

THE IMPORTANCE OF TRADE NEGOTIATIONS

HEARING
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SIXTH CONGRESS
FIRST SESSION

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FEBRUARY 11, 1999
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THE IMPORTANCE OF TRADE NEGOTIATIONS

THURSDAY, FEBRUARY 11, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 1:05 p.m. in room B-318, Rayburn House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE

CONTACT: (202) 225-6649

February 4, 1999

No. TR-2

Crane Announces Hearing Series on the Importance of Trade Negotiations in Fighting Foreign Protectionism

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a series of hearings on the importance of expanding trade and resisting protectionism through active United States involvement in trade negotiations. The first hearing will take place on Thursday, February 11, 1999, in B-318 Rayburn House Office Building, beginning at 1 p.m.

Oral testimony at this hearing will be from invited witnesses only. The sole invited witness will be United States Trade Representative Charlene Barshefsky. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

Other hearings in the series are expected to address: (1) the potential impact of ongoing trade negotiations on jobs, wages, economic opportunity and the future competitiveness of U.S. manufacturers and service providers; (2) implementation and compliance with existing trade agreements; (3) prospects for an agreement to establish a Free Trade Agreement of the Americas (FTAA); (4) trade talks under the auspices of the Asia Pacific Economic Cooperation Group (APEC); (5) negotiations on the so-called "built-in" agenda in the World Trade Organization (WTO); and (6) the possibility of further bilateral trade negotiations with Europe, Chile, New Zealand, Australia and other nations in the Pacific Rim region. Additional hearing dates and details will be released in subsequent announcements.

BACKGROUND:

The United States currently participates in three major multilateral and regional trade negotiations. At the December 1994 Summit of the Americas in Miami, leaders of 34 Western Hemisphere democracies agreed to establish a FTAA, in which barriers to trade and investment are progressively eliminated. They committed to begin the process immediately, make concrete progress by the year 2000, and conclude negotiations by no later than 2005. These negotiations were officially launched at the Second Summit of the Americas in Santiago, Chile, in April 1998.

The APEC forum, an association of 21 economies bordering the Pacific Ocean, working cooperatively to reduce barriers to trade and investment, has declared its intention to establish free trade and investment in the region by the year 2010 for developed countries and by 2020 for others. In November of 1997, APEC members held a Joint Ministerial Meeting and Leaders Summit in Vancouver, where they identified 15 sectors in which they intended to cut tariffs and remove other barriers to trade. At the November 18, 1998, Ministers and Leaders Meeting in Malaysia, countries agreed to move work on the tariff portion of nine of these sectors into the WTO, with the aim of completing an agreement with participation beyond APEC countries by 1999.

The Uruguay Round was the eighth round or series of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). The agreements reached at the end of 1994 during the Uruguay Round were noteworthy in that they greatly expanded coverage of GATT rules beyond manufactured goods trade to include agricultural trade, services trade, trade-related investment measures, intellectual property rights, and textiles. The most visible accomplishment of this multilateral round was to establish the WTO to administer the GATT agreements and to settle disputes among WTO members, as well as other matters of interest to other WTO Members.

The Uruguay Round agreement calls for the resumption of negotiations by the year 2000 to further liberalize trade in agriculture and services, as well as on government procurement practices and enforcement of intellectual property rights. The next WTO Ministerial conference, which will be hosted by the United States November 30–December 3, 1999, is slated to consider the procedures and substance of the so-called “built-in” WTO agenda.

In announcing the hearings, Chairman Crane stated, “With this broad set of hearings, where we will hear from Americans in many walks of life, I intend to review prospects for success in each of the major trade negotiations in which the U.S. currently participates. At a difficult time in the World economy, as countries face pressures to increase protectionism, trade negotiations provide us the opportunity to prevail on them to adopt market-opening measures. Active U.S. involvement is essential. The country can no longer afford to keep our seat warm at the WTO, and in the FTAA and APEC trade talks, while the attention and energy of our government is focused elsewhere. Our trade negotiators lack the tools they need to achieve concrete results.”

FOCUS OF THE HEARING:

The focus of the hearing on February 11th will be to examine and assess the President’s trade policy agenda and negotiating priorities for the remaining two years of this Administration.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the close of business, Thursday, February 25, 1999, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at '[HTTP://WWW.HOUSE.GOV/WAYS_MEANS/](http://WWW.HOUSE.GOV/WAYS_MEANS/)'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman CRANE. The Subcommittee will come to order.

Good afternoon to one and all. We are going to be interrupted, Charlene—in a few minutes is the projection—with a vote on the floor. But I think getting started, since you are under tight time constraints, we don't want to waste any minutes.

This is the first in a series of hearings of the Ways and Means Subcommittee on Trade to consider the importance of expanding trade and resisting protectionism through active U.S. involvement in trade negotiations.

I want to welcome our Ambassador, who will address the President's trade agenda for the remaining 2 years of his Administration.

To achieve the urgent goal of jump-starting economic growth in U.S. export markets, it is important that we take a thorough look at the prospects for success in each of the major trade negotiations. My own personal view is that U.S. objectives are repeatedly being compromised as trade liberalization continues to take a back seat in the President's overall priorities. As opportunities are slowly squandered, just saying you support expanded trade and renewed negotiating authority is not sufficient.

This country can't afford to simply keep our seat warm at the WTO, and in the Free Trade Agreement of the Americans and APEC trade talks while the attention and energy of our Government are focused elsewhere.

With this broad set of hearings, where we will hear from Americans in many walks of life, I believe we will continue to build the case for active and committed U.S. involvement in efforts to bring down foreign barriers to our exports. At a difficult time in the world economy, as countries, including our own, face pressures to increase protectionism, trade negotiations provide us with the opportunity to prevail on them to adopt market-opening measures, but only if USTR's team is actively involved, armed with adequate

tools and the commitment at the highest levels of the Administration to achieve concrete and meaningful results.

Because future trade agreements offer the best opportunity we have to expand and ensure the success of U.S. businesses and workers in the marketplace of the 21st century, we must do all we can to quickly pass fast-track legislation. Administration officials and others have spoken generally about renewing the consensus on trade. And now I am prepared to discuss with the Administration any specific ways in which it believes that my fast-track bill, which the Administration agreed to in 1997, is somehow deficient. I hope that opponents of fast-track will not try to kill our efforts by making vague, unspecified references to the need for improvements in the bill. I call today on any critics to show me precisely where they believe my bill falls short, and to offer constructive and specific proposals that can garner bipartisan support.

I now would like to recognize the newly installed Ranking Member of the Trade Subcommittee, our colleague, Sandy Levin for any statement he might like to make.

Mr. LEVIN. Thank you, Mr. Chairman. As you have said, this is the first in a series of important hearings on U.S. trade policy. It comes at a key time. We face immediate challenges such as how to respond to the unprecedented surge of steel imports into the United States that followed the Asian economic crisis and the severe harm those imports have done to workers and firms in this vital sector of our economy.

At the same time, with the Seattle Ministerial meeting only a few months away, we in Congress face the opportunity and the challenge of working together and with the Administration to develop U.S. trade strategies and objectives for the next major round of WTO negotiations that will address effectively the constantly changing dynamics of global trade.

We cannot afford to squander that opportunity because, as in the past, the U.S. agenda will drive much of the world's agenda in the next Round. Our agenda must effectively address important new dynamics in global trading, including the increasingly important role that developing countries and transitional market economies such as China, India, Brazil, Mexico, and Russia play in setting the terms of trade, and the increasingly significant role that informal trade barriers and government-generated barriers in areas such as distribution are playing in preventing U.S. firms and workers from realizing the full benefits from trade to which the United States is entitled.

It is important to recognize that these problems are, in part, a testament to the success we have had in negotiating away other impediments to trade, such as tariffs and other traditional border measures. As we have peeled away these layers, we find ourselves in an environment in which any type of distortion in the operation of competitive markets can have a profound impact on the terms of trade. These distortions have helped to create the current steel import crisis and are central to understanding the barriers that must be targeted for elimination in the next round of negotiations.

Given the constantly changing dynamics of competition in the global marketplace, we must be prepared at all times to take a fresh look at the new problems that arise and we must be ready

to discuss openly and candidly the best policies to address those problems. In that regard, I want to commend the effort by the Finance Committee in the Senate earlier this month to examine and open a dialog on many of the more contentious issues in U.S. trade policy, and express the hope that we in the House can carry that dialog forward today and in the hearings that follow.

I have the impression that there is a willingness in many circles to take a fresh look at problems that we have been debating increasingly in the trade area over the last 4 or 5 years. Clearly, one area that must be addressed is the role of labor markets in trade relations.

In previous decades there was little focus on or controversy about labor market issues. The interest in labor rights was more in the context of a human rights agenda. However, with the increased role in economic globalization of trade with and competition from nations with very different economies and economic structures than ours, there occurred a parallel growth in concern about the impact of these vastly different labor markets on economic conditions and the standard of living in our own Nation. Controversy grew as to whether international and bilateral rules of trade should address in any manner these differences.

The President and our colleagues on the Senate Finance Committee have signaled that it is time to change our approach on this subject and have started to open a dialog.

First and foremost, I think we have to be clear about why we need some agreement in the trade context on operation of labor markets. Simply put, distortions in foreign labor markets can have an impact on economic conditions of competition in markets around the world, including in the U.S. control of labor markets, whether through actual regulation or failure to enforce basic labor standards, can create such distortions.

Once we move beyond answering the question of why the operation of labor markets is relevant to trade, we still must answer the second, and perhaps the more difficult question: How do we address issues in the operation of labor markets effectively in a way that also promotes continued growth in opportunities for trade? Clearly, there are no easy answers. Some have suggested as a starting point in trade negotiations that we require our trading partners to respect and enforce the basic labor principles that many of them, including virtually all WTO members, have already endorsed in the ILO context; namely, the right to associate and bargain collectively, abolition of compulsory labor, abolition of child labor, elimination of employment discrimination, and adherence to acceptable conditions of work.

Under any circumstances, the objective in addressing this important issue must be, as the President has said, to ensure that the globalization of trade involves a leveling up, not a leveling down. The objective is not to destroy legitimate comparative advantages of developing countries or to use the valid issue of operation of labor markets to create invalid obstacles to trade. To the contrary, our common goal must be greater integration of global markets in ways that promote growth and opportunity for our workers and farmers and businesses, while also promoting a trading system in which all countries gain.

I hope that all my colleagues will join in this important dialog so that we can move forward together.

Ambassador, as always, it is a great pleasure for us to have you here, and I look forward to hearing your thoughts on this and other important subjects in this vital area of international trade.

[The opening statement follows:]

Statement of Hon. Sander M. Levin, a Representative in Congress from the State of Michigan

This is the first in a series of important hearings on U.S. trade policy. This set of hearings comes at a key time. We face immediate challenges such as how to respond to the unprecedented surge of steel imports into the United States that followed the Asian economic crisis and the severe harm those imports have done to workers and firms in this vital sector of our economy.

At the same time, with the Seattle Ministerial only a few months away, we in Congress face the opportunity and challenge of working together and with the Administration to develop U.S. trade strategies and objectives for the next major round of WTO negotiations that will address effectively the constantly changing dynamics of global trade.

We cannot afford to squander that opportunity, because, as in the past, the U.S. agenda will drive much of the world's agenda in the next Round. *Our* agenda must effectively address important new dynamics in global trade, including: the increasingly important role that developing countries and transitional market economies such as China, India, Brazil, Mexico, and Russia play in setting the terms of trade; and the increasingly significant role that informal trade barriers and government-generated barriers in areas such as distribution are playing in preventing U.S. firms and workers from realizing the full benefits from trade to which the United States is entitled.

It is important to recognize that these problems are, in part, a testament to the success we have had in negotiating away other impediments to trade, such as tariffs and other traditional border measures. As we have peeled away these layers, we find ourselves in an environment in which any type of distortion in the operation of competitive markets can have a profound impact on the terms of trade. These distortions have helped to create the current steel import crisis and are central to understanding the barriers that must be targeted for elimination in the next Round of negotiations.

Given the constantly changing dynamics of competition in the global marketplace, we must be prepared at all times to take a fresh look at the new problems that arise and we must be ready to discuss openly and candidly the best policies to address those problems. In that regard, I want to commend the effort by the Finance Committee earlier this month to examine and open a dialog on many of the more contentious issues in U.S. trade policy, and express the hope that we in the House can carry that dialog forward today and in the hearings that follow.

I have the impression that there is a willingness in many circles to take a fresh look at problems that we have been debating increasingly in the trade area over the last 4 or 5 years. Clearly, one area that must be addressed is the role of labor markets in trade relations.

In previous decades there was little focus on or controversy about labor market issues. The interest in "labor rights" was more in the context of a human rights agenda. However, with the increased role in economic globalization of trade with and competition from nations with very different economic structures than ours, there occurred a parallel growth in concern about the impact of these vastly different labor markets on economic conditions and the standard of living in our nation. Controversy grew as to whether international and bi-lateral rules of trade should address in any manner these differences.

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First and foremost, I think we have to be clear about why we need some agreement in the trade context on operation of labor markets. Simply put, distortions in foreign labor markets can have an impact on economic conditions of competition in markets around the world, including in the United States. Control of labor markets, whether through actual regulation or failure to enforce basic labor standards can create such distortions.

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I hope that all my colleagues will join in this important dialog so that we can move forward together.

Ambassador Barshefsky, as always, it is a great pleasure, and I look forward to hearing your thoughts on this and other important subjects in this vital area of international trade.

[The opening statement of Hon. Jim Ramstad, follows:]

Statement of Hon. Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling this important hearing today to discuss the importance of trade negotiations and fighting protectionism in the trade arena.

The U.S. has the most open market in the world. There is nothing more important for our country than to break down tariff and non-tariff barriers to free trade in other countries. I have worked with colleagues on both sides of the aisle, and the Administration, when the U.S. has had to fight unfair trade practices and protectionism against U.S. products, and I will certainly continue to do so.

Sadly, however, I have also had to confront some of my own colleagues when our own protectionist sides have shown themselves. Just last year, we fought that battle, and unfortunately, we lost. Fast Track negotiating authority was not renewed, CBI parity was defeated and the African Growth and Opportunity Act was not enacted.

But, being an optimist, I hope this year will be different. We are off to a good start, having passed the Miscellaneous Trade and Technical Corrections Act in the House on Tuesday and marked up the African Growth and Opportunity Act in this Subcommittee last week. The President also made a strong pitch in favor of trade in his State of the Union Address.

Mr. Chairman, it is imperative that we renew Fast Track Authority for the President this year—especially before the WTO Ministerial meeting, which will be held in Washington State in November. The Administration must have this authority if our country is to be taken seriously at those meetings as we try to knock down barriers to U.S. goods and fight protectionism against free trade in general.

Mr. Chairman, thanks again for calling this hearing. I look forward to hearing from our distinguished U.S. Trade Representative about the President's agenda for the year. I also hope to learn how she thinks we can work together to enact Fast Track Authorizing legislation as soon as possible.

Chairman CRANE. Thank you, Sandy.

We shall now proceed with the Honorable Charlene Barshefsky. But Charlene, let me just warn you, I got word that the vote may start in a minute. I am trying to figure out what is the best thing to do.

Do you guys think we ought to run over there right now rather than interrupt her?

Mr. LEVIN. You never know, it could be an hour. Why don't we start.

Chairman CRANE. All right. Then we will proceed.

STATEMENT OF HON. CHARLENE BARSHEFSKY, UNITED STATES TRADE REPRESENTATIVE

Ambassador BARSHEFSKY. Thank you, Mr. Chairman and Members of the Committee. Let me begin by thanking you and the Subcommittee for holding this hearing. Our hope is that this will be a first step toward realizing the President's goal of finding common ground in a bipartisan consensus on trade issues as we open a new trade agenda for a new century. So I am very pleased to be here to review our agenda and to take advantage of your thoughts and advice.

In his State of the Union, the President set out a bold and ambitious trade agenda, including the launch of the new round of global trade negotiations. We are committed to lead in removing trade barriers, creating fair and open markets, and expanding trade, while ensuring that ordinary citizens continue to benefit from the trading system in the next century.

This agenda builds on a long tradition of bipartisan commitment to fair and open markets, a commitment which has borne fruit in helping us create a dynamic, creative, competitive economy which is the envy of the world. Since 1992, we have had uninterrupted growth; as of last month, the longest peace time expansion in our history. We have created nearly 18 million new jobs. The unemployment rate has fallen from 7.4 percent to 4.3 percent, the lowest rate since 1970. We have raised wages, home ownership, and family living standards.

The reasons for this are many, but trade and participation in the world economy have played an irreplaceable role. Since 1992, we have negotiated 270 separate trade agreements which have helped open markets and create opportunity for Americans. These include five of historic importance—the North American Free Trade Agreement, NAFTA, which cemented our strategic relations with our immediate neighbors; the Uruguay Round Agreements, which created the World Trade Organization; and three new multilateral agreements on information technology, financial services, and basic telecommunications which, together with intellectual property protection, are the foundation of the twenty-first century economy.

As a result, America's trade has flourished. Last year we exported close to a trillion dollars in goods and services, a 51 percent increase from the 1992 level, despite a slowing of our export growth due to the Asian financial crisis. We now have an opportunity, though, and a responsibility to take the next step.

As host and chair of the WTO's Third Ministerial Conference to be held in Seattle at the end of this year, we will be able to shape the global trade agenda as we enter a new century. As we approach this event and the accelerated negotiating round it will inaugurate, we are developing an agenda that extends well beyond traditional market-opening initiatives to ensure that the world trading system responds to the pace of change, to diverse constituencies, and to the challenge of the global economy.

We envision a new type of round with three separate dimensions to proceed simultaneously. First, expedited negotiations in a wide range of areas. They would include, for example, sharp reduction or elimination of industrial tariffs and non-tariff barriers; market access and liberalization for services industries, including audiovisual, express delivery, financial services, the professions, telecom, distribution, travel, tourism, and other others; agriculture, including State trading enterprises, tariffs, the elimination of export subsidies, the addressing of Europe's common agricultural policy, biotechnology, and other topics; intellectual property, beginning with the full implementation of Uruguay Round commitments and extension to new technologies; government procurement, exploration of how the WTO can help create an international pro-competitive regulatory climate, particularly in services as well as to advance investment, and further our efforts against bribery and corruption. These negotiations would have clearly defined timetables and expectations. Statements by the EU and Japan in support of a 3-year negotiating timetable are encouraging.

The second dimension, to proceed simultaneously with the first, has to do with institution-building. A new round should include a commitment to both institution-building and reform of the WTO itself. This would include, for example, capacity building in developing countries to help them implement what they agree to do; trade facilitation, particularly in the customs area; and more effective coordination between the WTO, on the one hand, and the International Labor Organization, the IMF, and the World Bank, as well as environmental bodies, on the other. And it would include a greater commitment to greater transparency in the WTO itself particularly in dispute settlement, as well as accessibility to and responsiveness to citizens.

And third, the third dimension also to proceed simultaneously, is that a new round must accommodate ongoing results. For example, as we develop the agenda this year, we will also work toward completion of the ITA-II, the extension of the information technology agreement, transparency in government procurement, a consensus on the nine APEC sectors, improvements in dispute settlement, and in electronic commerce extension of the moratorium on tariffs applied to electronic transmissions.

Our trade agenda beyond the very ambitious we foresee for the next round is equally broad. We are, as you know, enforcing WTO commitments and bilateral agreements with all of our trading partners through over 80 separate enforcement actions since 1993, including 42 at the WTO. And we are carrying on sectoral, regional, and bilateral negotiations covering every part of the world. My prepared testimony addresses this agenda in detail, but I would like to take a minute to cite just a few examples.

In the Western Hemisphere, the talks toward a free trade area of the Americas are proceeding well, including the achieving of concrete progress this year as well as bilateral efforts to open markets in each of our hemispheric partners. In Europe, we are working to remove barriers and strengthen trade relations with the EU through the Transatlantic Economic Partnership. This includes negotiations on technical trade barriers, agriculture, and, in particular, biotechnology and food safety, intellectual property, govern-

ment procurement, services, electronic commerce, and advancing shared values such as transparency and the participation of civil society. At the same time, we are enforcing strictly European compliance with dispute settlement decisions, such as those on bananas and beef, and we will address problems in our trade relations both bilaterally and through the new negotiating round that the President has proposed.

In Africa, we are implementing the President's initiative to improve trade relations and ensure Africa's full integration into the multilateral system. For the past 5 years, Mr. Chairman, it is the Ways and Means Committee that has led the effort to develop a more effective Africa trade policy for the next century. And let me applaud you, Mr. Chairman, Congressman Rangel, and Mr. McDermott, as sponsors of the Africa Growth and Opportunity Act, in particular, and thank the entire Subcommittee for your decision to markup a bill early in this session. We look forward to its rapid passage by the House.

In Japan, we will continue our intense and sustained effort to further open and deregulate the Japanese market. We have concluded 35 bilateral trade agreements with Japan since 1993 and we will monitor their implementation closely. We will also address continuing sectoral issues such as glass, steel, autos, insurance, and other topics. And we are pursuing an ambitious set of goals under our Enhanced Deregulation Initiative with Japan which covers a number of key sectors for American exporters, including telecom, pharmaceuticals, housing, financial services, and medical equipment. At the same time, as you know, we are addressing the very large and rapid increase in steel imports from Japan.

In China, we will continue to monitor and strictly enforce our agreements on intellectual property rights, textiles, and market access in goods and agriculture, and address bilateral trade problems. At the same time, we will continue to seek broad market opening through our negotiations toward China's accession to the WTO. In this regard, membership in the WTO for China on commercially meaningful grounds is in our interest and it is in China's interest. Broadly speaking, WTO principles such as transparency, openness, and public and enforceable commitments will help strengthen the rule of law in China and create sustainable long term growth. And the specific market access and other reforms WTO accession requires from China are no more onerous than what other WTO members have already done. Premier Zhu Rongji's proposed visit to the United States this spring gives China and the United States a chance to advance this goal. As this approaches, China has an opportunity, perhaps the last for some time to come, to resolve the remaining issues. We hope China will take it. We also recognize that China may again decide it is not ready for the commercially meaningful steps WTO membership requires and thus WTO membership may not come for some time. But delay in trade reform is not an option. We will not hesitate to make sure that we are treated fairly, and we will continue to urge China to move toward acceptance of international norms, economic and otherwise, which are so important to us, to China's neighbors, and to China itself.

Apart from Japan and China, more generally in Asia we are continuing our APEC sector liberalization effort and are working to build consensus on WTO-related issues before the 1999 Ministerial.

In the Middle East, we are promoting regional integration on the foundation of our free trade agreement with Israel and with the creation of new Israeli-Jordanian industrial zones whose products will receive preferential access to the United States, and we have in mind similar projects with Egypt and the Palestinian authority.

In each of these regions and in the multilateral agenda as well as bilaterally, we are, of course, committed to the full enforcement of the agreements we reach. We are the most active user of WTO dispute settlement, and of course our own trade laws are vital.

We are also committed to ensuring that as trade expands environmental standards rise and respect for internationally recognized core labor standards grows. With respect to the environment next month, our work includes both finding ways to liberalize trade while strengthening environmental protection, as an APEC initiative to liberalize trade in environmental goods and services will do, and, at the same time, to avoid potential conflict between trade agreements and environmental objectives. The WTO, with our support, is convening a high level meeting on trade and the environment this spring to more fully address these questions. This marks a new level of awareness and interest in the world trading community on trade and environmental issues. And as to internationally recognized core labor standards, we are working on several fronts. First, we are working to improve the collaborative relationship between the WTO and ILO. Second, we are strengthening the ILO itself by adding funding for ILO child labor programs in addition to those we already support in Bangladesh, Thailand, the Philippines, Africa, and Brazil. And we are finding ways to address core labor standards as we advance our trade policy goals. The North American Agreement on Labor Cooperation is one example. Another is our most recent trade agreement, a textile agreement with Cambodia in which Cambodia is required to improve the enforcement of its labor laws in the garment sector in exchange for additional market access benefits.

This, Mr. Chairman, is a broad and ambitious agenda. We hope to pursue it based on a strong bipartisan consensus which includes renewal of trade negotiating authority for certain agreements. Negotiating authority imparts greater credibility and effectiveness on behalf of American economic interests, helps ensure the successful implementation of important trade agreements, and thus contributes to our goal of opening markets, increasing growth, and raising living standards. We intend to approach its renewal in a spirit of finding common ground and strong bipartisan consensus. This will, however, require flexibility on all sides. In addition, let me stress our strong support for legislation to enhance the Caribbean Basin Initiative, renew the GSP program, pass the OECD shipbuilding agreement, and renew trade adjustment assistance, and of course, as I mentioned earlier, we place great importance on passage of the Africa legislation.

In summary, the U.S. economy and the living standards of our citizens have benefited immensely from the work of this Congress, this Administration and previous Administrations that we have

done together. As we open a new century and prepare to shape the trading world of the next generation, we plan to work with this Committee and others in Congress as well as stakeholders in the system to shape an agenda that, as the President said, will allow us to tear down barriers, open markets, expand trade, and ensure that ordinary citizens in America and in all countries benefit. Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of the Hon. Charlene Barshefsky, U.S. Trade Representative

Thank you, Mr. Chairman, for inviting my testimony on the role of trade in our economy, and the state of American trade policy today. I am grateful to you and to the Subcommittee as a whole for offering us this opportunity to discuss our trade policy record and agenda for the future, and I look forward to continuing the close working relationship we have had with the Subcommittee. And let me say that you have called this hearing at an opportune time, because we are opening a year in which every part of our trade agenda will be ambitious and will hold great promise for our country.

Three weeks ago, President Clinton called for the initiation of a new multilateral negotiating Roundtable to meet the demands of the 21st century. This will begin at the World Trade Organization's Third Ministerial Conference, chaired by the United States—and the largest trade event ever held in the United States—and it will shape world trade in the next century. Our multilateral agenda will be accompanied by the regional, bilateral and sectoral negotiations we have underway in each part of the world; and by enforcement of our rights under WTO dispute settlement, the North American Free Trade Agreement and through our domestic trade laws.

We hope and expect to carry out this agenda in the tradition of bipartisanship and close consultation between the Executive and Legislative branches which have characterized many years of American trade policy. My testimony will touch on each of these points, including trade negotiating authority, which we believe will help us achieve our goals. But let me begin by discussing the context in which we develop and execute our policy agenda.

TRADE POLICY PRINCIPLES

Trade policy forms part of both our national economic policy and our approach to the world beyond our borders.

At home, engagement in world trade, based on fair rules and the rule of law, offers American firms, agricultural producers and workers larger markets. Almost 80% of world economic consumption takes place outside the U.S., and if America is to continue to grow and remain competitive in the future, trade policy must ensure that Americans have fair access to these markets. Trade also offers American consumers a greater choice of products at competitive prices and higher quality.

Overseas, trade helps increase world prosperity, advances the rule of law, and helps to strengthen international peace. As President Franklin Roosevelt said in 1944:

“A basic essential to peace, permanent peace, is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want. [And] it has been shown time and time again that if the standard of living in any country goes up, so does its purchasing power—and that such a rise encourages a better standard of living in neighboring countries with whom it trades.”

These principles have formed the basis of American trade policy since the end of World War II. We have advanced them on a bipartisan basis through a strong working partnership between the Executive Branch and Congress through ten Administrations, ever since the creation of the General Agreement on Tariffs and Trade in 1948. The Clinton administration's trade policy, we believe, is firmly in this tradition: such advances as the passage of the North American Free Trade Agreement, the Uruguay Round, our 35 bilateral trade agreements with Japan—a total of 270 trade agreements—would not have happened without the advice, support and contribution of the Trade Subcommittee and Congress as a whole.

TRADE AND THE U.S. ECONOMY

The results of these policies have contributed immeasurably to the peace and prosperity America now enjoys. We have the most dynamic, creative and competitive economy in the world, and are ideally placed to succeed in the next century.

Since 1992, we have had uninterrupted growth—our economy has expanded from \$7.1 trillion to \$8.5 trillion in real terms (1998 dollars) and last month, the present economic expansion became America's longest in history.

We have created jobs. Employment in America has risen from 109.5 to 127.2 million jobs, a net gain of nearly 18 million, as unemployment rates fell from 7.4% to 4.3%.

And we have raised wages. Since 1992, average wages have reversed a twenty-year decline and have grown by 6.0% in real terms, to \$449 a week on average. This family prosperity is reflected, for example, in record rates of home ownership.

Altogether, we have achieved an historic combination of high growth, low unemployment, low inflation, low interest rates and rising wages unmatched in decades. The reasons for this are many. They include improved support for education and job training and an uninterrupted reduction in the federal deficit beginning in 1993 and culminating with the budget surpluses we now enjoy. But trade and participation in the world economy have played an irreplaceable role.

And overseas, as trade has grown and international trade rules have strengthened, the hopes of the wartime generation have been in many ways realized.

Peace among the world's great nations has grown more secure.

Prosperity has blossomed—as world exports have grown from \$60 billion to \$6.5 trillion in constant dollars since 1960, world economic production has quadrupled and real per capita income has more than doubled, from under \$3100 to over \$6300 last year.

As a consequence, people have better lives. In 1955, the world average life expectancy at birth was 48 years; now it is 65. Where the worldwide infant mortality rate was 148 per thousand, today it is 59.

And faith in markets under the rule of law has been vindicated: those nations which shut off the free flow of goods, services and information have tended to stagnate while those which remained open to the world have tended to prosper. One need only examine the ghastly experiment which has taken place on the Korean peninsula—as South Korea has risen to become one of the world's leading industrial powers, while North Korea is afflicted by chronic hunger—to show how stark is the contrast. And there is no stronger vindication of our work than the fact that Russia, China and 16 other economies have abandoned central planning and seek WTO membership.

Our Administration has had the good fortune to build upon this foundation. Since 1992, we have negotiated 270 separate trade agreements which have helped open markets and create opportunity for Americans. These include five which have fundamentally transformed world trade: the North American Free Trade Agreement, which cemented our strategic trade relationship with our immediate neighbors; the Uruguay Round, which created the World Trade Organization with a binding dispute settlement mechanism and extended international trade rules to new areas through agreements on agriculture, services, intellectual property; and three multilateral agreements on information technology, financial services and basic telecommunications.

U.S. TRADE TODAY

As a result, America's trade has flourished. Last year we exported \$932 billion in goods and services—a 51% increase from the 1992 level of \$617 billion, despite a slowing in export growth due to the financial crisis. Our goods exports were very evenly divided among four major markets, meaning that we have critical trade interests in each part of the world:

Canada	Asia-Pacific	Latin America	European Union
\$156 billion	\$166 billion	\$143 billion	\$150 billion

Measured by country, our largest five goods export markets were Canada at \$156 billion, followed by Mexico at \$71 billion, Japan at \$57 billion, the United Kingdom at \$40 billion and Germany at \$25 billion.

Service export figures are only partially available for 1998. Our full-year 1997 service exports, divided regionally, were more heavily weighted to Asia and Europe but still indicate critical interests in each region:

Canada	Asia-Pacific	Latin America	European Union
\$20.5 billion	\$73.6 billion	\$34.2 billion	\$74.8 billion

In 1997, our six largest service export markets were Japan with \$34 billion, the United Kingdom with \$23.7 billion, Canada at \$20.5 billion, Germany at \$13.5 billion, France at \$9.4 billion and Mexico at \$9.3 billion.

Altogether, the United States was the world's largest exporter in 1998. We were also the largest exporter of the goods and services supporting the highest-wage jobs: agricultural products, advanced technology products and capital goods. Our goods exports now support 11.6 million American jobs.

The United States was also the world's largest importer, at \$1.1 trillion in goods and services imports in 1998. Imports play an important role in our economy, by raising living standards for consumers (especially lower-income Americans), dampening inflation, ensuring the widest possible choice of products at the best prices, and providing essential inputs for U.S. industries, many of which then export their goods at competitive prices. However, open markets depend on fair trade rules, and we are and will be vigilant in enforcing our laws against import surges, subsidies, dumping, or other measures intended to artificially boost exports or protect foreign markets.

TRADE AGENDA IN 1999

This brings me to our agenda for the years to come. As in the past, we hope to base our work on the foundation of a bipartisan consensus and a strong working relationship between the Administration and Congress. Generally speaking, our trade policy seeks the following goals.

- Address the trade effects of the financial crisis which now directly affects nearly 40% of the world.
- Continue our progress toward open and fair world markets through a new negotiating Round, as well as our role as host and Chair of the WTO's Third Ministerial Conference, regional negotiations and bilateral talks.
- Advance the rule of law and defend U.S. rights by ensuring full compliance with trade agreements and strongly enforcing our trade laws.
- Encourage the full participation of all economies, including economies in transition and developing nations, in the world trading system on a commercially meaningful basis;
- Ensure that the trading system helps lay the foundation for the 21st-century economy by offering maximum incentives for scientific and technological progress.
- Ensure that trade policy complements our efforts to protect the world environment and promote core labor standards overseas; and
- Advance basic American values including transparency and accessibility to citizens and involvement of civil society in the institutions of international trade.

TRADE NEGOTIATING AUTHORITY

As we pursue this agenda, the Administration will consult with the Subcommittee and Congress on the renewal of traditional trade negotiating authority. The President, in his State of the Union address, called for a new consensus on trade. He said we must find the common ground on which business, workers, farmers, environmentalists and government can stand together. This commitment to common ground has been a hallmark of the Subcommittee's approach to trade policy over the years. I want to personally thank you, Mr. Chairman, along with each member of the Subcommittee, for your commitment and hard work toward this goal in the last Congress.

Consistent with that approach, we believe negotiating authority should bolster the traditional bipartisan support for trade policy and allow us to pursue an agenda that reflects consensus goals. It is a tool which can help us negotiate with greater credibility and effectiveness on behalf of American economic interests, and thus contribute to our goal of opening markets, increasing growth and raising living standards.

TRADE EFFECTS OF FINANCIAL CRISIS

Let me now address our agenda in detail. I will begin with the trade effects of the financial crisis affecting Asia, Russia and parts of Latin America.

This crisis has now lasted a year and a half, and its effects on our trade interests have been severe. Countries which have implemented IMF reform programs have seen a number of good results, including currency stability and returning investor confidence. However, real economies continue to suffer. Six major economies—Hong Kong, Indonesia, Malaysia, South Korea, Russia and Thailand—are likely to have contracted by 6% or more last year.

As a result of this crisis, the American trade imbalance has widened. This reflects largely a sharp drop of about \$30 billion in American exports to the Pacific Rim, and a consequent break with the pattern of rapid U.S. export growth of the past few years. Our overall import growth last year (with the principal exception of the steel sector, in which imports rose very rapidly in the second half of 1998, affecting thousands of jobs) remained consistent with growth rates in previous years. Thus the larger deficit largely reflects predictable macroeconomic factors.

Our trade policy response begins by ensuring that our trading partners continue to live by commitments at the WTO and in our regional and bilateral agreements. The strength of the trading system is an enormous advantage here—despite the worst financial crisis in fifty years, the world has resisted the temptation to relapse into protectionism. This has greatly reduced the potential damage to our economy, and particularly to American manufacturing exporters and agricultural producers. In addition, other markets—particularly our NAFTA partners Canada and Mexico, to whom U.S. goods exports grew by \$13 billion last year—have in part compensated, thanks to the more open North American market NAFTA has created, for some but not all of these lost exports. An ambitious trade agenda will further strengthen our effort to ensure that the crisis does not cause the world to move backward.

We continue with a policy response covering several areas:

IMF Recovery Packages—We have supported reform packages with the IMF at the center in affected countries. Several of these contain trade conditionalities which we vigorously monitor.

Restored Growth in Japan—A return to growth in Japan, Asia's largest economy, is essential for the economic health of the region. The Administration's view is that this will require fiscal stimulus that continues until solid growth is restored, financial reform, and deregulation and market-opening. USTR's responsibilities lie in this last area. In addition to an aggressive bilateral agenda, the agreement we reached in Japan last May sets out concrete deregulatory measures in telecommunications, housing, medical devices, pharmaceuticals and financial services sectors, and measures to strengthen competition policy enforcement and transparency. When fully implemented, these will create opportunities for exporters and workers in America, other Pacific economies and Japan. We are now discussing new measures in these sectors and energy as well.

Steel—The President's January 7 Steel Report to the Congress lays out a seven point action plan on the steel import surge. Among other points, the plan projects a roll-back of imports from Japan—the key cause of the import surge—to pre-crisis levels, and states that the Administration is prepared, if necessary, to self-initiate trade cases to ensure that this roll-back takes place. The plan also outlines actions taken by the Commerce Department to expedite ongoing dumping investigations and apply any dumping margins retroactively. In addition, the Administration expresses strong support for an effective safeguards mechanism; and commits us to continue to assess the effectiveness of steps taken to date, and working closely with the industry, labor, and members of Congress, to assess additional steps. To assist in this ongoing review, we also announced that preliminary steel import data will be released, thus enabling the industry's business planners to react to imports on a more timely basis.

I. GROWTH AND HIGHER LIVING STANDARDS

Let me now turn to our negotiating agenda. In this agenda, we seek enduring goals—growth, higher living standards, the rule of law, a rising quality of life, better protection of health, safety and the environment, and the advance of basic values. As President Clinton said in the State of the Union address, we need to find new methods of negotiating and address a broader array of issues to secure these goals in the next century.

1. New Round and WTO Ministerial Conference

This is the basis of President Clinton's call for a new, accelerated negotiating Round for the 21st century. The Round would begin at the WTO's Third Ministerial Conference, which I will chair and which will be held in Seattle from November 30th to December 3rd. This will be the largest trade event ever held in America, bringing government leaders, Trade Ministers, business leaders, non-governmental organizations and others interested in trade policy from around the world. It is an extraordinary opportunity for us to shape at least the next decade of multilateral trade negotiations and to highlight our economic dynamism to the world.

The Round President Clinton has called for would be somewhat different from previous Rounds, in that we should be able to pursue three dimensions simultaneously: first, a negotiating agenda to be completed on an accelerated timetable; second, institutional reforms and capacity-building at the WTO; and third, ongoing results in priority areas.

To begin with, we would hope to advance a number of important initiatives in the months leading up to the Ministerial Conference and at the event itself. They include:

- An "Information Technology Agreement II" adding new products to the sectors already covered by the first ITA.
- Extension of last May's multilateral declaration not to assess customs duties on electronic commerce, to make sure that the Internet remains an electronic duty-free zone.
- An agreement on transparency in procurement to create more predictable and competitive bidding, reducing the opportunity for bribery and corruption and helping ensure more effective allocation of resources.
- Build consensus on the sectoral liberalization initiative begun in the Asia-Pacific Economic Cooperation forum. This would eliminate tariffs and in some cases liberalize services in chemicals; energy equipment and services; environmental goods and services; fish and fishery products; gems and jewelry; medical and scientific instruments; toys; and forest products. Meaningful participation by Japan in the fishery and forest products sectors would be essential to success.

The second dimension of institutional reform would promote transparency, allow the WTO to facilitate trade and participation for less developed nations, help it coordinate more effectively with international bodies in other fields, and continue to strengthen public confidence in the WTO as an institution. Here we would hope to take up such issues as:

- Trade facilitation: Most of the world's regional trading arrangements—ASEAN, APEC, the European Union, Mercosur, NAFTA, the proposed FTAA—contain a critical element of trade facilitation, often beginning with customs reform to reduce transaction costs and make trade more efficient. The WTO can help accomplish this on a much broader scale.
- Capacity-building: We need to narrow the growing disparity between the rich countries and the poor countries. We have to ensure that the WTO can work effectively with member economies and other international institutions, particularly with respect to the least developed nations, to ensure that they have both access to markets and technical assistance to meet the kinds of obligations that will help them grow. This and other issues will be addressed at a High-Level Meeting on Trade and Development this March.
- Addressing the intersection between trade and environmental policies: As trade promotes growth overseas, we must at the same time ensure clean air, clean water and protection of our natural heritage, as well as effective approaches to broader questions like biodiversity and climate change. We have already scheduled a High-Level Meeting of trade and environment experts in March, which we anticipate will provide fresh and valuable input to our work in this area and help frame a vision for future work.
- Addressing the intersection between trade and labor: Again, as in our domestic economy, growth can and should be accompanied by safer workplaces, elimination of exploitive child labor and respect for core labor standards. The WTO in particular can work in more coordination with the International Labor Organization on some of these issues. As the President has announced, the US will provide funds for a new multilateral program in the ILO to provide technical assistance for international labor rights initiatives, and through our own Department of Labor will help our trading partners strengthen labor law enforcement. These and other such efforts should be a focus of renewed cooperation with the ILO.
- Coordination with the international financial institutions, in a world where the separation of trade from financial policy has become entirely artificial: The WTO

must work more effectively with the IMF and World Bank to achieve their common goals of a more stable, predictable and prosperous world.

- **Transparency:** We will also seek reform, openness and accountability in the WTO itself. Dispute settlement must be transparent and open to the public. Citizens must have access to panel reports and documents. Civil society must be able to contribute to the work of the WTO, to ensure both that the WTO can hear from many points of view including labor, environmental, consumer and other groups, and that its work will rest on the broadest possible consensus.

With respect to the expedited negotiating agenda of this Round, we are now consulting with Congress, industry, and other interested parties on a detailed negotiating agenda for talks which would begin after the Ministerial. While the final scope of the agenda is yet to be determined, we believe that at a minimum they should include such issues as:

- **Agriculture**, where we envision broad reductions in tariffs, the elimination of export subsidies, and further reductions in trade-distorting domestic supports linked to production. We must seek transparency and improved disciplines on state trading enterprises, seek reform of the EU's Common Agricultural Policy, and ensure that the world's agricultural producers can use safe, scientifically proven biotechnology techniques without fear of trade discrimination.

- **Services**, in which we hope to see specific commitments for broad liberalization and market access in a range of sectors, including but not limited to audiovisual services, construction, express delivery, financial services, professional services, telecommunications, travel and tourism, and others.

- **Government procurement**, in which purchases are over \$3.1 trillion per year, much of it in sectors where America sets the world standard: high technology, telecommunications, construction, engineering, aerospace and so forth. At present, only 26 of the 133 WTO Members belong to the plurilateral WTO Government Procurement Agreement. We thus look to bring more countries under existing disciplines.

- **Intellectual property**, where our efforts to ensure full compliance with the existing provisions of the Uruguay Round will be combined with campaigns against piracy in newly developed optical media technologies such as CDs, CD-ROMs, digital video discs and others; and end-user piracy of software.

- **Industrial tariff and non-tariff barriers**, where we will seek to continue our progress in reducing bound and applied tariff levels, and continue to address non-tariff measures in industrials sectors.

- A forward work-program on newer issues for the multilateral system to consider, including considering how *competition* and *investment* policies meet the test of assuring fair and open trade and how the WTO can help to create an international pro-competitive regulatory climate, particularly in services, and further advance our efforts against bribery and corruption.

Outside the context of the Round, we are pursuing the accession of 31 economies to the World Trade Organization: Latvia, whose accession is complete and awaiting ratification; and Albania, Algeria, Andorra, Armenia, Azerbaijan, Belarus, Cambodia, China, Croatia, Estonia, FYR of Macedonia, Georgia, Jordan, Kazakstan, Laos, Lithuania, Moldova, Nepal, Oman, Russia, Samoa, Saudi Arabia, Seychelles, Sudan, Taiwan, Tonga, Ukraine, Uzbekistan, Vanuatu and Vietnam. In all cases we seek a commercially meaningful accession with the greatest possible commitments to all WTO agreements, including the most recent ones.

We are also exploring ways to more fully integrate the least developed countries, particularly in Africa, into the system. This includes both seeking deeper commitments, and technical assistance in fulfilling those commitments, and legislation to improve trade relations with Africa.

Finally, we will shortly be deciding on entry into force of the 1997 WTO financial services negotiations. As you may recall, these extended negotiations concluded on an interim basis in 1995 because we were dissatisfied with offers from important trading partners, especially in developing and emerging markets. In contrast, in the negotiations that concluded in December 1997, we obtained broader and deeper commitments, in banking, insurance, and securities, from a wide range of developed and developing countries, including the key emerging markets of primary interest to U.S. industry. These countries had until January 29, 1999, to complete any necessary domestic procedures and formally notify the WTO of their acceptance of the protocol for bringing their commitments into force. Fifty-three countries, including the United States, met the deadline, and these 53 are now empowered to decide whether to allow their commitments to enter into force, on an MFN basis, from March 1. We have been consulting with your staff, staff of other relevant committees, and the U.S. private sector to determine a strategy that is in the best commercial interest of the United States and that will demonstrate our view that all WTO Members must live up to their commitments.

2. *Regional Trade Agenda*

At the same time, we are pursuing an active agenda in each region of the world. A brief review is as follows:

Canada—With Canada, our largest trade partner, we have serious concerns on a range of agriculture matters. We took an important step on these last December by concluding a market access package opening opportunities for American grain farmers, cattle ranchers and other agricultural producers. We will continue our work in these areas this year. We will also address major market access impediments to our magazine publishers (as I note in the section on enforcement) and other media and entertainment industries. We will also continue to enforce our bilateral sectoral agreements. At the same time, we intend to work with Canada on bilateral issues of mutual interest, and on negotiations toward the Free Trade Area of the Americas and at the WTO where we share many goals.

Mexico—Trade with Mexico has expanded very rapidly since passage of the North American Free Trade Agreement. Last year, Mexico passed Japan as both our second largest goods exports market and our second largest overall goods trade partner. We will continue to monitor implementation of Mexico's NAFTA commitments, scheduled to be complete by 2008, and address bilateral issues including land transportation, corn syrup and sugar, and telecommunications barriers as well as piracy in intellectual property rights. We have also stepped up our efforts in the trilateral work program now underway in more than 25 Committees and Working Groups, with the intention of maximizing our gains under the NAFTA.

Western Hemisphere—The Miami and Santiago Summits of the Americas have called on us to complete work on a Free Trade Area of the Americas no later than the year 2005. This year, in accordance with Summit directions, we intend to achieve "concrete progress" toward the FTAA in our nine Negotiating Groups and through business facilitation and other measures. At the same time, we will seek approval from Congress of an expanded and improved Caribbean Basin Initiative with benefits similar to those now accorded Mexico and Canada.

Europe—We are working to remove barriers and strengthen trade relations with the EU through the Transatlantic Economic Partnership begun last year. This includes negotiations on seven separate agenda items: technical trade barriers, agriculture (including biotechnology and food safety), intellectual property, government procurement, services, electronic commerce and advancing shared values such as transparency and participation for civil society. We are also working to ensure the protection of American interests as the EU expands to include Central and Eastern European nations. At the same time, we are enforcing European compliance with dispute settlement decisions and will address problems in our trade relations both bilaterally and through the new negotiating Round President Clinton has proposed.

Asia—Under the Asia-Pacific Economic Cooperation (APEC) forum we are looking long-term toward free and open trade in the region. This year, as I noted earlier, we will seek WTO consensus on the nine-sector liberalization package begun in APEC, and begin work on six additional sectors. We will also address bilateral issues with Korea, the ASEAN nations and other Asian trade partners. This will include seeking Normal Trade Relations with Kyrgyzstan, Mongolia and Laos, and negotiating a broad trade and commercial agreement with Vietnam.

Japan—In trade relations with Japan, our largest overseas trade partner, we will continue our intense and sustained effort to open and deregulate the Japanese market. We have concluded 35 bilateral trade agreements with Japan since 1993; we will monitor their implementation closely and enforce them vigorously. We will also address sectoral issues including rice, steel, insurance, glass, film and other topics. And as I noted earlier, we are pursuing an ambitious set of goals under the Enhanced Initiative on Deregulation and Competition Policy, both in individual sectors and in broader structural issues. We hope to see substantial progress on these issues as Prime Minister Obuchi's spring visit approaches.

China—We will monitor and strictly enforce our agreements on intellectual property and market access with China, and address bilateral trade problems in agriculture, direct marketing and other areas. At the same time, we will continue to seek broad market-opening through our negotiations toward China's accession to the World Trade Organization, which I address more fully below.

Africa—USTR is implementing the President's Partnership for Economic Growth and Opportunity in Africa, which owes a great deal to the work of the Trade Subcommittee, by supporting economic reform, promoting expanded trade and investment ties, and encouraging Africa's full integration into the world trading system by negotiating bilateral agreements, technical assistance and other measures.

A sound policy framework in African countries that opens economies to private sector trade and investment offers the greatest potential for growth and poverty al-

leviation as well as trade opportunities for the U.S. Last month, for example, we signed a Bilateral investment Treaty with Mozambique and over the next few months we expect to sign Trade and Investment Framework Agreements, or TIFAs, with South Africa, Ghana, and the West African Economic and Monetary Union. We also place a very high priority on Congressional approval of the African Growth and Opportunity Act. I want to state my personal appreciation for the work of Chairman Crane, Congressman Rangel and Congressman McDermott to secure its early passage in this Congress.

Broader efforts to encourage full integration of developing countries into the trading system will also bolster our Africa policy. In this regard, we will seek renewal of the Generalized System of Preferences.

Middle East—Building upon our Free Trade Agreement with Israel, we have inaugurated a program that aims to bolster the peace process, while advancing American interests. Starting with a framework of bilateral trade and investment consultations in the region and a newly inaugurated industrial zones program, we will help the Middle Eastern countries work toward a shared goal of increased intra-regional trade.

OECD—We strongly support passage of the OECD Convention on Shipbuilding Subsidies and will work with you to ensure its success.

II. ENFORCING THE RULE OF LAW

Second, US trade policy will support and advance the rule of law internationally by ensuring the enforcement of trade agreements and U.S. rights in the trading system.

Much of our enforcement work takes place at the World Trade Organization. We have filed more complaints in the WTO—41 cases to date—than any other WTO member, and our record of success is strong. We have prevailed on 19 of the 21 American complaints acted upon so far, either by successful settlement or panel victory. In almost all cases, the losing parties have acted rapidly to address the problems. We will insist that this remain the case in all our disputes, including those with the European Union on beef hormones and bananas, and with Canada on magazines. At the same time, the U.S. has complied fully with all panel rulings it has lost, although these are few in number. And we will, of course, use our rights under the NAFTA to ensure open markets to our goods and services in Canada and Mexico.

We are also monitoring implementation of WTO commitments. All WTO developing country members are scheduled to fully implement their intellectual property commitments, and all members are required to implement customs valuation commitments by January 1, 2000. We will insist on strict compliance with these deadlines.

Likewise, we are vigilant to ensure enforcement of textile quotas and implementation of textile market access requirements overseas. A number of our trading partners clearly have further work to do in market access, including some of our largest and fastest growing textile suppliers. We have and will continue to aggressively pursue our rights, whether through the consultation process or ultimately through the WTO dispute settlement regime.

U.S. trade laws are also a vitally important means of ensuring respect for U.S. rights and interests in trade. We will continue to challenge aggressively market access barriers abroad using laws such as Section 301, "Special 301" and Section 1377, to open foreign markets and ensure fair treatment for our goods and services, ensure nondiscrimination in foreign government procurement and ensure compliance with telecommunications agreements.

To ensure that we have the maximum advantage of domestic trade laws, the Administration will reauthorize by Executive Order two laws for which authority has lapsed: "Super 301" and Title VII. We wish to work with the Subcommittee to include these laws in your legislative agenda.

The Administration is also, of course, committed to full and vigorous enforcement of our laws addressing dumping and subsidies, and on injurious import surges.

III. INTEGRATING TRANSITION ECONOMIES

Third, our trade policy will continue our progress toward integrating China, Russia and other economies in transition into the trading system. This will both advance specific American trade interests, and contribute to our larger goal of a more secure peace in the next century.

This task is the last great step in the process which began with the formation of the GATT and continued with the admission of Germany and Japan: the integration of China, Russia and sixteen other economies in transition from communist

planning into the trading system. These economies and a number of Middle Eastern nations are the two largest groups remaining outside the trading system. Their entry will make membership in the trading system nearly universal; and the accession of the transition economies will be a fundamentally important step in their domestic reforms as well. This would remove large distortions in world markets, dramatically enhance market access for American producers, and bolster international stability by giving these nations a greater stake in world prosperity beyond their borders.

To support rather than undermine both domestic reform in these economies and the rules of the trading system, these countries must be brought into the WTO on commercially meaningful terms. The result must be enforceable commitments to open markets in goods, services and agricultural products; transparent, non-discriminatory regulatory systems; and effective national treatment at the border and in the domestic economy.

This is an ambitious task, but not an impossible task. Central European countries like Poland, Hungary and the Czech Republic have succeeded, and their experience shows that WTO membership has assisted their domestic economic reform policies. The most recent successful WTO applications, Latvia and Kyrgyzstan, have had the same experience.

In the months to come, we will negotiate intensely with all acceding economies, including China—the largest prospective WTO member. We have made important progress with China in the past two years, and the visit of Premier Zhu Rongji in April offers China a chance to make a decisive advance. We will consult closely with the Subcommittee and with other members of Congress as negotiations proceed.

Likewise, at the most recent summit with Russia (September 1998), President Yeltsin agreed to work to intensify Russia's WTO accession efforts. Russia's current economic difficulties clearly present challenges and Russian Cabinet reshuffling has slowed the process, but we will continue to consult with the Russians toward a commercially viable accession package.

IV. THE 21ST-CENTURY ECONOMY

Fourth, trade policy will help lay the foundation for the 21st-century economy by ensuring that the trading system is compatible with rapid advances in civilian science and technology.

In medicine, environmental protection, agriculture, entertainment, transportation, materials science, information and more, science is advancing at extraordinary speed. This offers the world tremendous potential to increase wealth, raise productivity, improve health care, reduce hunger, protect the environment and promote education. These are also areas in which the United States has a significant comparative advantage.

Under President Clinton, our trade policy has made high technology a strategic priority. Consistent with national security, we have aimed to ease the development and commercialization of new technologies, and ensure strong incentives for scientific and technological progress. We have negotiated far-reaching new agreements in sectors like computers, semiconductors, information technologies and many other areas. This work continues in multilateral, sectoral and regional negotiations.

In the multilateral system, the rapid advance of technology requires us to improve the trading system's institutions and negotiating methods. In a world where successive generations of new products arise in a matter of months, and both information and money move instantaneously, we can no longer take seven years to finish a negotiating Round, or let decades pass between identifying and acting on trade barriers. We will have to move faster and more efficiently, which is a significant reason for the President's call for an accelerated Round.

We must also ensure that trade policy, both in the WTO and in our regional and bilateral negotiations, helps ensure that we can take advantage of our comparative advantage in knowledge industries and other new technologies. Three broad issues cut across many sectors:

Intellectual Property Rights—Our success in this field over the past decade owes a great deal to the work of Congress, both in the Trade Act of 1988 with its creation of "Special 301," and on the Uruguay Round. Today, the vast majority of our trading partners have passed modern intellectual property laws and are improving levels of enforcement. In this area, we will spend a great deal of time ensuring that all WTO members comply with their obligation to introduce full intellectual property protection by January 1, 2000. (For countries, like China, which are not WTO members, we will vigorously monitor compliance with bilateral agreements.)

We have also launched campaigns against worldwide piracy of new optical media technologies, and against end-user piracy of software. These issues are integral

parts of our regional negotiating agenda in Asia, Latin America, Europe, Africa and the Middle East. Looking ahead, we must extend protection of intellectual property rights beyond basic laws and enforcement to protect new technologies like genetically engineered plant varieties.

Global Electronic Commerce—In accordance with the President’s Global Electronic Commerce initiative, USTR seeks to preserve electronic trade over the Internet as duty-free. At the last WTO Ministerial Conference, in May of 1998, we won agreement to a “standstill” for tariffs on electronic transmissions. As I noted earlier, we will seek to extend that agreement this year. Likewise, in our negotiations toward the Free Trade Area of the Americas, at APEC and in the Transatlantic Economic Partnership, we have created special committees to advise us on ways to ensure all participants can take maximum advantage of electronic commerce.

Biotechnology—A third top priority for us in this area is biotechnology. Among the chief sources of innovation in this field are American agriculture and medicine. USTR will seek to ensure that pharmaceutical companies, farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination. This is a priority for us in the Transatlantic Economic Partnership negotiations and in developing our agenda for future WTO negotiations.

We also have an active sectoral high-tech agenda. This includes, for example, the ITA II agreement I discussed earlier. We are also working closely with our civil aircraft industry to ensure its future and combat foreign, particularly European, subsidies and other unfair practices. This work extends into many other fields.

V. RISING QUALITY OF LIFE

Fifth, US trade policy seeks to ensure that worldwide as in the United States, trade and growth go together with a rising quality of life, including setting high standards of environmental protection, the observance of core labor standards, and high levels of consumer protection.

As in our domestic economy, we regard environmental quality and protections for workers as essential parts of economic policy. Trade policy has an important role to play, in coordination with our efforts in other fora, to ensure growing respect for internationally recognized core labor standards and sustainable development worldwide.

1. Trade and the Environment

Our Administration believes that prosperity through open trade and the protection of health, safety and the environment need not conflict, and should be mutually supportive. This is the case in our domestic economy, where in the past three decades our GDP has risen in real terms from \$3.7 to \$8.5 trillion—while our percentage of fishable and swimmable rivers and streams doubled, the number of citizens living in cities with unhealthy air fell by half, and many endangered or threatened species, including the bald eagle, are recovering.

The Preamble of the WTO recognizes this in the international setting, stating that sustainable development is a central objective of its work. Where there are potential conflicts, we should strengthen our ability to resolve them in a manner that protects the environment, health and safety and does not undermine the trading system. This includes working to ensure that the proper expertise is brought to bear on complex technical and scientific issues, particularly those with environmental, health and safety dimensions.

In many cases elimination of trade barriers will also contribute to a cleaner environment and the conservation of natural resources. For example, this can help countries gain access to cost-effective equipment and technology. APEC’s work toward an agreement to liberalize trade in environmental goods and services, part of which has now moved to the WTO, can help countries monitor, clean up and prevent pollution, and ensure clean air and water. Likewise, the APEC initiative on energy equipment and services can promote rapid dissemination of efficient power technologies, thus allowing production of power with reduced carbon emissions and contributing to international efforts to address climate change.

At the same time, as the trading system ensures that members avoid using environmental standards as disguised trade barriers, in eliminating barriers to trade we must not compromise on the achievement and maintenance of high levels of environmental, health and safety protection. And the system must work together with multilateral environmental institutions.

At our suggestion, the WTO is convening a High-Level Meeting on trade and the environment this spring to more fully address these questions. This marks a new level of awareness and interest in the world trading community on trade and envi-

ronmental issues. We anticipate that it will provide fresh and valuable input to our work in this area and help frame a vision for future work.

We will also continue to support the effective implementation of the North American Agreement on Environmental Cooperation in conjunction with the NAFTA. Cooperative activities that have occurred as a result of this agreement have improved environmental protection in a number of different areas—for example, an agreement on the conservation of North American birds; the creation of a North American Pollutant Release Inventory; an agreement on regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury; and the creation of a trilateral working group that has improved the enforcement of environmental protection laws. Benefits have also resulted from the implementation of the Border Environment Cooperative Commission (BECC) which was also entered into in conjunction with the NAFTA. The BECC has fifteen environmental infrastructure projects under construction today, funded in part by the North American Development Bank, including the first wastewater treatment plants in Juarez.

2. Trade and Core Labor Standards

Likewise, the trade system must help to assure the dignity and safety of workers. Here again, we can draw lessons from our experience at home, where since 1970, as manufacturing production doubled, the number of workplace deaths fell 60%. Our efforts here include seeking closer cooperation between the WTO and the International Labor Organization, bolstering ILO capabilities to address exploitative child labor and other violations of internationally recognized labor rights as well as ensuring safe and healthy workplaces, and working with individual trade partners to advance our goals.

At the Singapore WTO Ministerial Conference in 1996, the WTO for the first time recognized the importance of labor standards and cooperative work with the International Labor Organization, while clearly separating advocacy of labor rights from protectionist trade policies. We wish to build on this to ensure that the trading system works more effectively with the International Labor Organization, with businesses and with citizen activists to ensure observance of internationally agreed core labor standards—banning forced labor and exploitive child labor, guaranteeing the freedom to associate and bargain collectively and eliminating discrimination in the workplace.

We have thus proposed in Geneva that the WTO establish a forward work-program to address trade issues (e.g., abusive child labor, the operation of export processing zones) related to labor. We also have raised labor standards in country policy reviews under the Trade Policy Review Mechanism. In these reviews each WTO member's trade regime is examined, and other members are provided an opportunity to raise questions. We have used this opportunity, for example in the recent Swaziland review, to seek clarifications about labor practices that we believe are inadequate.

To bolster these efforts, the President recently announced a \$25 million program to help the ILO work with developing countries to put in place basic labor protections, safe workplaces and guarantee worker rights and enforce their own laws so that workers everywhere can enjoy the benefits of a strong social safety net. (The US has already funded ILO child labor programs in Bangladesh, Thailand, the Philippines, Africa, and Brazil.) These are fundamental human rights and common concerns, and trade policy has a place in addressing them.

We are also taking steps in a number of other areas directly related to trade policy. The Administration has directed the Customs Service to step up its efforts to ensure that items made by forced or indentured child labor are not imported into the United States. USTR is enforcing provisions of existing law that impose penalties for clear violations of worker rights. For example, we partially removed GSP trade preferences from Pakistan over child labor concerns. At the same time, however, the Administration has worked through the Labor Department to develop long-term solutions to the problem, by addressing specific Pakistani industries. As a result, 7,000 children have been removed from jobs stitching soccer balls and 30,000 children from jobs knotting carpets.

Likewise, we are finding ways to address core labor standards as we advance our trade policy goals. The North American Agreement on Labor Cooperation under NAFTA is one example. Another is our most recent trade agreement—the textile agreement with Cambodia—which includes provisions requiring Cambodia to improve the enforcement of its labor laws in the garments sector.

VI. ADVANCING AMERICAN VALUES

Sixth, in 1999 we will seek to advance basic American values and concepts of good governance, by making the institutions of trade more transparent, accessible and responsive to citizens.

As the President has said, as trade grows, the rules of trade do more to ensure that markets are open to our goods and services, and the trading system coordinates more fully with environmental, labor and financial institutions, the need for transparency, accessibility and responsiveness grow. This is natural and a development which we both support and are working to realize.

One principal forum here is the WTO, where we are seeking agreements on more rapid release of documents, ensuring that citizens and citizen organizations can file amicus briefs in dispute settlement proceedings, and that dispute settlement proceedings be open to public observers. In the interim, President Clinton has made a standing offer to open any dispute panel involving the United States to the public, if our dispute partner agrees.

A second forum is the FTAA negotiations, in which—for the first time in any trade negotiation—we have created a Civil Society Committee to give business associations, labor unions, environmental groups, student associations, consumer representatives and others a formal means of conveying concerns and ideas to all of the governments involved in the talks.

A third is our encouragement of new Transatlantic Dialogues with the European Union for consumers, labor and environment as part of the Transatlantic Economic Partnership. Through this effort we are promoting our shared values with Europe in the activities and negotiations we are undertaking as part of the TEP and multilaterally.

CONCLUSION

This is an ambitious and far-reaching agenda. We plan to work closely with the Subcommittee and Congress as a whole to realize it, and look forward to the benefit of your thoughts and advice at this hearing and in the months ahead. This includes the renewed negotiating authority that will help us bring our negotiations to a successful conclusion.

In conclusion, Mr. Chairman, much has changed in the international economy in the fifty-one years since the United States led 23 countries in creation of the GATT. Our national interest in economic events beyond our borders has grown, our people have found new opportunities and new challenges in trade, and many new nations have become active in trade.

These developments in many ways are the result of America's commitment to a vision of open and fair trade under the rule of law, and to the bipartisan policies we have pursued for many years to realize it. As a result of this success, we now face some new and complex challenges. The President's State of the Union Address outlined these challenges and the need for a new consensus to meet them.

But as deeply changed as today's world may be, the vision President Roosevelt laid out in one of the darkest moment of human history—an open world, prosperous and governed by the rule of law—remains valid in a world more prosperous, healthy and hopeful than ever before. And the necessity for a bipartisan consensus on our goals, and a strong partnership between the Executive and Legislative branches of government, remain essential to achieve this vision. With your advice and your help, as we open a new Round of negotiations and embark on a highly ambitious agenda for the next century, we hope to bring it closer to realization than ever.

Thank you very much, Mr. Chairman and Members of the Subcommittee.

Chairman CRANE. Thank you, Charlene. We will be back as quickly as possible.

The Committee stands in recess subject to the call of the Chair.
[Recess.]

Chairman CRANE. If everyone will please take seats, the Committee will reconvene.

We apologize again for the interruption, Charlene, but you know how this place works.

At any rate, I would like to ask our colleagues please to try and keep their questioning of our distinguished witness to 5 minutes so

as many as possible might be able to question her. I say that because I know that Charlene's schedule requires that she be out of here in 40 minutes, sharp.

So I will start. By my count, Charlene, you mentioned that the President's trade agenda includes five legislative priorities. On trade negotiating authority, there has been a lot of discussion as to rebuilding a consensus on trade. And if this is the way to move ahead, it is essential that the Administration quickly present to us some specifics as to where it believes our fast-track bill, which the Administration agreed to in 1997, is now deficient. We will be hearing from you soon I trust.

Ambassador BARSHEFSKY. Mr. Chairman, we are always happy to work with the Committee. You are quite right, the President has urged a rebuilding of the bipartisan consensus. Obviously, the Administration wants to assist in that rebuilding of the bipartisan consensus on trade, including on trade negotiating authority. So we are very pleased, yes, to work with the Committee.

Chairman CRANE. Thank you. The WTO Ministerial meeting that is going to be held in Seattle at the end of November, I guess it is, isn't it, end of November, early December—

Ambassador BARSHEFSKY. Yes.

Chairman CRANE. Will be a key event in building support in the United States for this valuable institution. It seems to me it will be important for U.S. negotiators to demonstrate concrete results that will have commercial benefits for U.S. workers and industries. What is your timing in identifying U.S. priorities for the agenda?

Ambassador BARSHEFSKY. Mr. Chairman, we have, first off, issued Federal Register notices and have received back a number of comments from industry as well as interested groups on what our priorities should be. We will also be conducting some individual hearings around the country in particular areas, for example, agriculture, so that we have a full sense of priorities. In addition, we will be working very closely with Ways and Means Committee as well as with other committees of Congress that have specific substantive jurisdiction over the areas to ensure that on a bipartisan basis we have consensus on the way in which we should move forward. And last, I will be requesting the House leadership and the Senate leadership to put together a special bipartisan group which we would hope would include a number of Committee Chairs and Ranking Members to assist us in prioritizing the particulars of what we wish to negotiate as well as the areas where negotiation may not be advisable at this juncture but could form the basis for a forward work plan.

So we have a variety of mechanisms designed to ensure that we get the broadest possible input from Congress, from the private sector, from other affected constituencies because it is critical that we speak with one voice.

Chairman CRANE. Setting aside legislation to implement the Uruguay Round and NAFTA trade agreements for a moment, looking ahead, what do you expect will be the major trade policy accomplishments of this Administration?

Ambassador BARSHEFSKY. I think there are a number. I think, first of all, the moving of a global agenda toward the twenty-first century economy through agreements as we have concluded in tele-

communications, financial services, information technology, the extension of those to ITA-II, to global electronic commerce. I think all of these areas coupled with our very vast program on intellectual property rights protections is the first concerted effort by an Administration to move trade policy into those areas where the United States is the world's leader, the most competitive, and which forms the basis for the twenty-first century economy.

I think, second, the focusing in on market access issues to the extent that we have—270 trade agreements is a lot of agreements covering every area of the world, covering virtually every major sector of economic activity. Pushing that agenda as we have been so aggressively and consistently I think is another important feature of the President's trade policy.

Third, we have been more aggressive than I believe any previous Administration on enforcement of our trade agreements. Over 80 enforcement actions since 1993, 42 in the WTO. We are the largest user of WTO dispute settlement. I know that we still have enforcement problems and I intend to work hard to see that those are corrected. But I think our enforcement efforts have been very substantial and very sustained.

And I think, last, expanding the dialog to encompass other affected interest groups, whether it is environmental concerns, labor concerns, the concerns of consumers, is another I think very important feature of the Administration's policy; that is, to ensure that as trade moves forward, as economic growth continues, that growth is consistent with protection of the environment, increases in worker standards in the world, and keeping an eye on the consumer interest. And I think expanding the dialog to include those affected by trade policies is another important feature of the Administration's trade agenda.

Chairman CRANE. Thank you. My time has expired, but I would like to correct for the record one component of your response when you were attributing to the Clinton administration the information technology agreement. We all know that was yours.

Ambassador BARSHEFSKY. You are very kind.

Chairman CRANE. No sleep for a week.

I now yield to Mr. Levin.

Mr. LEVIN. Thank you. We are glad you are here and that we are continuing this dialog. In fact, I think your testimony and your responses to Mr. Crane should help intensify the dialog. We clearly need to do it. If we simply march along the ruts of last year, I think we will end up the same place as we did last year. We need to intensify our discussions to seek common ground.

The Chairman has asked for specifics from the Administration. Well and good. I think it is important, though, that all of us pay attention to some of the general outlines that you have mentioned, that the President clearly mentioned in his State of the Union Address as well as in his speech at the Economic Club where he made it clear that he envisaged authority, including ability, to work on a broad range of trade-related items, including those on the environment and labor market issues that I tried to spell out in my opening remarks and the reasons for it. He not only specifically referred to those areas in Detroit, but before a group mainly of business people said that it was important that in our negotiations the

whole world be leveled up and not leveled down economically, and that trade must not be a race to the bottom. And if we will take those words seriously, I think it will be a step toward moving ahead and seeing if we can find some common ground.

Let me ask you a bit more about China because, in terms of our relations with evolving economies, this may be the most important set of negotiations. It is pretty clear since permanent MFN or NTR has to be granted by Congress that we are going to have to play a role. There will not be WTO accession for China unless there is involvement of this institution. So if you would for the record, we have had some informal bipartisan discussions on this as recently as yesterday, why don't you for the record spell out where you think matters are with the largest evolving economy. It, in spades, is what I tried to describe in my opening remarks. There is talk about the definition, the standard of "commercially meaningful," but with the size and the different nature of the Chinese economy both in capital markets, labor markets, every market, how do you see the negotiations going? Where are they now and where do you think they might be going?

Ambassador BARSHEFSKY. As I said in my remarks, and I have said to the Committee before, China's accession to the WTO is terribly important, not just for the United States, but for China itself. And it is very much in our interest to see China in the WTO in as much as WTO accession will promote the rule of law in China, will subject China to multilateral scrutiny on economic issues which does not occur now, and will compel China to make public commitments which are fully enforceable through dispute settlement in the WTO. So this is a very vital goal.

But our view has been, and continues to be that China's accession must be on terms fully compatible with the accession of WTO members. That is to say, this is not a political accession, it is not a political deal, there is no political deal that will get China into the WTO, this is a commercial matter. That means that China's offers must cover the broad spectrum of areas in the WTO, whether tariffs, non-tariff barriers, agriculture, services, the full range of WTO rules. And this is a very complex, huge undertaking. But China's offers must cover all of these areas and must be commercially meaningful, particularly to the United States but, of course, globally as well.

An accession for China on terms different from WTO members would weaken the WTO, would subject other developing countries to an extraordinary competitive challenge by China, would potentially lessen the commitments of other countries who feel why should they do more than what China would be required to do, and could set an unacceptably low standard for the accession of other countries, including Russia, which are not as far along in their accession claims as is China. So accession on weak terms is simply not in the cards. It is not possible.

On the other hand, obviously, China cannot do everything in 1 day. Of course, it will need in many areas transition periods or phase-ins, as we do for all members who accede to the WTO, in a manner that is not destabilizing to the Chinese economy but that, in fact, opens that economy on the kind of broad basis envisioned by WTO rules and market access commitments. I think that China

has continued to show a willingness to negotiate. We have been at this for a long time; in this Administration, 6 years, in the Bush administration, 4 before that, in the Reagan administration, several before that. I think in particular we have made some important progress in the last 2 years in China, and we continue to talk on a very intensive basis with the hope that an agreement can be reached. But it will only be reached if China's offers are commercially meaningful.

Mr. LEVIN. Thank you.

Chairman CRANE. Thank you. The gentleman's time has expired.

Mr. Houghton.

Mr. HOUGHTON. Thank you. Madam Ambassador, good to see you.

Ambassador BARSHEFSKY. Good to see you.

Mr. HOUGHTON. I would just like to step back a little bit. There are a lot of technical questions I would like to ask you about Eastman and steel and China and things like that, but if you assume that fast-track, which we hope will not happen, is on ice for a while, do we have the basic working structure in the world to create fairness in the back-and-forth trading of our goods and services?

Ambassador BARSHEFSKY. I think we do. I think it goes without saying that this President, and any president, should have at his disposal all of the tools possible and available to open markets, to make sure that trade is fairly conducted. Trade negotiating authority is one aspect, our trade laws is one aspect, effective WTO dispute settlement is one aspect, aggressive market-opening agreements that are enforceable is another aspect, and so on.

I think we do have, other than trade negotiating authority, I think we do have effective tools for leveling the playing field and ensuring fairness in trade. Our unfair trade laws are strong. They are in this Administration and in previous Administrations rigorously enforced. I think that's one element. We have pursued very aggressively dispute settlements in the WTO, bringing 42 cases, and that is, by far, more than any other single country because we are serious about enforcing commitments and ensuring that trade is fairly conducted. And, of course, the agreements that we negotiate are based on the barriers that have been identified. They are also to ensure that trade is conducted on a fairer basis.

None of these mechanisms works perfectly, and I think we see that currently to some extent, but all of these elements I think do work together to help level the playing field. And if you look at our export performance the last 6 years, a 51 percent increase in our exports, I think that it is fair to say that through those mechanisms and, of course, many other mechanisms, we are making important progress.

Mr. HOUGHTON. I guess the thing that I worry about most is not necessarily our trade laws, but, of course, the enforcement of our trade laws, or the trade laws of other countries, or the World Trade Organization, or the dispute settlement process. It seems in the final analysis that a country doesn't have control over is market access. That's when you get into private cabals, the choking off of the distribution system. That really could be the worst of all worlds; we

had all the conditions right, all the legalistic formulas there all lined up and yet those things kept us out. I don't know what you can do, but I would appreciate your comments.

Ambassador BARSHEFSKY. We have, as you know, under our section 301 a provision that allows us to go after anti-competitive practices that are tolerated by foreign governments; that is, foreign government toleration of cartel-like activity or other anti-competitive practices that impede market access. And I agree with you that this is a very important area. We see this most acutely in the case of Japan but we see this also in other countries, and that is government barriers that are erected not in the traditional trade sense, but by simply making it much more difficult, raising the barriers to entry for foreign products, rendering them less competitive in the market through anti-competitive practices, practices that we might address under our anti-trust laws, for example.

Mr. HOUGHTON. Well, I just wondered, and we have talked about this before, and this will be my last question, Mr. Chairman, is that sometimes whether it is the Chamber of Commerce, or the NAM, or the Keidanran, or whatever it is, those sort of quasi-national but really private agencies can be of help. Are you using them at all?

Ambassador BARSHEFSKY. We do use them and they are sometimes of help. Keidanran has been particularly helpful in the case of deregulation in Japan where Keidanran has backed a number of the U.S. proposals for deregulation, and that has been very helpful. So we do routinely use organizations like that. At the same time, we always keep an eye out, and this was pointed out in the film case brought by Kodak, we always keep an eye out for whether organizations, not Keidanran but other organizations that are business-related, engage in anti-competitive conduct, and we always have to keep an eye out for that as well.

Mr. HOUGHTON. Thank you very much.

Chairman CRANE. Thank you.

Our next panelist, Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Madam Ambassador, always a pleasure to see you and to work with someone of your calibre. You are doing an outstanding job.

Ambassador BARSHEFSKY. Thank you.

Mr. RAMSTAD. I, as you know, represent the wonderful State of Minnesota. We have 300 of the best medical device, medical equipment companies in the Nation, comprising our medical alley. Those companies comprising the medical technology sector are very concerned about the declining trade balance with Japan in this area, in the medical technology sector. Every year for decades, as long as I can remember, our trade surplus with Japan in medical devices and equipment has been growing steadily, but it decreased by nearly \$220 million last year. How is USTR responding to this situation for one of the few sectors in which we currently maintain a positive trade balance with Japan?

Ambassador BARSHEFSKY. You are quite right, this is a sector where we have been very, very successful in Japan. The U.S. medical device sector still has about a 40 percent market share in Japan. It has a very, very high import penetration rate into Japan. Part of the reason we see such a substantial downturn in revenue,

however, has as much to do with Japan's recession as it does with any increases in market access barriers. That is to say, our import penetration rate keeps growing although net revenue received is going down. That is largely the function of Japan's recession.

Having said that, Japan has two and perhaps three supplemental budgets related to public procurement. The area of medical devices and medical technology is an area that is typically procured by government-public entities in Japan. And in my last trip to Japan, which wasn't too long ago, and then in subsequent trips by my staff, including my deputy Richard Fisher just last week, we have underscored to Japan that we are going to watch very carefully procurement procedures under the supplemental budgets in four sectors, one of which is in the medical equipment and technology and medical device sector, to ensure that we receive our fair share of that procurement budget.

Mr. RAMSTAD. So, similar to the prominent attention that we have given in trade talks in the media, steel, pharmaceuticals, and insurance, we will give medical technology the same visibility and profile?

Ambassador BARSHEFSKY. Yes. And the Japanese government is well aware of that. This is very, very high on the list. Very high.

Mr. RAMSTAD. Actually, I think you mentioned 40 percent market share in Japan for U.S. companies, I just called yesterday and got the latest and it is closer to 30 percent now. And as you know, the U.S. industry average is 50 percent market share overseas. So I share your concern and I appreciate hearing that the medical technology sector will be so elevated in terms of attention for high level trade talks as well as in the media.

Let me ask you finally in this area, because it is so important, as you know, Japan has made specific commitments to USTR under the Enhanced Initiative on Deregulation and Competition Policy to reform its pricing system for medical technology and to expedite product safety and reimbursement approvals.

Ambassador BARSHEFSKY. Yes.

Mr. RAMSTAD. Has there been progress on this? And how do you intend to secure full implementation of these commitments?

Ambassador BARSHEFSKY. We have made progress. This is an area that we and Commerce jointly work at. Japan has threatened various alterations to its pricing mechanism for medical devices and for pharmaceuticals which we have thus far successfully fought off. But the threat always remains. The reimbursement policies generally remain a problem. It is one I think on which we have made some progress. Certainly, regulations that would have made the situation more onerous have been avoided. But we still have quite a ways to go.

Mr. RAMSTAD. Thank you again, Ambassador.

Ambassador BARSHEFSKY. Thank you.

Mr. RAMSTAD. Mr. Chairman, I yield back.

Chairman CRANE. Thank you.

Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

Welcome, Madam Ambassador. It is good to hear you again. I want to thank you officially, I think it is the first official time I have had a chance to thank you for making that decision about

putting that WTO Ministerial in Seattle this fall. Everybody is looking forward to it. I do hope, Mr. Chairman, that we can have some sort of a delegation there present in Seattle because we are going to go all out to make sure that it is successful from the point of view—

Chairman CRANE. If the gentlelady would yield. I hope that we might have the Trade Subcommittee out there at least, and use that as a launching pad to go on over to the Far East.

Ms. DUNN. Great.

First of all, I wanted to refer you to the APEC talks. You know how important they are especially to my part of the country, but certainly in the region. As we took our Ways and Means Trade Subcommittee trip to Australia and New Zealand in December, we were asked all over both of those countries whether there still was the energy and the interest in APEC talks. There has been some sense from them that that interest has subsided. And I must say that I am a bit disappointed that so much of what they attempted to do at the last APEC meeting was kicked over to the WTO meeting. I am wondering if you believe those talks could be reenergized if you had trade negotiating authority.

Ambassador BARSHEFSKY. I think the issue there was not the absence of trade negotiating authority. The issue at APEC was Japan, that is that all of the APEC economies with the exception of Japan agreed to liberalize trade in nine product sectors and in most of those to go to zero tariffs, which Asia had never before committed to do. Significant about that is the fact that Korea and the ASEAN countries, countries like Indonesia, Thailand, Malaysia, the hardest hit in the Asian financial crisis, agreed to go forward with this proposal. It was really quite extraordinary. Only Japan said that it could not go along with the proposal in full but would have to exclude two key sectors which were of vital importance to the ASEAN countries. That was a very disappointing result, we though, in fact, irresponsible.

The initiative is now with the WTO. The APEC countries including Japan committed to work toward agreement in these nine sectors and we will hold Japan to that. And so I think that the way this initiative can be reenergized is by moving it forward in the WTO to acquire a critical mass of countries to allow these kinds of very dramatic tariff cuts to be implemented.

Ms. DUNN. That's good. And just as a follow-up, particularly important in my area of the world are the wood and paper product tariffs.

Ambassador BARSHEFSKY. Yes, of course.

Ms. DUNN. We had such a hard time, although we had some heroes there at APEC in the New Zealand folks who stood up for us. Is there a plan between now and then to make sure that these talks move ahead, and what would that plan be?

Ambassador BARSHEFSKY. We are working closely with New Zealand, which is in the APEC chair now, as well as a number of the other APEC countries in the WTO to move the initiative forward. Wood and paper is one of the sectors that Japan refused to participate in. So we will continue that drive very, very aggressively in the hopes of achieving consensus in the WTO.

Ms. DUNN. Thank you. Thanks, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Madam Ambassador, while we all want to be supportive of the dispute resolution process at WTO, there are those who lose a case and then afterwards refuse to comply with the agreement. It is almost like watching a game and your team loses, but you say they really didn't lose, and you either want to play another game or you want to try another strategy to prevail. I know we all subscribe to the notion of a settlement process, at least in general, and wish to support it, but what do we do with those that decide that after the game has been played, they don't like the outcome?

Ambassador BARSHEFSKY. I think, in general, WTO dispute settlement has worked actually quite well. I say that not just because our record happens to be very good, 19 wins out of 21 cases isn't too bad, but because in general we have found the process to be fairly conducted, the panelists of a high calibre, and in general we have been pleased with the way that system has functioned. We think it is quite protective of U.S. rights, but also the rights of other countries.

Having said that, there are certain improvements we would like to see and we will be discussing those with the Committee as we formulate a WTO agenda. Our view is that compliance is critical to the credibility of a global dispute settlement mechanism. If you lose a case, if you need to find the means by which to comply, there are various ways within international rules that a country can comply, including, for example, by providing compensation to the winning party to the extent the losing party's practices for whatever reason cannot be changed.

We are in a situation now with Europe in both bananas and in beef, two agricultural cases, and Europe's first two losses under the system, in which Europe basically refuses to comply with clear WTO rulings. The bananas case is particularly egregious since Europe has lost four times in international dispute settlement over its banana regime; twice under GATT rules, once at a panel before the WTO, and once in an appellate body at the WTO, all of whom found Europe's regime to be internationally inconsistent. But over the course of 6 years, Europe has changed it precious little, and to the extent it has changed it, it is more discriminatory than it was before it made the change. Under those circumstances, the United States will exercise its rights to retaliate under WTO rules where there is a failure of compliance. We have urged Europe for the past 18 months to settle the underlying banana dispute with us. And over the past 18 months, we have provided Europe with an array of settlement options and we have invited them to provide us with options. They have persistently refused. They must bear the consequence of that refusal and that failure to comply.

Mr. NEAL. And Canada and foreign magazines?

Ambassador BARSHEFSKY. We have a similar situation in Canada and foreign magazines. Canada has altered its magazine regime in a manner that renders it even more discriminatory against so-called split-run editions of magazines. This is not a cultural issue in Canada, this is the protection by the Canadian government of two particular publishing interests in Canada, a far cry from no-

tions of a sovereign protecting the inherent culture of its people. This has to do with money not culture.

As such, Canada is positioned to alter its regime. It refuses to do so. Here again, we have urged Canada to settle the underlying dispute with us. We don't wish to take retaliatory action but we absolutely will, including against Canada, under our NAFTA rights to the extent Canada fails to comply.

Mr. NEAL. Fair enough. Thank you, Madam Ambassador.

Chairman CRANE. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Madam Ambassador, welcome again. It is a pleasure to see you here. Let me ask a couple of questions, if I may, on the matter of intellectual property. I happen to be one of several Los Angeles Representatives who, obviously, are very concerned with the growing piracy that we see with intellectual property. It is just such a growing market out there. If we could just capture some of that lost profit, I think a lot of us would be doing better. We would have probably a lot larger budget surplus even in this country.

There is talk that some of the countries that signed the agreement on trade-related aspects of intellectual property rights won't be prepared to meet their obligations once they kick in for some of the developing countries in the year 2000. Also, there is concern that we may not take a strong approach with some of these countries, which will cause us to lose credibility in trying to enforce other aspects of it into the future.

I was wondering if you would give me your prognosis, in a sense, of our ability to enforce the TRIPS Agreement, and also the likelihood that a number of these countries that will now fall within the TRIPS Agreement in the year 2000 will actually be in compliance.

Ambassador BARSHEFSKY. I think that we have made some very important progress on intellectual property rights protection over recent years. We see the incidents of piracy particularly in traditional areas, for example, CD, to some extent CD-ROM, going down. We have an emerging concern about piracy in newer technologies, DVD, for example, as well as with piracy particularly by government ministries of software. And we have special programs designed to deal with those emerging problems.

With respect to TRIPS implementation, we have already brought a number of WTO cases against developed countries who are already subject to the TRIPS rules to ensure compliance by a number of countries, the various member states of the Europe Union, against Japan, and others including in Latin America. With respect to the developing countries, you are right, many of their obligations kick in January 1, 2000. We have already embarked on a very large program to work with developing countries bilaterally as well as within the WTO framework to ensure that those countries come into compliance at January 1, 2000. We have been very up-front in telling a number of countries about which we have some concern that we will file cases beginning January 1, 2000, to the extent their compliance is not in accord with the TRIPS Agreement.

I am I think reasonably optimistic that most countries will come into compliance. I do think among some of the developing world we have a capacity problem; that is that many of these countries, or some, don't really have the institutional structures or capacity to

implement fully. And for these countries we have indicated we would be pleased to provide technical assistance, whether through USTR or the Commerce Department or our Customs Service, in assisting countries in setting up mechanisms by which they can comply.

Mr. BECERRA. Are you comfortable that most of these developing countries have the laws at least in place, they may not have the infrastructure, but do they at least have the laws in place?

Ambassador BARSHEFSKY. Many have the laws in place or are working on the laws this year. I, of course, am very sympathetic when they tell me that they have from time to time difficulty in working with their legislatures. But other than that, we are not really detecting any bad faith, per se, on the part of countries. For some, the laws are harder to pass than they thought; for others, the laws are in place but they are concerned about the institutional capacity to enforce. But I don't think it would be fair to say that we see instances of outright bad faith.

Mr. BECERRA. What about the whole issue of the WIPO Agreement, the copyright and neighboring rights agreements that were reached. I am being told that there are some 5 or 6 countries who have signed on so far to some of these agreements and we need 30 of them before these treaties can take effect. Are we doing anything to try to move forward in getting some of these countries to sign on so these treaties can take effect, and further, in a more collateral way, also help us with the problem of online piracy of U.S. intellectual property?

Ambassador BARSHEFSKY. This is most particularly something that the PTO, the Patent and Trademark Office under the Commerce Department has been working on, and that is to work with countries to ensure they can ratify their WIPO commitments. That program will continue. And there again I think perhaps we need a little extra time, but I think, again, countries do want to come on board, there is just sometimes a glitch in allowing them to do so.

Chairman CRANE. The time of the gentleman has expired.

We are about to lose our distinguished guest. But beforehand, Mr. Watkins.

Mr. WATKINS. Mr. Chairman and Members of the Committee, I appreciate the Committee letting me be here.

Madam Ambassador, I appreciate your comments. You were probably alluding to this yesterday when we were talking about the beef hormone ban.

Ambassador BARSHEFSKY. Yes.

Mr. WATKINS. I get more upset every day and am losing patience more every day because this morning in the National Journal and Congressional Daily it says your opinion is they will not be able to meet their May 13 deadline, and from their research studies that they are going to have to have more time, and they have offered us some options about what to do.

For 10 years, for 10 years—and they even say that scientific studies will probably prove it is A-OK—but for 10 years-plus now they have been dragging their feet. If they are not going to do it by May 13, when are they? I have about three questions along that line. When? How long is it going to be? And we talk about, well,

maybe we could have some option of some penalties that they would pay. I would say, how much? Because after 10 years-plus, this is jeopardizing WTO.

We were talking a while ago, why cannot we pass fast-track? I think you know why, I think we know why—the White House is why. If we cannot pass fast-track, we may not be able to get the agreement to stay in the WTO if we don't get something. I know we have got a good track record, 19 out of 21, but bananas in our area. You don't want to be protectionist, but when they rule in your favor, and the scientific studies, and they still continue to drag feet.

So could you answer two or three of those questions there for me.

Ambassador BARSHEFSKY. Sure. May 13 is a fixed deadline. It is a date by which Europe has to comply with the panel and appellate body rulings on the beef hormone case. And those ruling made clear that Europe's import ban on hormone-treated beef is not consistent with Europe's international obligations. There is no question about that. So May 13 is a fixed deadline.

Europe has available to it several options under the rules. One is it can, and should, lift its import ban. And we have said, and Dan Glickman, our Secretary of Agriculture, and I wrote to our counterparts last night indicating that, of course, it is clear the ban should be lifted. Having said that, we have also suggested to Europe that we sit down and talk through how that happens and to talk through whether there is a means to lift the ban but yet leave European consumers comfortable with the influx of U.S. beef. We have some ideas along those lines which we have been working on with our industry in this regard and we will present those to the European Union.

The alternative to Europe is that under the rules Europe can compensate the United States for its failure to comply. How much is typically determined by arbitration. From our point of view, the rule is clear. They need to lift the ban. We are happy to work with them in a means to do that, but May 13 is the deadline.

Mr. WATKINS. I think we need to put pressure there and say not under any conditions, lift the ban without conditions, because they keep trying to put some type of conditions there every time we turn around.

Ambassador BARSHEFSKY. Yes.

Mr. WATKINS. I would be very interested in what kind of penalty.

Mr. Chairman, I think if there ends up being some penalty, I think we need to put that penalty, that money right back into the European Union advertising U.S. beef and make sure that we can capture some of those markets that way. I plan to try to go to WTO in the next couple of months to try to sit down and talk to some of the people.

But I hope that you and Peter will drive a hard bargain on this thing, because it seems like they are just wiggling every time they turn around.

Ambassador BARSHEFSKY. Yes. What Europe is doing is very, very destructive. Extremely destructive. First off, because they are not complying. Second, because they are not complying in agricultural cases. This is the area under the old GATT system where Europe persistently refused to comply. And they have taken their old attitude in the GATT system of noncompliance and simply trans-

ferred it to the WTO which is not meant to accommodate issues of noncompliance. The reason that we changed the dispute settlement system was to ensure that compliance could be mandated, if not directly, then through retaliation, but to ensure that compliance would be mandated. So what Europe is doing here in not complying with the first two cases out of the box is extremely, extremely destructive.

This is why we have urged Europe to comply. While we have gone the extra step in both bananas and beef, we have urged Europe to come to a negotiated settlement with us. And the fact that Europe refuses to take these very basic steps, steps that every other losing country has taken, including the United States, every other country has taken steps to comply or to negotiate compliance, the fact that Europe refuses is irresponsible in the extreme.

Mr. WATKINS. Madam Ambassador, if I could ask just this one question, Mr. Chairman, would you mind providing the minutes of those negotiations. I want to see if Peter is getting tough over there with this or not.

Ambassador BARSHEFSKY. Peter is tough. I will send Peter over to see you.

Mr. WATKINS. I am skeptical. Mr. Chairman, some of us who have been fast-track on this, we get concerned.

Chairman CRANE. OK.

Our final panelist is Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman.

I have got to say I am very pleased by your responses to Mr. Neal's question and now your responses to Mr. Watkins' questions. I wish you great luck at the Seattle Ministerial. I know it is the Barshefsky-Dunn Ministerial right now. Ms. Dunn is offering great hospitality there.

But, honestly, it is wonderful that we are going to have this largest trade meeting ever in the United States. There's all kinds of additional work to be done and agreements and so on. But it really is for naught if WTO doesn't work.

I look at your testimony, on page 12 you reference the beef and banana issue, you reference the fact that in every single instance where we have lost in the WTO we have fully complied.

Ambassador BARSHEFSKY. Right.

Mr. PORTMAN. And Mr. Neal was right on target. If the WTO cannot be enforced, despite what those of us who voted for it did in December 1994 when we stood up in front of our colleagues and said, "Listen, we are free traders and you have got to go along with us on this change from the GATT system," which was not one where you had teeth in it, where you didn't have the kind of dispute resolution, and go with us in this WTO. We will ensure that there, indeed, will be resolution to these problems and the United States, which is the country most open to trade, will benefit from that. And as you have said, we have used it 41 or 42 times in terms of compliance. That's great.

But if it doesn't work, I think there are two immediate effects. One is, again, you can forget what comes out of Seattle, you can forget fast-track this year, you can forget those of us who are adamant free traders being able to sell the benefits of free trade because it won't be viewed as fair trade because the agreements we

have are not being enforced. Second, I think there is a very real possibility that the world trading system is then threatened, because why should other countries like the United States fully comply every time when, as you say, after four instances of the Europeans found to be clearly in violation, as I understand it, in the last one, which was the WTO one, it was the most trade violations of any case ever.

Ambassador BARSHEFSKY. Right.

Mr. PORTMAN. On the little issue of a banana regime which can be resolved if the Europeans simply have the will to do it. And I can't believe they are going to crash down the world trading system and all the liberalization that so many of us believe in and that they have fought for, we have fought for over this one issue.

So I guess I would say two things today. One is, thank you very much for your continued emphasis on that. What you and Ambassador Scher have done in Geneva even in the last month is commendable.

But I just am amazed by the response to the Europeans. We have this commitment the President has made through the Bowles letter to retaliate either on February 1 or on March 3. We are now into February, and so I feel compelled to ask you a couple of questions. One is, if the damages panel that we have now set up, because the Europeans insist on it after irresponsibly blocking through procedural mechanisms the authorization, if this panel that we now have set up on damages fails to issue a finding by March 2, which is really the critical date now, or issues a finding that they cannot determine damages because the EC measures have not yet been litigated, which is the endless loop we have all talked about, will the United States nonetheless retaliate on March 3 in the amount that we already have established, which was \$520 million?

Ambassador BARSHEFSKY. Let me say, we have the matter in litigation now before the panel in terms of arbitration. I would reserve my response until I see what the panel does. I don't think it is productive for the United States while a case is before the panel to get ahead of ourselves. We have a high degree of confidence that the panel will come forward in the arbitration with an amount. That is what our focus is on now and I would leave it at that at this juncture. I am obviously happy to come talk to you, but I think for the present time I would leave my answer just where it is.

Mr. PORTMAN. Well, again, my concern is simply one of resolve. That if the Europeans don't think, Mr. Chairman, that we have the resolve to retaliate, they will never come to the table. We spent 6 years on this. We just talked about 10 years on the beef hormone case. We are talking about something the implications of which are much larger than beef hormones or bananas or magazines in Canada. This has to do really with the trading system itself having integrity. And if we don't show that kind of resolve—and I understand your answer really is we need to be sure that the cost is accurate, in other words, that the \$520 million is an accurate figure. We believe it is, and I think you are confident of that. If that is the case, I certainly hope we do have the resolve to say we will, indeed, go ahead and retaliate as scheduled.

Second question, just quickly, Mr. Chairman, the EU has used all kinds of procedural tactics to try to block authorization. Nonetheless, through your persistence, Ambassador, you were able to prevail. And yet a lot of issues just weren't resolved. I guess I would ask you what assurances did we, as the United States, receive and our Latin American partners—and remember, this is not just about us, it is about them, too—from the WTO, from the EC that would indicate that come March 2 the United States would not find itself in the very same position where again these same issues would get raised again and again?

Ambassador BARSHEFSKY. Right. Our sense is that since the arbitration panel has been formed that come March 2 we will be through with the matter in the WTO. That is certainly our attitude and our view, and that is where we are now. Whatever else the EU might do other than come to the table, as they should have done 18 months ago, whatever else the EU does will be largely irrelevant to the exercise by the United States of its rights in the WTO.

Mr. PORTMAN. So you did not necessarily receive assurances, but you don't think those assurances were necessary to have been received?

Ambassador BARSHEFSKY. Correct.

Mr. PORTMAN. Thank you. Again, I appreciate the work that you and Ambassador Scher have done to keep up this effort because it is bigger than all these—

Ambassador BARSHEFSKY. Right.

Mr. Chairman, may I make one comment?

Chairman CRANE. Absolutely.

Ambassador BARSHEFSKY. If I may, just in response to something Mr. Portman said, because I would like to be sure that the U.S. view on this important matter of dispute settlement is well understood.

The United States believes that the dispute settlement system actually works well. We, obviously, have a problem with European compliance in agricultural cases. This is a traditional problem. I don't use that word to by any means excuse it, but simply to say that European refusal to comply on international rules regarding agriculture should not be used to impugn the integrity of a dispute settlement process which is used round the world and which for the United States and virtually every other country has worked to produce fair results. And I say that even though we have lost some cases we didn't really want to lose. As in any litigation, you win some you shouldn't have won, and you lose some you feel you shouldn't have lost.

But our view is that this is a system that is vital to American interests. It has worked well other than in the case of Europe, and it is a system to which we are very committed. There are some improvements we would like to see, some arising from the banana situation, to ensure an end to the endless loop of litigation, which, of course, raised the question how many times do you have to win. In our view, you have to win once, not four times before your rights are secured.

As to the problem in the system which is not so much a systemic problem as it is an attitudinal problem on the part of Europe, we urge Europe, particularly the European Commission to come for-

ward to recognize its responsibilities to uphold this system that, above all else, we and Europe were principal in creating, to comply even if it is not politically comfortable to comply, as we have complied even though in several cases it was not politically comfortable to comply, and to meet its international obligations as we and as all of our collective trading partners have done. The fact that Europe has not chosen to do that, however, should not impugn the integrity of the system at large.

Chairman CRANE. Madam Ambassador, we can't tell you how much we appreciate your appearance today and always, and we apologize for extending you a little beyond your deadline, and look forward to your reappearance before the month is out, hopefully, for our hearing on steel.

Ambassador BARSHEFSKY. Good. Thank you very much, Mr. Chairman.

Chairman CRANE. Thank you, Charlene.

Ambassador BARSHEFSKY. Thank you.

Chairman CRANE. The Subcommittee stands adjourned.

[Whereupon, at 2:43 p.m., the hearing adjourned, to reconvene at the call of the Chair.]

[Questions for Ambassador Barshefsky from Chairman Crane and Mr. Shaw, and her respective answers, follow:]

Response from Hon. Charlene Barshefsky to Question from Chairman Crane

Question 1. On December 19, 1998, you joined Secretary of State Albright, Secretary of Commerce Daley and FCC Chairman Kennard in a letter to European Commissioner Martin Bangemann expressing U.S. concerns over the E.U.'s policies relating to 3G standards for wireless equipment and services. In his return correspondence, Commissioner Bangemann denied that the E.U. was deliberately excluding competition from its markets. In the same letter, Commissioner Bangemann characterizes the ETSI decision-making process as open, fair and fully transparent with industry players from both within and outside Europe participating in it. However, there continues to be a concern among U.S. industry that the E.U. will mandate the rise of a wireless standard that excludes American third generation wireless equipment from European markets. What steps is the U.S. government taking to ensure that the E.U. market is open to competing wireless equipment and services?

Answer. I have been personally involved in resolving this issue, because I believe that third-generation wireless technologies offer great promise for U.S. consumers and businesses. This is why USTR has made every effort to assure that foreign markets are open to U.S. manufacturers and service suppliers. Our work is based on the fact that the development of third-generation wireless standards is a crucial issue for U.S. telecommunications equipment and service suppliers in wireless markets, the fastest-growing segment of the telecommunications industry worldwide.

As you know, EU Commissioner for Telecommunications Martin Bangemann recently responded to a letter that I and my Cabinet colleagues sent him on this issue. In his response, the Commissioner committed to using forthcoming ITU recommendations as the basis for European standardization of third-generation wireless services. USTR will closely monitor whether the European Community and its Member States honor these assurances. In particular, we will pay close attention to the processes used to license third-generation equipment and services, with a view to making sure they accommodate any standard(s), including any converged standards, agreed to by industry and recommended by the ITU. Moreover, in the preparation of this year's National Trade Estimates Report and the annual review of telecommunications trade agreements, USTR will work closely with participants in the ITU standards-making and European third-generation licensing processes to ensure that European governments permit open and unfettered competition in Europe that reciprocates the access enjoyed by European firms in the United States. Our goal will be to assure that industrial policy concerns of governments do not impede the industry-led effort to develop 3G systems, and thereby the ability of American high technology workers to access global markets.

Response from Hon. Charlene Barshefsky to Question from Hon. E. Clay Shaw

Question 1. Saudi Arabia has a pending application for accession to the World Trade Organization. The working party is presently considering that application and bilateral negotiations may begin soon.

A United States citizen, Fawaz Arafat, has invested in Arab Membrane, a company organized in Saudi Arabia. This company has been illegally taken over and had its assets, including its intellectual property, expropriated by a competitor. Despite Mr. Fawaz's complaints through the normal judicial processes of the Saudi Kingdom, and to the United States Ambassador in Riyadh, Wyche Fowler, Mr. Fawaz continues to be denied the basic rights Saudi law grants all investors.

Madam Ambassador, are you prepared to investigate this case, as it may be indicative of a serious deficiency in the consistent application of Saudi law to foreign investors. Moreover, would you raise this issue with Saudi Arabian officials at the next meeting of the Saudi Arabian Working Party of the WTO and any other appropriate venue? Can you give assurances that Saudi Arabia's application for accession to the WTO will not be approved until situations such as that of Fawaz Arafat are resolved?

Answer. We, along with the American Embassy in Riyadh, will raise Mr. Fawaz's case with the Saudi government. Our Embassy, however, is still awaiting additional background documentation, requested from Mr. Fawaz's lawyer, in order to pursue this matter further.

While the Administration supports Saudi Arabia's accession to the WTO, we have made clear to the Saudi government that it must be on commercially meaningful terms that guarantee and protect market access for U.S. goods, services and agricultural products. In this respect, Saudi Arabia's application for accession to the WTO will depend on its adoption of WTO rules and disciplines that should provide greater transparency and consistency in the Saudi trading regime and benefit U.S. investors such as Mr. Fawaz.

[Submissions for the record follow:]

Statement of American Textile Manufacturers Institute

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national association of the domestic textile mill products industry.

ATMI is pleased to provide the Subcommittee on Trade with its views on fighting foreign protectionism and commends the Subcommittee for undertaking its inquiry at this most auspicious time. It is auspicious because while plans are being made to conduct an ambitious series of future trade negotiations, scant attention has been paid to what has evolved in the wake of the last multilateral trade negotiation: the Uruguay Round. With respect to trade in textiles and apparel, the results are rather dismal.

The Uruguay Round Agreement on Textiles and Clothing (ATC) calls for the abolition, over a ten-year "transition period," of the mechanisms used to control textile and apparel trade embodied in the Multifiber Arrangement. This concession by the textile importing nations—the United States, Canada, the European Union, etc.—is worth tens of billions of dollars annually to the textile and apparel exporting nations. But they are required to make concessions as well. Article 7 of the ATC clearly states:

"Members *shall* (emphasis added) take such actions as may be necessary to abide by GATT 1994 rules and disciplines so as to:

(a) achieve improved access to markets for textiles and clothing products through such measures as tariff reductions and bindings, reduction or elimination of non-tariff barriers, and facilitation of customs, administration and licensing formalities."

All signatories to the Uruguay Round Agreements bound themselves to commit to these undertakings. But many major exporting countries have done little or nothing to increase access for U.S. textile and apparel products. Among these are the so-called "big emerging markets" of Argentina, Brazil, India, South Africa and the ASEAN bloc nations which remain, unfortunately, mostly "big closed markets" when it comes to the export of U.S. textile products.

There should be no mistake—these are big markets we are losing out on. India alone contains a middle class larger by some estimates than the population of the United States. Brazil used to be one of our fastest growing textile export markets

before its government started raising barriers. All told, these countries, in particular, represent billions of dollars in potential exports for U.S. textile manufacturers. They represent thousands of new U.S. jobs. But none of this will happen if these countries are allowed to continue to ignore their obligations under Article 7 or to impose the kinds of barriers that are described below.

The ATC "transition period" (1995-2004) had hardly begun when, instead of liberalizing its textile/apparel import regime, Brazil raised its import tariffs on a wide range of textile products to rates which far exceed those which it had notified ("bound") to the World Trade Organization. In addition, Brazil imposed onerous payment requirements for importers to finance their purchases. As if that weren't enough, Brazil reverted to its long-standing practice of imposing additional imposts and fees on imports, measures which have the effect of raising the tariff to astronomical levels. Thus, it is no surprise that U.S. exports of textiles and apparel to Brazil, the largest market in the Western Hemisphere after the United States, fell 28 percent from 1997 to 1998.

Argentina has perhaps been even more heavy-handed. After having bound *ad valorem* tariffs on textiles/apparel imports to the WTO, Argentina introduced an abundance of specific tariffs, calculated in dollars per kilogram, on textile/apparel imports. These tariffs had the effect, in many cases, of raising the tariffs to levels which exceeded the *ad valorem* rates which Argentina had bound to the WTO.

In response, the United States lodged a formal complaint with the WTO, which after proper review, determined that Argentina had violated its Uruguay Round commitments and so notified Argentina. To this day, Argentina has done nothing in response to the WTO's finding and the United States has not retaliated. We urge it to do so.

For a half century, Pakistan has been one of the most resolutely protectionist countries in the world with respect to trade in textiles and apparel. While building one of the largest textile export industries on the planet, Pakistan has sheltered its domestic market from foreign competition with high tariffs and, as an extra measure of protection, outright bans on the importation of most textile products and all apparel.

With respect to tariffs, Pakistan did indeed commit to significant reductions, over a ten-year period, of some of its textile and apparel import tariffs, meaning that they will be reduced from stratospheric levels to the merely excessive. There is still no effective, meaningful access to the Pakistani market for U.S. producers nor will there be.

None, however, can match India for blatant disregard of the ATC and its determination to keep trade in textiles and apparel a one-way street. India, like Pakistan, has kept its market closed for fifty years through a combination of excessive tariffs and bans on the import of most textiles and all apparel and claimed its actions justifiable for balance of payments reasons. The World Trade Organization has notified India, in no uncertain terms, that its import regime is no longer justifiable for balance of payment reasons. But India has ignored the WTO's admonition.

India has completely abrogated its Uruguay Round tariff commitments by introducing new special taxes and duties which result in an *ad valorem* equivalent tariff on textiles and apparel reaching as high as 89 percent. It maintains a "negative restricted list" covering many textile products and nearly all apparel. Inclusion on the list means that the product cannot be imported. For textiles not on the negative restricted list, import licenses are required. These may be obtained only by entities which will use the imported goods to produce something for export.

And, as if the forgoing were not enough, administrative delays in obtaining import licenses and clearing imports have the effect of raising the price of the import significantly or incurring confiscatory demurrage charges.

India is clearly in violation of its Uruguay Round commitments and more than deserving of a response by the United States. That response should be the withdrawal of India's GSP privileges and enhanced textile/apparel quota growth, as set out in Article 2 of the ATC. The United States has the right to take these actions and it should do so.

In short, as the United States continues to increase access for textile and apparel products from these and other countries, it is only fair that U.S. textile and apparel manufacturers should get the same reciprocal access for its products as well. This was the promise and the intent of the Uruguay Round agreements.

Unfortunately, as we have noted, this promise has not been fulfilled. Not only is the playing field not level, the other team is not playing by the rules. The United States must insist that all WTO members live up to the spirit and the letter of the ATC and provide effective market access. When they do not, the United States should take the strongest possible actions. ATMI is hopeful that Congress will take a leadership role in bringing this to fruition.

Statement of Leslie Alan Glick, Esq., Porter, Wright, Morris and Arthur, on behalf of Kemet Electronics Corporation and Greenville, South Carolina, Vishay Intertechnology, Inc., Malvern, Pennsylvania

Mr. Chairman and Members of the Subcommittee on Trade, this statement is submitted by Kemet Electronics Corp and Vishay Intertechnology, Inc. in response to the notice issued by this Committee on February 4, 1999 (TR-2) announcing a series of hearings "on the importance of expanding trade and resisting protectionism through active United States Involvement in Trade Negotiations." Hearings were scheduled for February 11, 1999 and written comments for the record were invited until February 25, 1999.

Kemet is a leading producer of capacitors headquarter in Greenville, South Carolina. Kemet also has facilities in other locations in South Carolina, North Carolina, Texas, as well as in Mexico. Kemet produces Tantalum and Ceramic capacitors that are an important component in most electronic devices produced in the United States and abroad. Vishay Intertechnology, Inc. is headquartered in Malvern, Pennsylvania, with production facilities in Connecticut, Nebraska, Maine, New Hampshire, Florida, Virginia, North Carolina, as well as overseas. Vishay is a leading producer of ceramic and tantalum capacitors as well as resistors used in electronics products produced in the United States and abroad.

Although Kemet and Vishay are recognized leaders in the field and produce high quality state-of-the-art products, they have been unable to penetrate the Japanese market. Since Japan is a leading producer of electronics products that utilize capacitors and resistors, Kemet and Vishay have been virtually eliminated from one of the world's largest markets for its products. At the same time, Japanese companies have free and open access to the United States market and are a fierce competitor here. Japanese penetration of the U.S. market was made easier by actions of the Administration in negotiating the Information Technology Agreement that included capacitors and resistors as products subject to duty reduction and removal, over the strong objections Kemet and Vishay and other producers of these products. These companies under the name Passive Electronics Coalition testified before this Committee in opposition to the Information Technology Agreement on February 27, 1998. Nevertheless, the agreement was approved by the United States and resulted in a lowering of the import duties on capacitors and resistors from Japan in stages. This action greatly hurt Kemet and Vishay by enabling the Japanese competitors to lower their prices in the U.S. Market. The agreement gave no benefits to Kemet and Vishay because prior to the Information Technology Agreement, the major markets for their products, Europe and Japan already had either very low duties or no duties at all. Thus, the U.S. gave up a very high tariff and allowed Japanese companies to import more into the U.S. market at lower prices, without giving anything in return to the U.S. capacitor and resistor industry that was injured by Japanese imports. The Agreement did not address non-tariff barriers which are the real problem in access to the Japanese market.

The problem of Japanese non-tariff barriers to electronics products and information technology products (which includes capacitors and resistors although Kemet and Vishay did not consider these truly "information" products since they do not store or transmit information—however, they were included as part of the ITA) is well documented by the U.S. International Trade Commission that has studied this matter. The U.S. I.T.C. has found as follows:

Some IT industry representatives assert that the benefits of duty elimination as a result of the ITA could be reduced by non-tariff barriers. For instance U.S. telecommunications equipment producers have pointed out that while the ITA was designed to deal with tariff barriers, "many of the barriers to exports are not tariffs but non-tariff barriers." For instance, some of the largest potential export markets, such as Japan, have zero tariffs on IT products but market penetration by foreign producers remains low. Among the non-tariff measures cited by IT industry representatives are, (1) discriminatory certification, testing, conformity assessment and other standards-related measures, (2) unfair marking and labeling requirements, and (3) proliferation of quality system registration requirements.¹

In an earlier report specifically on the proposed modifications to the information technology agreement, the ITC found that, "U.S. capacitor and resistor industry face

¹United States International Trade Commission Staff Research Study 23, "Global Assessment of Standards Barriers to Trade in the Information Technology Industry," November 1998, Pub. No. 3141 at 2-4 (Footnotes omitted)(emphasis added).

strong international competitions. Passive components are mature products, largely interchangeable and are extremely price sensitive." The ITC noted that U.S. producers have a "disadvantage vis-a-vis foreign competitors which are often vertically integrated firms producing broad lines of components and end products . . ." In regard to Japan the ITC noted that "Japan is the world's dominant producer of capacitors and resistors . . . Japanese producers are often much larger than their U.S. competitors and often manufacture a wide variety of other electronic products . . . Japanese capacitor and resistor producers are usually closely integrated with Japanese manufacturers of consumer electronics, computers and communications equipment and as a result there is a high degree of captive consumption."²

This Committee is aware of the barriers that exist to U.S. exports in Japan that have been cataloged by other industries such as automobiles, auto parts and semi-conductors. The U.S. government has responded aggressively to such problems by negotiating market access agreements with Japan that in some cases established actual quantitative goals for Japanese imports of these U.S. products. No such efforts have been provided on behalf of the U.S. producers of capacitors and resistors. As a result, both Kemet and Vishay have experienced a negative economic impact during the past year that has led to downsizing, terminations of workers and transfer of production to offshore facilities. All of this has had a severe impact on these companies, their workers and communities.

Kemet and Vishay respectfully ask this committee to advise and instruct U.S. trade negotiators, either as part of any authorizing legislation or legislative history or by direct communication from this Committee, in future rounds of trade negotiations either bi-laterally with Japan or in the content of multilateral agreements such as APEC and the WTO, as well as in any future negotiations relating to the Information Technology Agreement to specifically raise the issue of market access of U.S. capacitors and resistors in the Japanese market and to negotiate agreements with Japan to increase their imports and consumption of U.S. capacitors and resistors similar to what has been done for other U.S. industries facing similar problems.

Statement of National Airmotive Corporation, Oakland, California

WHY ARE AMERICAN COMPANIES BEING EXCLUDED FROM THE CANADIAN DEFENSE MARKET?

National Airmotive Corporation ("NAC"), located in Oakland, California, is a leader in the aviation industry and qualifies as a small business under the SBA. NAC specializes in the repair, overhaul, and modification of aircraft turbine engines, particularly T-56 Allison gas turbine engines. These engines are used in helicopters and airplanes for border patrol, surveillance, and military purposes.

In 1995, NAC sought to bid on contracts with the Canadian Government for the repair and overhaul of T-56 engines. NAC was notified by the Canadian Department of Defence ("DND") that it was not permitted to bid on solicitations relating to Allison turbine engines based on Canadian exemptions from the NAFTA agreement. Since that time, NAC has regularly responded to DND's assertions, arguing that the NAFTA exceptions do not apply to NAC's activities and that NAFTA Chapter 10 requires DND to allow NAC to bid. Canada, on the other hand, has promulgated many unsubstantiated theories on why NAC cannot bid on T-56 procurements.

A number of United States agencies have intervened on NAC's behalf. For instance, the United States Trade Representative's office has repeatedly approached Canada regarding this issue. In fact, on July 24, 1996, Ambassador Ira Shapiro, Senior Counsel and Negotiator for USTR, sent a letter to Robert Wright, Deputy Minister of the Canadian Department of Foreign Affairs and International Trade, arguing that NAC's activities are covered under the NAFTA agreement. Additionally, the United States Department of State delivered a demarche to the Canadian government in 1996, demanding that Canada provide the United States with a definitive written explanation of why Canada had not permitted NAC to bid on Canadian T-56 contracts. Also, since 1996, the Office of Foreign Procurement at the United States Department of Defense has consistently pressed the Canadians for a resolution of this issue. Unfortunately, in every instance, the Canadians have sent

²United States International Trade Commission, "Advice Concerning the Proposed Modification of Duties on Certain Information Technology Products and Distilled Spirits," April 30, 1997, USITC Pub. No. 3031 (Final) at 5-36, 5-38.

back United States officials empty-handed. After nearly four years of interaction, no definitive response has yet come from DND.

Meanwhile, the effect of Canada's actions has been to systematically exclude NAC from the Canadian T-56 work. At the same time, Standard Aero, Ltd., NAC's principal Canadian competitor, has been allowed to freely bid on United States Department of Defense contracts for similar work on Allison turbine engines, and has been awarded United States contracts on a number of occasions. As a result, NAC's Canadian competitor is able to obtain high prices in its protected Canadian market (where it has been the "sole source" since 1960 and where NAC is not allowed to bid), and then undercuts NAC in the United States on bids with the Defense Department.

The United States has noted for some time that Canada employs discriminatory procurement practices and it is an area of ongoing United States concern. For instance, Canadian discriminatory procurement policies have been cited in the 1995, 1996, and 1997 National Trade Estimate Reports. Currently, the Bureau of Export Administration, Office of Strategic Industries and Economic Security, is compiling data on Canadian procurement discrimination and will be presenting its report to Congress later this year. NAC's difficulties have been specifically addressed in the President's most recent Title VII report and the United States International Trade Commission's 1997 report on the Impact of the NAFTA on the U.S. Economy and Industries.

Based on past experience, NAC believes that Canada will continue to stall on these issues and has no interest in reaching a solution. This is understandable since NAC's Canadian competitor currently has access to United States Department of Defense contracts and NAC is completely excluded from participating in DND procurements. Simply stated, the United States has given Canada no incentive to compromise. However, the longer Canada forestalls a solution to this problem, the more NAC suffers financially because it must compete in an unfair trading regime.

Consequently, the protracted and blatant nature of Canada's international treaty violations justify forceful United States action. The United States government can no longer allow Canada to take advantage of its preferred status under NAFTA and the WTO Government Procurement Agreement to the detriment of American producers. If the United States is going to enter into bilateral and multilateral agreements, it must ensure that reciprocity is observed. In NAC's case, such agreements have failed to open up foreign markets and have instead harmed domestic producers. It is ironic to note that Canada can rely on NAFTA to keep Standard Aero in the United States market while at the same time using NAFTA to keep NAC out of Canada.

The United States must not continue rewarding Canada for breaching international law. Instead, the United States must take all possible steps to ensure that Canada lives up to its international obligations, and that the United States receives its full benefits under international agreements. NAC believes that the time for negotiations has passed and that a NAFTA dispute resolution panel may be the only way to permanently resolve this issue. At the very least, the United States should disqualify Canadian firms such as Standard Aero from bidding on United States contracts until Canada agrees to level the playing field. In fact, why are we closing bases and putting Americans out of work, while sending work to Canada, where American companies are not even allowed to bid?

**Statement of Raymond J. Keating, Chief Economist, Small Business
Survival Committee**

On behalf of the Small Business Survival Committee (SBSC) and its more than 50,000 members across the nation, I appreciate this opportunity to submit written testimony to the Subcommittee on Trade regarding U.S. trade policy and its importance to the entrepreneurial sector of our economy.

The prevailing view that only so-called "big business" cares about free trade and open international markets could not be further from the truth. Entrepreneurs and small businesses, in several ways, dominate U.S. participation in global markets, and certainly will continue to do so in the next century. The biggest obstacle to fulfillment of our destiny in international trade is, of course, protectionist measures imposed by government.

In its most obvious effect, protectionist measures (such as high tariffs and quotas) increase prices for consumers. However, the ill effects do not stop at that point. For example, the resulting reduction in competition means diminished quality, and less creativity and entrepreneurship. Jobs are lost in import industries, and protectionist

responses by other nations devastate export firms and their employees. And while protectionism is bad economic policy in and of itself, it can facilitate other equally dismal policies, as economist Paul Craig Roberts has explained (“Tariffs Protect Big Government,” *The Washington Times*, October 13, 1997): “In fact, tariffs protect ill-considered government policies, such as costly regulations and high taxes on labor and capital, that make our goods uncompetitive in international markets. Tariffs also protect coercive and self-serving union policies, and they protect fat corporate bureaucracies.”

Indeed, free trade is one of those rare issues whereby almost all economists are in agreement. Let’s take a quick look at why and how free trade works and generates widespread benefits.

Comparative Advantage: Comparative advantage—a law of economics offered by David Ricardo in the early 19th century—merely shows that countries, businesses and individuals boost economic prosperity by producing the goods and services they are most efficient at producing, and then trading to acquire the other goods and services they need and want. Even if one holds an absolute advantage in a variety of areas, focusing on the endeavor where comparative advantage exists (i.e., where efficiency is maximized) and then trading with others creates a scenario where all prosper.

An example always helps, and economist Robert Eisner provided two in one eloquent paragraph recently in *The Wall Street Journal* (“A Free Trade Primer,” October 13, 1997):

“Consider a couple of modern applications of Ricardo’s wisdom: Michael Jordan may be able to mow a lawn faster than any gardener, but it is best for him to pass up lawn care and stick to basketball. Similarly, the U.S. may well be more productive than other countries in textiles as well as aircraft production, but it would do better to import those cheap shirts from China and ease the way for Boeing to export its planes all over the world.”

- **Competition:** Increased competition due to lower trade barriers obviously means big benefits for consumers—higher quality products and services, greater consumer choices, and lower prices. Such benefits have salutary effects throughout the economy by freeing up resources for other investments and purchases.

- **Innovation and Entrepreneurship:** Increased rivalry in the domestic market and expanded opportunities internationally provide considerable incentives for increased innovation and entrepreneurship. In fact, lowering trade barriers should disproportionately benefit small, entrepreneurial firms who cannot afford to set up shops in foreign nations. Reducing governmental hurdles levels the playing field for such businesses.

- **Trade and Growth:** Obviously, a more efficient allocation of resources, opening of new markets, increased competition, lower prices, and enhanced innovation and entrepreneurship resulting from free trade boost economic growth and job creation.

In the end, free trade is about individual freedom. It means allowing consumers to trade with whomever they choose. It means allowing entrepreneurs and businesses of all sizes to pursue opportunities around the globe. Expanding trade means gains and increased prosperity for all.

The question to be answered now is: Do theory and reality coincide when it comes to trade? The following facts reveal the importance of trade to the U.S. economy, and the significant participation by small- and mid-sized businesses:

- **Expanding U.S. Trade Boosting Growth:** Trade has become increasingly important to the U.S. economy. As late as 1960, U.S. exports and imports as a share of the total U.S. economy registered 9 percent, same as in 1940. By 1997, that percentage had risen to 25 percent.

Trade’s impact on the U.S. economy becomes even more astounding when you look at real GDP growth thus far in the 1990s. In real 1992 dollars, U.S. GDP expanded from \$6,136.3 billion in 1990 to \$7,188.8 billion in 1997, an increase of \$1,052.5 billion or 17 percent. Meanwhile, real U.S. exports rose from \$564.4 billion in 1990 to \$962.7 billion in 1997, an increase of \$398.3 billion or 71 percent. Real imports jumped from \$626.3 billion in 1990 to \$1,109.2 billion in 1997, an increase of \$482.9 billion or 77 percent. Taking exports and imports together, a stunning 84 percent of U.S. economic growth in the 1990s is tied directly to international trade.

- **High-Paying Jobs:** According to the Heritage Foundation’s Issues ’98, export-related jobs pay 12.5 percent to 18 percent more than non-export jobs.

- **Small Business Share of Export Value:** According to the U.S. Department of Commerce (August 1997), companies with fewer than 500 employees accounted for almost 30 percent of export value in 1992.

- **Export Firms Overwhelmingly Small Businesses:** According to the U.S. Department of Commerce (August 1997), 96 percent of exporters were small- or medium-

sized businesses with fewer than 500 employees in 1992. Firms with fewer than 20 employees accounted for 59 percent of all exporters. Companies with fewer than 20 employees accounted for about one-third of exporting manufacturers, 75 percent of wholesalers, and 72 percent falling under the category “other companies.”

- **Small Manufacturers Expanding Internationally:** In early 1997 (February 26, 1997, “Small Firms Go International”), *Investor’s Business Daily* reported that while 1 in 10 manufacturers with fewer than 100 employees exported in 1987, that number leaped to about 1 in 5 by 1992. In addition, the share of small- and mid-sized firms getting 10 percent or more of their sales from exports increased from 27 percent to 51 percent in the short span from 1994 to 1996.

- **Small Business Dominating International Trade:** In *The State of Small Business 1995*, the U.S. Small Business Administration reported that 86 percent of U.S. businesses involved in international trade are wholesalers and other intermediaries, and that these businesses are typically small.

- **The Advantage of Entrepreneurial Skills:** In a January 1998 article (“Internationalization of Small- and Medium-Sized Technology-Based Firms: An Exploratory Study”) in the *Journal of Small Business Management*, Professors Necmi Karagozoglou and Martin Lindell note that small- and medium-sized technology firms have certain advantages and disadvantages operating internationally compared with large businesses. The authors note that a clear advantage is “flexibility, speed, and advantage-seeking behavior.” These are the hallmarks of the high-growth, entrepreneurial business.

- **Women and Trade:** According to the U.S. Department of Commerce, women-owned businesses participated in the global marketplace at the same rate as U.S. businesses overall—i.e., 13 percent—in 1992.

In a March 1995 study, the National Foundation for Women Business Owners found:

- 57% of women-owned businesses in the global marketplace developed a new product or service during 1992 compared to 44% of those not doing business globally.

- 52 % of women-owned businesses involved in international trade expanded domestically versus 23% of those not exporting or importing.

- **Growth in U.S. Manufacturing:** Most protectionists like to point to a decline or stagnation in U.S. manufacturing jobs as dire fallout from free trade. This supposedly shows that the U.S. is losing its manufacturing capabilities and cannot compete internationally. A look at U.S. manufacturing numbers, however, tells quite a different tale.

It turns out that U.S. manufacturing production has been steadily rising for decades. In addition, if you look at new manufacturing orders, while clearly being walloped by the stagflation of the late 1970s and early 1980s, as well as the recession of the early 1990s, the overall trend is positive.

The fact that U.S. manufacturing generally has been humming along, while manufacturing employment is stagnating or slightly declining (for example, 19.4 million manufacturing jobs in 1967, 19.7 million in 1977, 19 million in 1987, and 18.5 million in 1997), speaks not to our manufacturing weakness globally but to our strength. The U.S. has been investing, modernizing and vastly increasing productivity in manufacturing. We are producing more with fewer workers. We are becoming more competitive.

In the end, theory and real life come together quite clearly when it comes to trade. Free trade works.

Then what policies should U.S. elected officials be following to prepare us for the increasingly competitive and global economy of the 21st century?

- Unilaterally reducing U.S. trade barriers makes sense for consumers and the economy in general, but politically this is a non-starter.

- The next best scenario is to be negotiating with other nations, groups of nations, and international bodies to lower their barriers to trade as we do the same with our own. The options seem endless, for example, a Pacific Rim free trade zone, an open market from Canada to the tip of South America, further reducing trade obstacles through the WTO, pacts with individual nations, and so on.

However, when negotiating trade agreements, the President of the United States needs to be fully empowered with fast-track authority. Fast track allows the President to negotiate trade accords, with Congress limiting itself to a “yes” or “no” vote—avoiding the big temptation of adding special-interest amendments.

Throughout history, the main obstacle to reaping the full benefits of free Trade—including the complete unleashing of U.S. entrepreneurship in the global marketplace—has been special-interest influence, that is, the few seeking protection at the expense of the many and the economy in general. Politicians too often succumb to such petty special interests. Indeed, this is unfortunate as the trade issue generally

has been a bipartisan one since the end of World War II, often rising above the fray of special-interest threats.

Fast track is a positive policy innovation to counter such selfishness. Of course, Congress still has its say under fast-track negotiating authority—if they do not like the trade agreement before them, they can vote it down, and tell the President to go start over again. But if the President presents a positive, pro-growth, pro-entrepreneur trade accord, the vote should be a resounding “yes.”

Fast-track authority makes particular sense for innovative entrepreneurs and growing small businesses, who dominate much of U.S. international trade and need to be able to gain access to international markets unencumbered by high tariffs and other protectionist barriers. We are increasingly concerned that the United States is becoming a bystander as other nations negotiate favorable agreements that could be potentially damaging to U.S. business interests. Fast-track authority is critical to U.S. competitiveness and the overall well-being of the U.S. economy into the 21st century.

Once again, thank you very much for this opportunity to present my written perspective on behalf of the Small Business Survival Committee.

