manufacturing production in 1989 (latest year available) to reach its highest share (22.6 percent) of constant dollar GDP



Figure 1



Figure 2

since the Second World War.¹

Export Expansion Means Job Growth. The increase in U.S. export production has been achieved through productivity growth and through job expansion. Between 1986 and 1990 (latest year available for export-related employment data) U.S. employment related to exports rose from 5.1 million to a total of 7.2 million. This 2.1 million increase is roughly 20 percent of the 10.4 million overall increase in U.S. jobs over this period.

By 1990, more than 1 in 6 U.S. manufacturing jobs was related to merchandise exports, compared to just 1 in 8 jobs 4 years earlier.

Of the 7.2 million jobs related to merchandise exports, 3.3 million were U.S. manufacturing jobs. U.S. manufacturing jobs related to exports in 1990 were nearly a million higher (928,000) than in 1986 (figure 3). During this same period, overall manufacturing jobs in the United States decreased 510,000.

Official export-related employment data are not yet available for any time period beyond 1990. However, the continued strong expansion of exports suggests that export-related jobs have continued to expand, helping to offset some of the downturn in employment related to the recent recession and slow recovery.

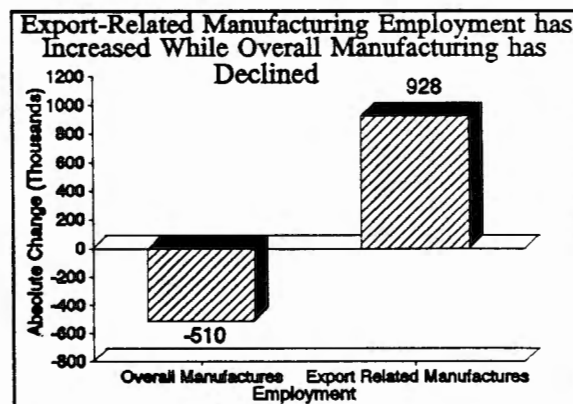


Figure 3

These 7.2 million jobs relate only to U.S. merchandise exports. The federal government currently does not report any data on U.S. jobs related to rapidly growing service exports. Many unreported U.S. jobs are undoubtedly directly or indirectly related to U.S. service exports. In 1991, service exports were 38.7 percent of merchandise exports in terms of dollar value.

Exports Support U.S. Economic Growth. Despite the recent period of negative to slow U.S. economic growth, export expansion has helped support the overall economy (figure 4). From 1987 to 1991, the U.S. GDP expanded by \$281 billion (constant 1987 dollars) or 6.2 percent. The expansion of U.S. exports added

¹The share in 1989 was equaled in 1973. These data are based on constant 1982 dollars. The Commerce Department expects to release constant 1987 dollar data on manufacturing output through 1990 in the near future.

\$175 billion to the economy over this period, or 62.4 percent of U.S. economic growth.

Viewed another way, had U.S. exports not expanded in the recession year of 1991, GDP, instead of declining by 1.2 percent, would have dropped by 1.8 percent. In fact, U.S. exports were up 5.8 percent in 1991.

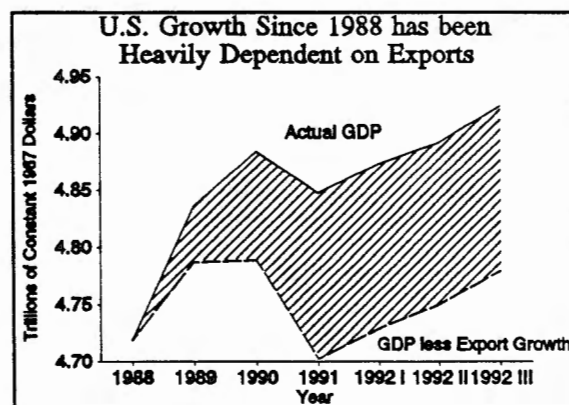


Figure 4

Barring Unforeseen Events, Exports are Likely to Remain a Strong Stimulus to Growth. With the

exception of the period of 1914 to 1945, exports since the industrial revolution have expanded significantly faster than global output. Economists have long viewed strong trade expansion as a stimulant to economic growth. For the United States, the period ahead promises to be no exception. Factors suggesting continued rapid expansion of U.S. exports in the years to come are the following: (1) the on-going movement toward lower global trade barriers, (2) increasing specialization in global production -- particularly now that many developing countries are turning toward growth-enhancing pro-market policies -- (3) the competitive valuation of the U.S. dollar, (4) the cost competitiveness of many U.S. firms and their favorable positioning to take advantage of many new, dynamic markets, and (5) the still sizable U.S. trade and current account deficits whose gradual reduction through export expansion is foreseen in many long-term economic forecasts for the United States.

According to the November 1992 forecast by DRI, Inc., U.S. exports are expected to grow more than twice as fast as U.S. GDP over the next 12 years and, along with business investment, are expected to be the strongest component of U.S. economic growth (see table below based on DRI). Export expansion, in fact, will undoubtedly contribute to the strong demand for business fixed investment over this period.

DRI Forecast	Share of Nominal GDP		% Growth 1991-2003 (Avg. Annual)
	1991	2003	
U.S. GDP	100%	100%	2.5%
Exports of Goods & Services	10.5	14.0	6.4
Non-Residential Fixed Investment	9.5	14.5	5.3

Trade Liberalization Complements Domestic Policies Aimed at Enhancing Growth in Output, Productivity and Real Wages. The growth of trade through a more open trade environment encourages the expansion of some of America's most productive, advanced industries.

In 1991, the United States exported \$100 billion in advanced technology products, resulting in a trade surplus in these products of \$37 billion (figure 5). Advanced technology goods made up 29 percent of U.S. manufactured exports, yet were only 16 percent of U.S. manufactured imports.

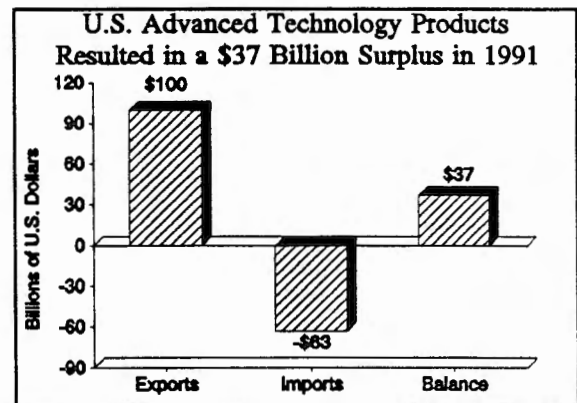


Figure 5

U.S. exports have long been oriented toward producer goods -- particularly high-tech producer goods -- rather than consumer products. In 1991 aircraft and engines, computers and peripherals, machinery and other capital goods accounted for nearly 40 percent of U.S. merchandise exports, while consumer products accounted for just over 10 percent.

Average Wages for Export Workers Substantially Exceed the Overall U.S. Average Wage. Recent wage comparisons developed at USTR provide some striking evidence of the domestic economic benefits of export expansion (figure 6). U.S. workers whose jobs were either directly or indirectly dependent on non-agricultural merchandise exports in 1990 (6.7 million of the 7.2 million U.S. export-related jobs) were found on average to earn a wage (\$11.69 per hour) almost 17 percent higher than the U.S. national average wage (\$10.02).

For the 3.3 million manufacturing workers with jobs related to exports, the average wage exceeded the national average for all manufacturing workers by 10 percent (\$11.93 versus \$10.83). For the 3.0 million service workers with jobs related to merchandise exports, the advantage was nearly 20 percent, relative to the average wage for all service workers (\$11.30 versus \$9.43). The latter finding suggests that service jobs created by U.S. merchandise exports are high-end service jobs, paying a higher average wage (\$11.30) than even that received by the average manufacturing job in the overall



Figure 6

U.S. economy. (\$10.83).

Katz and Summers² have conducted a study which also considered U.S. import- as well as export-related employment. Their work, based on 1984 data, concluded that even after adjusting for skill differences, workers in export-intensive U.S. industries earned 12 percent more than the national average while workers in import-competing industries earned 16 percent less. They noted the following.

Reflecting patterns of American comparative advantage, export-intensive industries in the United States also employ more skilled workers and do more research and development than import-intensive industries [pages 106-108]...

These results suggest that, for the United States, policies that succeed in promoting trade and increasing the volume of both exports and imports will tend to raise welfare by moving workers from lower- to higher-wage industries [page 109].

The shifting of U.S. job opportunities toward the higher-skilled, higher-paying end of the spectrum through exports can complement other efforts to strengthen the U.S. workforce. As efforts continue on the domestic front to improve the level of general education, trade liberalization and expansion will help assure that higher-skilled, higher paying jobs are available for those who study, practice and train.

Expanded Federal Worker Retraining and Assistance Programs Can Both Help to Offset Any Negative Impact for Affected Workers From Trade Expansion (and From Other Causes As Well) and to Prepare Workers to Take Advantage of New, Burgeoning Opportunities. Such programs can cushion the effects of trade liberalization and expansion to individuals, thus facilitating the ability of the overall economy and workforce to benefit from the job, growth and wage enhancing benefits of freer, expanded trade. Trade liberalization and expansion -- while far from a whole solution -- are certainly part of the solution when it comes to improving U.S. economic performance and living standards.

Even During Periods of Substantial Economic Growth, a Dynamic, Market-Oriented Economy Like that of the United States Will Generate Large Changes -- Many Only Partially Related to Trade -- Which Challenge Workers Throughout the Economy. From 1979 to

²"Can Interindustry Wage Differentials Justify Strategic Trade Policy?," Lawrence F. Katz and Lawrence H. Summers in Trade Policies for International Competitiveness, A National Bureau of Economic Research Conference Report, edited by Robert C. Feenstra, University of Chicago Press, Chicago and London, 1989.

1989 constant-dollar U.S. manufacturing output rose by 30 percent (see footnote 1). Yet, even during this period of substantial growth, some manufacturing industries expanded very rapidly while others declined. At one end, U.S. non-electrical machinery production slightly more than doubled; manufactures of petroleum and coal rose by 80 percent; the production of aircraft and other non-auto transportation equipment increased by 79 percent; and electrical and electronic equipment production rose by 51 percent. At the other end, tobacco manufactures declined by more than two-thirds, leather and products by almost one-third; production of primary metals dropped by 30 percent; and motor vehicles and equipment fell by 8 percent.

Traditionally, the Domestic Economic Gains Created by Trade Liberalization Have Been Divided Between So-called "Static" Efficiency Gains, On the One Hand, and "Dynamic" Growth Gains, on the Other. Static gains result from the increased efficiency with which the nation's current capital and labor resources can be employed in a more open world market. The lowering of barriers and expansion of trade gradually reallocates national resources from less to more productive uses.

Dynamic gains arise from any aspect of trade liberalization which increases saving and investment, and ultimately rates of economic growth. For example, greater efficiency in the economy may make investment more profitable and result in increased investment in capital equipment. By improving the investment climate, market-opening initiatives can spur enhanced growth.

In Another Example, Dynamic Trade Gains Can Result from Increased Investment in Research and Development. R&D-intensive products generally enjoy an initial period of intellectual property protection. During this period, producers' profits are largely influenced by the size of the market into which products can be sold. Trade liberalization expands the size of the market for such products, effectively raising investors' expected rate of return from investment in research and development. Higher rates of return from R&D investment will mean more investment in R&D and more growth.

To Illustrate the Nature of Such Gains, USTR, With the President's Council of Economic Advisers, in 1990 Estimated the Gains (Static and Dynamic) to the United States from a One-Third Cut in Global Tariff and Non-Tariff Barriers (the Agreed Target for the Uruguay Round). USTR/CEA estimated, in constant 1989 dollars, a 10-year cumulative gain to the U.S. GNP of \$1.1 trillion. At the end of 10 years, U.S. GDP was estimated to be about 3 percentage points higher than it would have been in the absence of the trade liberalization. Expressed in terms of real income gains, the effect of the UR trade liberalization is equivalent to a \$17,000 average income increase for a family of four, payable over ten years. USTR also estimated a ten-year

cumulative gain of \$5-1/4 trillion in global output.

With regards to labor, the added domestic production resulting from trade liberalization will be captured by some combination of increased employment and increased productivity per worker. At the request of USTR, DRI, Inc. has recently incorporated the USTR-CEA estimated gains from the Uruguay Round into its linked, macroeconomic models of the countries and regions making up the global economy. One purpose of the follow-up DRI analysis is to assess how such gains from the Uruguay Round might be realistically captured by the U.S. economy (figures 7 and 8).

The DRI assessment is being finalized now. On a draft final basis, DRI finds that 10 years after Uruguay Round's conclusion, U.S. employment is 1.4 million greater than it otherwise would have been. Average labor productivity rises 2.2 percent while real wages increase 1.6 percent. Total domestic consumption also rises over 3 percent.

Trade gains compound over time. Carrying out its assessment an additional three years, DRI reflects this situation. Thirteen years after UR completion, the U.S. economy has 2.0 million additional jobs relative to the base line case, productivity is up by 2.7 percent, real wages 2.6 percent, GDP by 4.2 percent and real consumption by 4.4 percent.

Even early in the period of adjustment to UR liberalization, the United States is found to show gains -- albeit tiny gains -- rather than temporary losses.

After one year, employment is reported up by 6,000 and average real wages by 0.07 percent.

A Discussion of Trade and the Domestic Economy Would not be Complete Without a Recognition of the Work of a Number of Economists Who in Recent Years Have Developed Theories of Strategic Trade Intervention to Raise Domestic Economic Welfare. These theories attempt to describe how import restrictions and export subsidies, particularly in high-tech sectors where scale economies or "learning curve" effects are present, can in certain

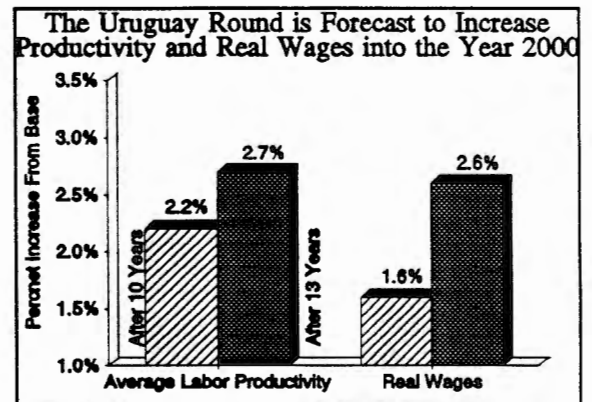


Figure 7

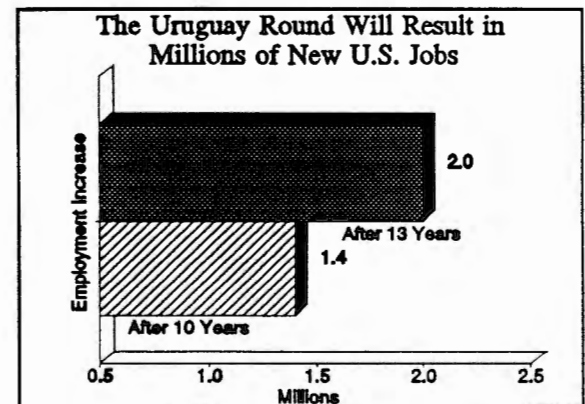


Figure 8

instances increase national welfare.

A number of cautions, however, have been raised over the years with respect to theories of strategic trade intervention -- particularly as practical guides to U.S. trade policy. Some critics have pointed out that consumers pay heavily for import restrictions while taxpayers bear the burden of subsidies. Some have suggested that these theories also mistake the causal relationship between innovation and competition. Others have highlighted the difficulties of objective identification -- particularly by governments -- of situations where intervention might be beneficial. Mistakes in identification could be costly to national economic welfare. Such mistakes might be common because, in the domestic political arena of trade, policies of strategic trade intervention could be seized upon by troubled, but politically potent, firms and industries searching for a justification to obtain public assistance.

Finally, these theories generally, though not always, assume a passive reaction on the part of foreign governments to strategic trade interventions by a trading partner. Foreign governments, however, may respond in kind or otherwise retaliate. Some have argued that such responses from trade partners would threaten to set off a cycle countervailing trade actions, threatening to leave all players worse off.

Faced with Unfair Trade Behavior, U.S. Trade Policy Has Long Sought To Eliminate Rather Than Emulate the Offending Foreign Practices. The first Congressional delegation of trade negotiating authority to President Roosevelt in 1934 reflected, in part, concerns that when many countries seek domestic advantage by restricting or unfairly subsidizing trade, the economic well-being of all may be reduced. The United States has consistently over the years used the leverage provided by the sheer size of its domestic market -- still a quarter of the global economy -- to encourage trade liberalization and the reduction or elimination of foreign unfair practices.

Access to the rich U.S. market is highly valued by producers around the globe. Certainly, the rapid economic development of Japan and a number of other countries has been facilitated by open access to the U.S. market. Threatening to restrict that access has therefore proved a useful tool in obtaining foreign government cooperation in removing unfair foreign trade practices.

Threatened retaliation, however, is a powerful negotiating tool, only when the threat is credible. To maintain the credibility of that threat (as well as to fulfill the requirements of domestic trade law), the United States has had to carry through on retaliation in a number of instances when foreign governments were resolute in the maintenance of unfair trading practices.

While the United States has itself been accused of "protectionism" for such conduct, it is important for the accusers to remember that no country has worked harder for the extension and expansion of international trading rules to create a more open and fair trading system. It is not a coincidence that in most of the areas where the United States has taken action, the issues or trade involved were inadequately covered by international rules or not covered at all (e.g. intellectual property rights protection, services trade, foreign investment, subsidies, agriculture, countries outside of GATT).

Through the Uruguay Round and other trade liberalizing initiatives, U.S. trade policy has sought to remove the host of impediments and distortions to U.S. and world trade. The policy has been firmly anchored in the notion that the U.S. economy and the economies of its trade partners will prosper most in a world of falling barriers and expanding trade.

Prepared by: D.Walters/P. von Elling X3583

THE WHITE HOUSE

WASHINGTON

February 15, 1993

MEMORANDUM TO THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF LABOR
THE SECRETARY OF HOUSING AND URBAN
DEVELOPMENT
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
THE ADMINISTRATOR OF THE ENVIRONMENTAL
PROTECTION AGENCY
THE CHAIR OF THE COUNCIL OF ECONOMIC
ADVISORS
THE DIRECTOR OF THE OFFICE OF
MANAGEMENT AND BUDGET
THE UNITED STATES TRADE REPRESENTATIVE
THE ASSISTANT TO THE PRESIDENT FOR
DOMESTIC POLICY
THE ASSISTANT TO THE PRESIDENT FOR
SCIENCE AND TECHNOLOGY POLICY

FROM: ANTHONY LAKE
ROBERT E. RUBIN

SUBJECT: Trade Related Policy Issues

In accordance with Presidential executive order 12835 establishing the National Economic Council (NEC), the following memorandum describes the new inter-agency issue management system for trade related issues.

- o The TPRG and the TPSC will continue to function as in the past. A joint National Economic Council and National Security Council (NSC) representative to the TPRG will be named.

- In the future, decision memoranda will flow from the TPRG to the Deputies Committee/Econ 2 of the NEC and from that committee to the Senior Policy Committee of the NEC. The United States Trade Representative (USTR) will be asked to participate in meetings of the Senior Policy Committee of the NEC when trade issues are discussed.
- Trade related issues considered by the TPRG that raise important national security concerns will – at the direction of the NEC/NSC joint representative – also flow to the Deputies Committee of the National Security Council.
- The NEC Deputies Committee will, as the need occurs, establish interagency committees to consider significant trade related issues. When these issues raise significant national security concerns these committees will be established and managed jointly by the NEC and NSC deputies.
- The Assistant to the President for Economic Policy will work closely with the Assistant to the President for National Security Affairs and the USTR to ensure the appropriate over-all coordination of trade policy.