

# **FUTURE OF U.S. TRADE POLICY: PERSPECTIVES FROM FORMER U.S. TRADE REPRESENTATIVES**

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## **HEARING** BEFORE THE **COMMITTEE ON FINANCE** **UNITED STATES SENATE** **ONE HUNDRED TENTH CONGRESS** SECOND SESSION

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JULY 29, 2008  
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## **FUTURE OF U.S. TRADE POLICY: PERSPECTIVES FROM FORMER U.S. TRADE REPRESENTATIVES**

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**TUESDAY, JULY 29, 2008**

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:03 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Conrad, Lincoln, Stabenow, Bunning, and Roberts.

Also present: Democratic Staff: Bill Dauster, Deputy Staff Director and General Counsel; Amber Cottle, International Trade Counsel; Demetrios Marantis, Chief International Trade Counsel; Ayesha Khanna, Detailee; and Emily Schwartz, Summer Associate. Republican Staff: Stephen Schaefer, Chief International Trade Counsel; and David Ross, International Trade Counsel.

### **OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. The hearing will come to order.

A Chinese proverb says, "Past experience, if not forgotten, is a guide to the future." We have with us today a wealth of past experience. We have before us four former U.S. Trade Representatives who, together, led this country's trade policies from the first days of the technological revolution to the global economy of today. We cannot forget their past contributions, and their experience is a sure guide to the future.

These former USTRs oversaw the negotiation of NAFTA, and of the Uruguay Round, which ultimately led to the creation of the World Trade Organization. They led key Asian countries like China and Japan to join the global trading system, and they continue to critique and contribute to America's trade policy debate.

We stand at a crossroads in trade policy. The past 8 years have seen an explosion of free trade agreements and market liberalization; tariffs have decreased, international trade in goods and services has increased; and global markets are more integrated than ever.

But this growth does not come without its costs. American workers have been displaced from their jobs. Environmental and labor standards have not kept pace with economic growth. America's cur-

rent account deficit looms larger than ever, and trade enforcement has fallen from the top of this administration's priorities.

It falls to this Congress, and the next, to address these issues. We must first ensure that America's workers are protected from the negative effects of trade agreements and globalization. We must push for robust Trade Adjustment Assistance that ensures that America's manufacturers, farmers, and service workers receive the help that they need. We must foster America's competitiveness by ensuring maximum opportunities for our companies, and to do this we must ensure that our trading partners play by the rules at home and abroad.

We must also consider how best to provide American businesses with the ability to compete and to grow. The President's fast track authority expired on June 30 of last year and has not been renewed. The next Congress will face many questions about fast track: should we renew it? If so, when? What lessons from the past should be incorporated into any new fast track legislation?

The next Congress will also have to address one of the largest U.S. current account deficits in our history. Economists have warned that this deficit may be unsustainable and lead to dire economic consequences. We must address the U.S. current account deficit comprehensively. Among other things, that means we need to apply pressure on those countries that maintain misaligned currencies.

And we must face our social responsibilities. For more than 30 years, our country has provided Trade Preference Programs to developing countries. These programs provide incentives for increased economic development in countries around the world. These programs help to lift many out of poverty. We must examine these programs to make sure that they are fulfilling their purpose.

The environment is also at the forefront of our social consciousness. The world is debating how to address climate change. America must lead that debate. We must address this pressing issue in a way that is responsible to our environment, our economy, and our international trade obligations.

So let us come together to discuss these important issues, let us recall the experience and expertise that our four witnesses bring to the table today, and may learning from our past experience guide us to a stronger, more competitive America in the years to come.

Senator Grassley will be coming shortly. He cannot be with us right at this moment. He wishes he were here at the beginning, but cannot be.

I would now like to introduce our witnesses. Today's panel begins with Secretary Mickey Kantor, who is a partner at the law firm of Mayer Brown. Secretary Kantor served as President Clinton's U.S. Trade Representative from 1993–1996. Following Secretary Kantor is Senator William Brock, founder and senior partner of The Brock Offices. Senator Brock was President Reagan's U.S. Trade Representative from 1981–1985, and represented Tennessee in the U.S. Senate from 1971–1977. Our third witness is Secretary Carla Hills, chairman and chief executive officer of Hills and Company. Secretary Hills served as President George H.W. Bush's U.S. Trade Representative from 1989–1993. Our final witness is Ambassador Charlene Barshefsky, who is a partner at the law firm of Wilmer

Hale. Ambassador Barshefsky was President Clinton's Trade Representative from 1997–2001.

Thank you all very, very much for taking the time to come today. We very much look forward to your advice and your thoughts on where we proceed from here.

We will begin, first, with you, Mr. Kantor.

**STATEMENT OF HON. MICHAEL KANTOR, PARTNER,  
MAYER BROWN, WASHINGTON, DC**

Secretary KANTOR. Thank you, Mr. Chairman. Thank you, Senator Bunning, Senator Roberts, for being here today. We appreciate the opportunity to join together in testifying before the Senate Finance Committee. All four of us appreciate your hard work and diligence as you confront these difficult and challenging issues, and we also commend your staff for all their hard work on this hearing as well.

I would note that over the years all four of us, and other former USTRs, have spent many hours together in various forums, discussing U.S. trade and other related issues. It is striking how similar are our views and our approach to these concerns. I am truly honored to be here at the invitation of the committee and to appear with Secretaries and Ambassadors Brock, Hills, and Barshefsky, all friends of mine.

The development of future United States trade policy cannot be pursued in a vacuum. Conceptualizing, considering, concluding, and implementing U.S. trade priorities will be dependent upon our ability and willingness to address the crucial issues of our competitiveness, number one, and the credibility of our policies with the American people and the confidence that major U.S. constituencies will have in its eventual success and potential impact on our country.

Developing and implementing a successful trade agenda has been accomplished in the past from pursuit on a nonpartisan basis. The goal of a successful rules-based trading system will not be accomplished by adhering to strict philosophy, theology, or ideology. At its best, a trade policy will reflect practical and pragmatic considerations in a constant effort to raise standards of living, supporting and creating more and better jobs, and growing the U.S. and the global economy.

Any such agenda must be done in concert and communication with the U.S. Congress. In article 1, section 8 of the Constitution, international trade is made the province of the Congress. Since Cordell Hull—I might add, a fellow Tennessean like Senator Brock and myself—Franklin Roosevelt's Secretary of State, pulled trade policy negotiation into the administration, there has been a constant tension between the Congress and nearly every administration over trade policy and agreements.

Because of this history, there needs to be a working arrangement between the Congress and the executive branch for pursuing trade policy goals. Our country's priorities will drive our trade policy, but neither policy nor priorities will be served if we cannot or will not recognize the reality of the world we live in. Our agenda will not only be driven by our needs and priorities, but also by the influ-

ences in a world which is interdependent today and will even be more connected in the future.

The end of the cold war, the rise of technology, and an increasingly ubiquitous transportation system have brought us together in what has become a multi-polar world. The irony, of course, is that the continuing growth and influence of nationalism is a contradictory phenomena which will continue to create barriers to taking advantage of this interdependent world.

Mr. Chairman, we are truly joined at the hip with our world. Our major companies have become dependent upon international markets. They derive, in many cases, a majority of their revenues from outside the United States. Jobs connected to trade have grown impressively over the last number of years, and on the average these jobs pay more than domestic jobs in our economy. Capital flows across borders, both in direct and portfolio investment, at an ever-increasing rate. As a result, trade flows will only grow in the future. It is inevitable.

Our challenge, as it has always been, is to address these questions. How do we take advantage of this growth? How do we continue to pursue and lead in the development of a rules-based trading system? What policies will serve the American people and the economy and will successfully grow the global economy? What mechanisms can we use or develop to address an even more complicated economic environment?

Along with my colleagues, we will advance any number of ideas to engage or challenge and to confront these questions. I would like to just briefly enumerate a number of ideas I believe will serve as important steps, and they are more fully fleshed out in my statement.

First, we have to build a competitive America. First, the renewal and rebirth of American education. Nothing is more important than that. Second is promoting energy security and addressing global warming climate change and environmental challenges. Third, rebuilding and updating our infrastructure.

Next, a real emphasis on science, discovery, and research and development. A sound fiscal policy cannot be avoided, and it is going to affect everything we do. We just noted in the newspapers this morning how large our budget deficits will be this year and what that will mean to our economy.

We need to restore a credible, open, and expanding trade agenda, and credibility is the key word. Mr. Chairman, I am afraid we have lost credibility with the American people over the years.

Second, enforcing our trade laws and trade agreements. We need to continue to convince the American people we will stand up for their interests. We need vigorous enforcement of our trade laws and full use of the WTO and other dispute settlement systems. I agree with the establishment of a trade prosecutor at USTR, where you have led that fight, Mr. Chairman. We also need a new comprehensive trade negotiation with China to ensure their full compliance with international trade commitments. We need to review and update all existing significant trade agreements to see where weaknesses may lie and where changes can be made.

We need to enforce legislative standards in all preference programs, for instance, GSP and the Andean Trade Preference Act. We

need to also upgrade these standards and obligations under these preference programs, and we need to initiate discussions with Mexico and Canada about NAFTA.

The labor and environmental provisions, the dispute settlement provisions, and the investment provisions stand out. It has been 19 years since Secretary Hills began those negotiations, and it is time to talk to our Canadian and Mexican friends about how to update that agreement.

Next, we need to advance U.S. trade and economic interests. Under that, I would say we ought to seek multilateral and plurilateral sectoral agreements in critical areas. We should make a renewed effort to implement the Free Trade Area of the Americas and the Asia-Pacific Economic Cooperation agreements. We should complete the Doha Round, which will be difficult at best, and we need to negotiate convergence and mutual recognition agreements on a multilateral, regional, and bilateral basis.

In addition, I would seek to resolve critical problems with the pending FTAs with Congress—and these issues are very difficult—and seek an FTA with Japan or expand that to an FTA with the Quad, which Secretary Brock initiated when he was USTR, and that is Canada, the U.S., Europe, and Japan itself.

Third, I would look at fair trade initiatives, including passing and implementing an expanded TAA program, which I know, Mr. Chairman, you have tried valiantly to do; seek to abolish abusive child labor worldwide; include enforceable labor and environmental provisions in every and all trade agreements; as well as begin to develop provisions addressing bribery and corruption.

We should implement stronger dispute settlement understandings in all of our trade agreements. In addition, we should promote developing countries' access to international trade and spread the benefits of an open, rules-based trading system. We should remove barriers to entry of products no longer produced in the United States. We also should provide technical assistance and training to developing nations in negotiations and in the WTO process, and most importantly—most importantly—encourage real Presidential leadership and advocacy in a trade agenda which serves the interests of the American people, Mr. Chairman.

Let me finish my brief statement by saying, these ideas are neither exclusive nor comprehensive, but the willingness to restore credibility to a renewed trade agenda and to address the issue of America's competitiveness are of paramount importance. If we do not engage these issues, we are missing the opportunity to create a 21st-century economy that works for the American people. We cannot waste one minute as we pursue these goals. Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Kantor.

[The prepared statement of Secretary Kantor appears in the appendix.]

The CHAIRMAN. Senator Brock?

**STATEMENT OF HON. WILLIAM E. BROCK III, FOUNDER AND SENIOR PARTNER, THE BROCK OFFICES, ANNAPOLIS, MD**

Senator BROCK. I am almost out of breath, listening to Mickey Kantor.

The CHAIRMAN. Yes. That was fairly comprehensive.

Senator BROCK. It is a terrific agenda, and I agree with at least two-thirds, if not 90 percent.

Secretary KANTOR. That is better than usual. [Laughter.]

Senator BROCK. No, no. You have moved. You have come along. [Laughter.]

I want to try to look more broadly, because we really do have an important moment right now. The conversations are not going well in Geneva. We have serious opposition from the Indians and the Chinese. You can understand their point, but it is a dangerous position to be in. We are living in what Fareed Zakaria calls the "post-American world."

I want to note that this post-American world, which I think the United States largely built, has seen the global economy double in the last 15 years, over \$5 trillion worth of trade. There are 120 countries that have experienced over 4-percent annual growth. That is an extraordinary changeover. I would say a billion—and Carla and I disagree on the number—but at least hundreds of millions to a billion people have come out of poverty because of world trade.

The United States remains the most dominant economy in the world. We are the largest manufacturer in the world. We are the most positive, we are the most productive people in the world. We have robust growth, low unemployment by any historical measure, low inflation, and a huge inflow of investment, all because of the world that we have tried to craft and create over the last several decades.

I want to add a new element to the conversation, though. We have seen since the Internet facilitated the exchange of trillions of dollars in nanoseconds around the world, an extraordinary impact on our ability to trade, which stems not from trade, but from the overlay of financial matters. The lack of transparency in financial transactions is serious. It is a danger to this country, it is a danger to the system, and we have a world where we really do not have instruments at the international level to address that particular issue.

Mickey mentioned that I initiated the Quad Group. I did so because the United States, Canada, Japan, and Europe had to work together or the system was not going to work. If we were going to have a World Trade Organization, which we were moving towards, we needed these four to coordinate their policies. No one would suggest that we could have a group composed only of those four today. There are players on the field that were not there, that we did not even have on our radar screen in the early 1990s.

Second, we created the Rio Group, which was composed of trade and finance ministers, because even then we could see the connection between trade and finance, between exchange rates and financial stability, and we did not even have the Internet for facilitating these massive exchanges. It is time for us to think about how, and with whom, we might gather the principal nations of the world in a new conversation, one in which the subject matter encompasses not just goods and services, but issues which affect our economic and our political relationships; intellectual property, investments,

sovereign wealth funds, exchange rates, and financial transparency would at least be a beginning point.

That is something we have to think long and hard about before we move too far down the pike, but not doing that would expose us to, I think, an increasing level of risk every year. We need to start thinking about, how do we move into that kind of a conversation? It is different from just a trade conversation.

To buttress some of Mickey's points, we have to do some different things domestically. I happen to have been a supporter in my days here of Trade Adjustment Assistance. I do not think it even touches the problem today because we act as if trade were the cause of unemployment in the United States. Yes, there is outsourcing, but the fact is, for every 10 jobs that are affected in the United States, 9 of them are being affected by changing consumer demands, changing market circumstances, by technology, by productivity improvements.

To address trade as if it were the cause of the problem just through outsourcing is insane. If somebody is out of work because we have stopped making buggy whips now and people want to buy hybrid cars, they are out of work. We need a policy that addresses the skill that human beings can bring to the economy and facilitates their return to a productive place in that economy.

Today we talk too much about outsourcing and not enough about education; too much about trade-affected unemployment and not enough about, how do you get these individuals a new set of skills, a more flexible set of skills? We do not do it in our education system, we do not do it in our training system, and we do not do it in our government policies that limit the conversation to outsourcing and trade.

If I had one request of this committee, it would be to broaden the conversation beyond trade adjustment and look at economic adjustment, because these are human beings whose skills are important to the well-being of this country, and we need to give them a chance to get back in. Secretary Hills and I have talked over the last several months about the need for wage insurance, because they are going to have a change in their income when they move from one job to another.

We need some wage insurance that would help transition and facilitate that. Not a lifetime thing, not even close, not a full insurance, but enough to facilitate that transition so that we do not lose those skills forever, that we can give them a chance to get back into being productive as human beings, because the world is going to change underneath their feet. It does not matter what we say, what we do.

The global economy is moving at warp speed, and we need to allow ourselves to think about how we facilitate that transition. When I was at Labor, we did a study and we said, the kids coming out of our schools are going to have 8 to 10 jobs and 2 to 3 different careers. We are not training them for that, and we are not facilitating that exchange to a new set of skills on the part of our workers. So we need to think very differently about how we organize not just trade policy, but the undergirding of that policy through a transition program for worker adjustment.

Lastly, to emphasize something that Mickey mentioned also, if we do not understand that we are competing, not between Kansas and Arkansas but between every State in this Union and the best countries in the world, we are not going to compete for very long. Our schools are not adequate to a global economy. They are not even close to adequate. When you compare the United States in literacy, and in international math and science studies, the only country in the world that our students out-performed was Cyprus, for gosh sakes.

Now what is wrong, that we cannot have a conversation in the United States about the fact that, no matter how we label our laws, we are leaving millions of kids behind and we are not giving them the flexible skills that they need to be productive and competitive in a global economy?

The Internet is here, the global economy is here, the real opportunity is here, as well as real competition. We can seize this, or we can hide from those facts and let our standard of living slide slowly away. We really need to rethink the larger questions about how we approach a global economy, first domestically, then second in terms of international organizations.

The CHAIRMAN. Thank you, Senator, very, very much. I appreciate that.

[The prepared statement of Senator Brock appears in the appendix.]

The CHAIRMAN. Secretary Hills?

**STATEMENT OF HON. CARLA A. HILLS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HILLS AND COMPANY, WASHINGTON, DC**

Secretary HILLS. Thank you very much, Mr. Chairman and members of the committee, for inviting me to share my views on our Nation's future trade policy.

I could not agree more with Senator Brock's comments about education. One of my recommendations—and I made six in my written testimony—was to create a bipartisan commission to study and recommend ways to improve our citizens' achievements at the primary, secondary, and tertiary levels of education, and in training programs. Americans can and must sharpen their skills so that they can compete and win in this world of rapidly changing technology. Putting restrictions on international trade and investment is a sure way to destroy the American dream.

If the United States is to remain super-competitive in the 21st century, we need to focus on education. It is unacceptable that 30 percent of our students in high school fail to graduate. Funding is not the problem. We tie for first place among OECD countries for annual spending per student in our public schools, and currently a greater percentage of our younger workers from other nations earn more bachelor's, master's, and doctoral degrees than do our young workers. We have dropped from 1st to 10th place in advanced education.

For years we have given tax incentives to encourage investment in capital equipment that would enhance our Nation's productivity. We are now in the knowledge age. It is time to figure out ways to create effective incentives to encourage investment in human capital. Americans can and must be prepared to compete in today's

globalized economy. That ability coupled with a trade policy dedicated to opening world markets to goods, services, and investment are the most powerful tools that we have to increase America's prosperity, reduce global poverty, and strengthen our Nation's security.

In addition to improving the education and training of our citizens, let me mention very briefly five other recommendations that I have suggested to you in my written testimony.

First, help encourage the current and succeeding administrations to complete the Doha Round. Our leadership in the early GATT rounds helped to rebuild a Europe devastated by World War II and recreated market opportunities for them, but also for us. America's leadership in opening global markets over the intervening 60 years has increased our Nation's annual GDP by \$1 trillion, increasing average Americans' annual household income by \$9,500.

This year, our global trade has totally compensated for the losses in the housing sector, saving us from recession. As market liberalization has spread throughout the world, so has prosperity. Poor markets that have opened their markets have grown 3 times faster than those that did not. Whether you take the last 2 decades during which 375 million people have been raised out of poverty or Secretary Brock's figure of a billion people figuring from World War II, we have accomplished a great deal in alleviating world poverty, but we still have a big job to do. Half the world's population, roughly 3 billion people, lives below the international poverty line. Now more than ever we need to integrate Nations that stand on the fringe of our trading system, as Europe did after World War II.

Lowering barriers to poorer nation's products, like agriculture, textiles, and footwear, through a global agreement would stimulate their growth and create new opportunities for them and for us, just as we did for Europe following World War II. And since 70 percent of poor countries' trade is with other poor countries, it is important that we have a global reduction of barriers if we are to maximize their opportunities.

Second, approve the free trade agreements with Colombia, Panama, and South Korea to secure for our Nation the substantial economic and strategic benefits that each of those agreements brings. All three agreements advance our Nation's economic opportunities. The barriers that our producers face in those markets are much, much higher than their producers face in our market, and in addition all three agreements are in strategic locations where we need to build relationships.

The record shows that trade soars in the wake of our bilateral agreements. Nations with whom we have a free trade agreement account for about half our exports, a third of our imports, but less than 20 percent of our trade deficit.

Third, enact Trade Promotion Authority so that our trading partners will be willing to negotiate regarding sectors that present them with tough political choices. You know better than I that our Constitution vests Congress with the power to regulate trade and the executive branch with the power to negotiate with foreign governments. Unless we have a compact between the two branches, we will be unable to negotiate agreements that deliver to our Nation

the most extensive economic, security, and strategic benefits possible.

Fourth, inform the American people about the substantial economic, humanitarian, and security benefits that we obtain from opening global markets. Polls do show that Americans are anxious about their economic futures, and they worry that trade is part of the problem.

But most Americans do not know that past market openings have made the average American family \$9,500 richer per year, or that lowering global trade barriers in the Doha Round by just one-third—one-third—would boost the average American's income by another \$2,000 and help poor countries grow their way out of poverty, or that jobs connected to trade pay 13 to 18 percent more than jobs in the overall economy, or that 97 percent of our exporters are small- and medium-sized businesses who account for about 30 percent of our exports and need foreign markets to prosper so they continue to be the backbone of job creation in our country.

Most Americans are unaware that agricultural tariffs are 5 times higher than tariffs on manufactured goods, preventing poor countries that typically have large rural populations from climbing their way out of poverty, or that Bangladesh, Indonesia, Pakistan, all large Muslim countries, each with 100 million people living below the poverty line, face much higher tariffs on the products that they produce than rich countries face on theirs. Americans are always surprised to learn that, last year, Bangladesh paid \$120 million more in tariffs to the United States on \$3 billion worth of exports than did France on \$37 billion worth of exports.

They hear that NAFTA cost us millions of jobs, and they do not know that the bipartisan Congressional Research Service shows that statement to be totally false. In fact, economic studies show that the average American family has gained about \$600 as a result of NAFTA.

Fifth, reform and broaden the Alternative Trade Adjustment Assistance Act, covering service workers, expanding wage insurance, and increasing the health coverage tax credit. Polls show that workers' anxieties recede when they are told that trade liberalization and trade agreements are accompanied by programs to assist those who are displaced. Broadening the coverage of those programs would help.

Interestingly, the same studies that calculate our Nation's gains from foreign trade to be \$1 trillion per year calculate that the annual cost for funding wage insurance and transitional health care assistance for all dislocated workers to be \$12 to \$15 billion.

I have mentioned the importance of education, so in closing let me just say that our great country must marshal the political will both to deal with our own domestic shortcomings and to lead the world in tearing down trade barriers that limit new opportunities for all nations, including our own. Failure to do so risks repeating some very sad mistakes that cost us so dearly in the past.

The CHAIRMAN. Thank you very much, Secretary Hills.

[The prepared statement of Secretary Hills appears in the appendix.]

The CHAIRMAN. Ambassador Barshefsky?

**STATEMENT OF HON. CHARLENE BARSHEFSKY,  
PARTNER, WILMER HALE, WASHINGTON, DC**

Ambassador BARSHEFSKY. Thank you, Mr. Chairman and members of the committee. It is a great pleasure to be before you today with my colleagues, and I would like to associate myself with almost all the comments that have been made.

This hearing could not be more timely, nor this great committee more important. Over the last 40 years, the share of trade in the U.S. economy has tripled, to almost 30 percent of GDP. In the last 25 years, and particularly in the last 10, the acceleration of growth in world GDP has intensified as economic integration has reshaped the global economy. World trade has grown faster than world output over these years, and cross-border capital flows have grown faster than trade.

The positive effects for the U.S. are quite clear: record manufacturing output, record manufacturing exports, and services and farm trades that have risen even faster and are likely to hit records in 2008. Exports today are our only significant source of private sector growth in a time of financial crisis and domestic turmoil and represent 20 percent of all U.S. manufacturing jobs at wages between 13 and 18 percent higher than non-export-related jobs. Imports dampen inflation, provide choice, and help shift family spending to education, health, and other services.

At the same time, public anxiety over globalization has rarely been so high. The benefits to income have been poorly spread, with stagnant wages for middle-income families. Competition is tougher, and the range of competitors is far broader. According to the IMF, since 1980 the global supply of college graduates has increased 50 percent and the global supply of labor has increased 4-fold.

Productivity increases and specialization have meant that, while U.S. value-added manufacturing output hit record levels in 2005, 2006, and 2007, the number of manufacturing workers needed per unit of output has shrunk. Globally, the integration of east Asia, sparked by China's reemergence, has created a far more competitive Asian economy.

India's rise and the "rise of the rest," as Fareed Zakaria calls it, is only beginning. Logistics industries, telecom networks, and IT are more sophisticated each year, subjecting new sectors of the U.S. economy to trade. These structural changes will only accelerate. There are benefits to be had for the United States, but these issues also pose profound challenges for the U.S. as a country, for Americans as individuals, and U.S. policy has yet to respond. The consequences of inattention are already serious: the failure to remedy our weaknesses which are uniquely in our own control to fix, in confusing strong foreign competition with unfair competition, and in wasted time we do not have.

Look to the past for what could easily lie ahead. In 1820, China and India accounted for 50 percent of global GDP. That was in 1820. Their share shrank as the industrial revolution took hold, reaching a low of about 8 percent. But their share of GDP has now rebounded. It is roughly 20 percent, and growing rapidly. As a far smaller country we can retain a leading role, but only if we are more competitive, if we are more innovative, and if we are a lot better educated than we are today.

These are the facts of the landscape. Complacency about their implications, resentment of their consequences as unfair, or the notion that American economic leadership is our birthright, fails to respond to the world as it is today and guarantees the continuing erosion of American leadership and our strategic positioning. What, then, should we do? My first and most important point is that trade policy can be one element in our response, but it is surely not the principal element.

We must place national competitiveness at the center, examining our finances, our commitment to science and innovation, our high-tech and traditional infrastructure, our human resources policies in education and immigration. We should also restructure our domestic social contract, remove powerful sources of anxiety, including the fear of the loss of health care, spread the benefits of our economy more equitably, and mitigate risks for individuals.

With these as a foundation, we also need a battery of trade, financial, and global policies that allows us to draw maximum benefit from the global economy, tap areas of growth, and support three strategic goals in particular, in my view: (1) economic expansion; (2) security and development; and (3) an international sharing of responsibility.

Our trade agenda should help us meet each of these policy imperatives, but thus far we have tended to debate NAFTA, fast track authority, and bilateral agreements generally with small countries. Let me suggest that these are not the appropriate places to start. Our relationship with Canada and Mexico is large, and NAFTA is important, but NAFTA is neither the source of, nor the cure for, Internet-driven globalization, the advance of logistics, or Asia's rising competitiveness. Fast-track authority is a procedure meant to implement an agenda. If the agenda responds directly to America's needs, we will find a procedure to pass it. If it does not, procedure is unimportant. Small bilateral agreements, whatever one's position on them, have absolutely minor effect.

Let me then turn to my three suggested trade policy imperatives. My written testimony is far more detailed. First, economic expansion. Trade policy has to refocus on major markets in fast-growing industries. Whatever the final Doha outcome, the WTO's future is not in comprehensive rounds but in large sectoral agreements in industries like energy, environment, medical equipment, and infrastructure.

We should rebuild our place in Asia-Pacific economic and trade diplomacy by passing the Korea FTA, undertaking a similar agreement with Japan, a services FTA with Europe, incidentally, and honing the agenda—not expanding it, honing the agenda—with China, India, ASEAN, and APEC. We should work with other developed economies, particularly Japan and Europe, on coordinating regulatory policies in the emerging technologies.

Second, security and development. Parts of our trade regime are outdated, regressive, and politically damaging. Our clothing, shoe, and other light industry tariff regimes tax poor people heavily at home and place barriers less to industrial rivals than to very poor Asian countries like Cambodia, and large Muslim states like Pakistan.

The foundation of policy should be unilateral reform of this system, removing all barriers to trade to the least-developed countries—these are the poorest countries on the face of the planet—and goods from major Muslim countries cooperating with us in the fight against radicalism. We must also act to dampen South American drift toward resource-based authoritarianism. Congress should begin by passing the Colombia and Panama agreements, but then drop the FTA-centered approach and begin weaving together the agreements we already have in Latin America and work intensively with Brazil on a restored regional program.

Third, shared international responsibility, a new Bretton Woods which renovates the international financial institutions, focusing, as Bill said, on financial transparency and exchange rates. Bring China and India into the G-8 and upgrade their roles at the IMF; create a global environmental organization, a GEO, as a parallel to the WTO, capable of overseeing the already over 90 international environmental agreements that exist; and oversee an eventual climate change agreement, imbedding an enforcement mechanism and averting a clash between environmental rules and those of the WTO.

While trade policies are thus part of the solution, our larger tasks are at home, requiring new competitiveness policies and new approaches to the social contract, as well as a refocused trade agenda. These are large responsibilities that need solutions in limited time. We need to face up to it, and as Americans we have to begin the work now.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Ambassador.

[The prepared statement of Ambassador Barshefsky appears in the appendix.]

The CHAIRMAN. I want to follow up on one of your last points, namely, how best to integrate climate change and the needed transparency in financial instruments with the WTO. You mentioned GEO. How do we begin to integrate some of these emerging trends that are so important?

Ambassador BARSHEFSKY. The U.S. has always done best when it works initially with a relatively small group of countries to begin to create a critical mass for change. This is how the U.S. has launched rounds. This is how the U.S. achieved breakthrough agreements in financial services and telecommunications. You start with a smaller group that represents a high proportion of trade, you work out an agenda, you work out an approach, and then you take that to an ever-expanding circle of countries for discussion, potential modification, and then approval.

This is what we need to do in the international financial institutions, it is what we need to do with respect to climate change. If the U.S., Europe, Japan, for example, cannot get their acts together, the developing countries are not likely to move either in the direction of renovated financial institutions or in the direction of a climate change agreement.

It is the large economies that ought to begin to move, begin to correlate policy, bring along the next tier of countries economically, the next, the next, and so on, until you build out a sufficient critical mass. That does not mean everybody, but it means a critical

mass, the critical greenhouse gas emitters, the critical participants in the global financial sector, that can work toward change in the financial institutions, and work toward change in the creation of a global environmental organization.

The CHAIRMAN. All right.

Senator Brock?

Senator BROCK. May I just supplement that, because I very much agree. Back when we were just about to see the demise of the GATT because we were a little too aggressive in pushing everybody to talk about things that they were not ready to talk about, we started free trade agreements, first with Israel, then Canada, and then on through the rest that you have seen, in order to set an example, to create a model of an agreement, but also to show the rest of the world that we would play well with them if they would respect the rules and deal honorably in resolving some of these issues. The U.S. has to have some examples out there so people can see that there is a better way of doing it.

Let me give you an example. Right now, the two largest consumers are China and the United States in the energy field. We are accused of being a significant factor in the environmental concerns that we have. Would it not be a remarkable exercise if these two countries, just as a beginning point, would start having conversations about how we might jointly work on new technologies that deal with energy and the environment simultaneously? Because what we have today in terms of technology does not seem to be cutting the mustard. So, if we could get that conversation going, that might lead to the kind of groups that we—

The CHAIRMAN. So how do we get that conversation going?

Senator BROCK. There are some people working on it now, in all candor, that Carla and I are both familiar with and have been trying to support. But in all honesty, it is going to take an administration that makes an opportunity for a new door to open, probably in January, because the imperative of the pressing issues of the moment make it pretty hard to do in—

The CHAIRMAN. Secretary Kantor, I see you are wishing to join in here.

Secretary KANTOR. Yes. I also served with Secretary Hills and Secretary Brock in the same effort, private sector effort, but encouraged by both the people up here in the U.S. Senate, as well as, by the way, in the government of China to try to wipe away the barriers to environmental technologies, for instances, tax barriers and tariff barriers and other barriers that exist. It is a way to start. It is a way to begin to address this issue.

If China and the U.S. can come together, my guess is that you can start to bring around much of the rest of the world. Now, it is not easy. It is easier said, of course, than done. But I believe those kinds of efforts need to be encouraged and pushed, and I think the next administration ought to make it a high priority.

Senator BROCK. But this Congress could do a lot just by encouraging that sort of thing.

The CHAIRMAN. How would you merge the two? That is, environment on the one hand, and trade on the other? In what form do you deal with it?

Senator BROCK. Start with environment and energy. The connection there is extraordinary.

The CHAIRMAN. We have the WTO and the IMF, and Charlene Barshefsky suggested the GEO. Clearly, efforts on the part of one country to encourage, not only with carrots but with sticks, another country to adopt climate change regimes is going to lead to some kind of a, if not collision, certainly tension.

Secretary HILLS. It probably would be helpful, Mr. Chairman, to begin the conversations with a small group of governments, as has been suggested. There is a natural nexus between our economy that has the technology to produce clean energy and, for example, China's, which does not. So there is a deal to be made. If the barriers were lowered to our technology and the proprietary aspects of our technology were respected, China and we would obtain the benefits that we each are seeking. Environment is one of China's urgent challenges. President Hu Jintao mentioned at the Party's Congress in March energy and the environment as his government's top two problems.

One of your colleagues has explored having these kinds of bilateral exchanges, encouraging discussions regarding energy and the environment. In my view that would be a better process rather than trying to thrust energy and environment on the end of an already complex negotiation dealing with trade and other issues. The example of an effective bilateral arrangement dealing with energy and the environment will grow because it is broadly recognized as needed today.

The CHAIRMAN. All right. My time has expired, but go ahead, very briefly.

Ambassador BARSHEFSKY. Yes, Mr. Chairman.

The CHAIRMAN. Very briefly.

Ambassador BARSHEFSKY. There is no question that the unilateral imposition of, for example, a cap and trade system or a border tax system could violate existing WTO rules, both on the basis that one would retaliate against countries that did not adopt a similar system, taxing their imports into the United States, as well as on the basis that one could violate the basic WTO principles of non-discrimination in national treatment.

There has to be a concerted effort to take a look at the direction of environmental policy and climate change policy and find ways, whether by exception to WTO rules or most particularly by the critical mass of countries coming together on an agreement, so that WTO rules are, in fact, not violated, but countries share in a common system.

The CHAIRMAN. Thank you very much.

Senator Roberts, you are next.

Senator ROBERTS. Thank you, Mr. Chairman. Thank you for holding the hearing, and kudos to all present on the panel. It is a little awesome to see all members of the panel with whom I have had the privilege of working on the sometimes powerful Agriculture Committee and the Senate Agriculture Committee as well. There is an expression out in my country that, if you want to be a big flea, you have to run with tall dogs, and I just appreciate the opportunity to share things with you down through the years.

So, the Honorable Mickey—and I apologize for being informal—the proposals in your testimony are an agenda that any presidential candidate could run on. So, I will probably Kantorize a lot of my remarks, and thank you for your suggestions and outlining a very ambitious agenda.

Bill, thank you for your friendship down through the years. Thank you for the warning. Congress needs to be warned. America needs to be warned that we are in a period in which the United States is not the only dominant force, more especially from a trade position. You have said that very clearly and indicated the importance of education and new skills. We always talk about the Trade Adjustment Act and the environment and things of this nature when we are talking about the trade agreements.

It used to be in agriculture, in the many speeches that I have written or given down through the years, that you mentioned trade as the number-two thing, trade and exports. That has slipped. The bloom is off the trade lily in farm country. They have heard about it. I know we over-sell trade agreements and I know we criticize them, certainly, that is for sure. So we really need to get down to the hard-rock truth. But you have issued a good warning.

The Honorable Carla, thank you very much for your six suggestions, and more especially with regards to education. We have a math and science program that passed the HELP Committee featuring help to our teachers of math and science to recruit more. Obviously we got into a little challenge with the appropriations to fund all these programs, but at least I think we have our head in the right direction. Thank you for indicating the value of trade to the individual families.

The Honorable Charlene has always been very pertinent. Thirty percent of the GDP. I did not realize that, in the private sector growth, in the wages. So, thank you for your contribution. However, we are in a situation where we cannot even get a trade agreement worked out for Colombia. By the way, Mr. Chairman, all of these individuals were, on average, 3 minutes and 50 seconds over time, so I am still under time in regards to that criteria. [Laughter.] I apologize for that.

But here we are with a situation with Colombia, 31 nations in the southern command, and this is the country that represents the turn-around. The Columbia trade agreement is a win-win, as everybody has said. It has national security implications, big-time, with Hugo Chavez, aside from the economic benefits of the trade agreement. We are stuck. We are in purgatory. We are in the trade twilight zone here in the Senate. The same thing with the FTA with regard to South Korea.

The Korean President must grapple with people worried about BSE in our beef exports. However, I do not think safety concerns with U.S. beef are the case, really, but a mask for broader concerns by the political opposition. It is a perfect storm in regard to the political opposition. But a government could fall based on a trade item, and that government is very pro-United States. Who knows what the next government would be.

You have a situation with North Korea and the 6-party talks. All of these things have very serious national security implications, and we are stuck. Quite frankly, I am concerned that we are not

going to move on the trade agreement. The Chairman is very willing to do it, so is Senator Grassley. But there are other irons in the fire, most of them very political. So, I do not know.

If we do not do these trade agreements and, if we do not get Trade Promotion Authority, the result will be 535 trade ambassadors here in Congress. I do not know of any country that wants to deal with that. So, given that situation and given the fact that I am way over time, what do you think in terms of the real world? You have spelled out very clearly the value of trade, you have spelled out the consequences.

But given the fact that we are in a trade twilight zone, it is unlikely we will do anything until after this session is over. We'll then have to start over, and we will invite you all back to testify on the benefits of trade.

If we do not act on the trade agreements with Colombia and Korea and change this current attitude that trade is very negative, what do you believe are the consequences? Any comments? I mean, I think we are at the crossroads here.

Ambassador BARSHEFSKY. If I may just make the comment, Senator Roberts, the U.S. has always—and as former Trade Representatives, we all have—taken the view that every trade agreement we ever did had to have something in it for everybody, all the time, no matter what. The downside to that approach is that, one, it sets no priorities at all for what is the most important factor or set of factors that needs to be achieved, and then, even if an agreement falls somewhat short in other areas, nonetheless, pass the agreement, because the fact is, not everything the U.S. wants is attainable, all the more so given our diminished international stature and our current economic state, which, after all, has been the traditional source of our great power, not so much our military, at least since World War II.

So, in the case of Colombia, it seems to me rather obvious. This is a critical country. It is the oldest democracy in our region. It was nearing failed state status, with terrible consequences for its regional neighbors in instability. Not to pass the agreement, to repudiate it at this juncture, it having been negotiated, would do nothing to strengthen labor rights in Colombia. It would be Hugo Chavez's dream and would do everything to strengthen his brand of authoritarian populism and his use of natural resources as a weapon against, for example, other democratic nations.

Similarly, Korea. Of course the agreement should pass. This is the world's 13th-largest economy. The agreement having been negotiated, to repudiate it is to take an ally, a critical ally in a region where we are grossly under-represented—grossly under-represented—and turn that ally away. We cannot seem to accept "yes" as an answer from anybody.

I think it is critical that the U.S. set the priorities that are most important, work as hard as possible to get everything everyone could possibly want, but, if it does not work out quite that way, nonetheless the priorities having been set, move forward on these agreements. But I have never seen the U.S. grow closer to countries that we repudiate or grow closer in our goals of democratizing the world when we try to negotiate agreements which then do not pass the Congress.

The CHAIRMAN. Thank you very much.

We now have a little bit of an issue here as to who is next. We have an early bird rule here. One Senator was in the anteroom ahead of the other, the other was in the hearing room ahead of the other. The basic rule is whoever is in the anteroom first, so the next Senator is going to be Senator Stabenow. She is next, then Senator Bunning.

Senator Stabenow?

Senator STABENOW. Thank you, Mr. Chairman. And to my good friend Senator Bunning, thank you. Thank you, Mr. Chairman, for holding the hearing. I appreciate all of you being here.

I feel like I am representing the poster child State for what happens when we do not enforce our trade laws or get it right when they are negotiated, so I do feel compelled to share with you my thoughts on behalf of the people in the industries I represent, and I certainly welcome your comments.

We are in a global economy. We want to export our products, not our jobs. We have lost 3.5 million manufacturing jobs just in the last 8 years because we are not paying attention. My biggest concern—and Secretary Kantor, you have spoken before about trade enforcement. Certainly Ambassador Barshefsky, you did as well. But we are not creating a level playing field on trade. Our companies are competing against countries, and we have not yet figured that out in the way we have come forward with things.

It is not trade that is losing jobs. It is the fact that we are not creating a level playing field and enforcing the trade laws. I would first have to say, on South Korea, over 80 percent of what they send us right now is automobiles. The latest numbers are, they sold 700,000 to us, and we were able, because of non-tariff trade barriers, to get 6,300 in to them. This trade agreement does not guarantee a fix on that.

We have had two other Memorandums of Understanding that also did not create a fix on that. I am happy to support South Korea, as long as our products can be sold to them, including manufacturing and automobiles, as they are selling to us. Unfortunately, I do not see that, and I certainly do not see that from our industries. I am deeply concerned right now with the Doha Round and what has happened.

The latest thing I have heard from the Auto Trade Policy Council is that, in fact, once again the auto industry and manufacturers basically have been put aside for other interests, important interests, where major commercial net losses will occur in the U.S. auto industry because we are not addressing what is happening in terms of tariffs in the auto sector and non-tariff trade barriers.

We are bringing down ours, but we are not requiring other countries to eliminate theirs. After 7 years, on the last possible day, the USTR offered an extremely weak, watered-down proposal to ask countries to be more transparent on their auto standards. I just have to say that I go back to something that I remember, Secretary Kantor, you saying at a previous meeting, which is the fact that we have the smallest trade enforcement agency in the industrialized world.

We are negotiating agreements, but we are not making sure other countries keep their promises, and we are losing jobs as a re-

sult of that. That is the business perspective of manufacturers who have created the middle class in this country, as well as from a labor standpoint. So I would ask you to respond to certainly the concerns about enforcement, and I would simply say this. What we have done by lack of action and by not enforcing policies is create a race to the bottom in this country, saying to people, if you only work for less, lose your health care and your pension, we can be successful.

I would embrace what you have talked about in terms of a race to the top: education, innovation, tackling health care costs, and leveling the playing field on trade. But frankly, until we see that, the people in my State have said we have had enough of this until we can make sure that our policies reflect how we support growth and investment in the United States. So I would welcome your comments on that, or any suggestions, particularly as it relates to enforcement.

I am happy to have China in the WTO. Before they started, we had an \$83-billion trade deficit; now we have a \$256-billion trade deficit. With all due respect, I do not see where we are moving ahead. From a defense standpoint, we are making vehicles, we are making products that are critical to the national defense of our country. If we cannot manufacture those anymore, we are in deep trouble from a security standpoint. I would welcome your thoughts.

Secretary KANTOR. Mr. Chairman, I would like to, not respond, but to be supportive of that. Senator Stabenow, you and I have talked about a lot. First of all, thank you, Mr. Chairman, for your legislation on a trade prosecutor at USTR. If anyone is puzzled about why we cannot pass these trade agreements, you need not look further than the lack of credibility we now have with the American people. It may not be, in this room, something that we share because, for whatever reason, we seem to think we have an understanding of what is going on.

But if you are in Detroit and you are seeing, since 1999, less trucks going over the Ambassador Bridge or in the Detroit-Windsor Tunnel, or on the Blue Water Bridge, all three of which connect Detroit, and it is the auto industry that does it, and you realize the loss of jobs, and you are looking around for a culprit, fair or not, trade is it.

Now, we have not enforced our trade laws and trade agreements, particularly in the last 8 years, in the way that we should. We have brought 19 actions in the WTO. In the previous 5½ years since the WTO passed, 66 actions were brought in the WTO.

Now the numbers alone do not tell the story, but we need emphasis on standing up for our trade laws and trade agreements, having labor and environmental provisions in every trade agreement, addressing bribery and corruption, by the way, making sure when we write a trade agreement and we negotiate a trade agreement and we pass it here, that the American people are behind it. Because, if we do not do that, then trade policy, which has been so well articulated by my three colleagues, which is a positive agenda that we need to follow, will not go anywhere politically.

So I could not agree with you more, we must—we must—enforce these trade agreements. Nothing could go further in helping us do that than a trade prosecutor at USTR. I think my colleagues will

join with me. There is just not enough personnel there to do the kind of job that you or Senator Baucus would want us to do.

The CHAIRMAN. Senator Bunning?

Ambassador BARSHEFSKY. If I might add——

The CHAIRMAN. Just very briefly. Then I have to go to Senator Bunning. Very briefly.

Ambassador BARSHEFSKY. If I just might add, I think you are looking at people here who, when they were USTR, were real enforcement hawks. I agree with Mickey that there has been a dearth of cases filed in the last 7 years. My own view has always been, if you do not intend to enforce an agreement, do not negotiate the agreement. At the end of the day, enforcement is absolutely critical. Not the threat of enforcement, enforcement. This is what has been lacking, particularly the last 7 years.

The CHAIRMAN. Senator Bunning?

Senator BUNNING. Thank you, Mr. Chairman.

Welcome, distinguished panel. I think I have dealt with everyone who is on this panel, either at the Ways and Means Committee or over here, and some personally. As the largest market for goods and services in the world, our strategy on trade has been to offer access to the U.S. market in return for trade concessions that open foreign markets to U.S. goods and services. The strategy appears to have some flaws. During the past 9 years, our imports have doubled to \$2 trillion, but our trade deficit has grown from 2.7 percent of GDP in 1998 to 5.7 percent of GDP last year.

What good are trade agreements if the market access concessions we win are undermined by factors such as currency manipulation or other types of intellectual property stealing or all the things that have gone on with the trading partners that we have negotiated with? Anyone?

Secretary HILLS. Senator, I do not think that you can blame the growth of our trade deficit on the fact that markets are closed to our products as much as you can blame it on our over-spending and issues in the areas of the financial sector that Senator Brock alluded to.

We do have a mercantile manner of negotiation: we open our market if you open yours. But every time that we open our market to a less-developed country, they use the hard currency to buy products from us. China is much in the cross-hairs of our anxiety today. However, China is our fastest growing export market. Every State in the Union is enjoying triple-digit growth of exports to China.

Senator BUNNING. Let me just mention that. In China last year, we had a trade deficit of about \$256 billion, which was about 32 percent of our total trade deficit. We imported \$1.9 trillion worth of goods and services and exported \$1.1 trillion, so we had a \$790 billion trade deficit.

I do not disagree with what you have said, but when one country is 32 percent of your trade deficit and they are not enforcing our intellectual property laws in that country—I have been there, tried to meet with our good friends from China. Six members of this committee, in fact, went there. The Trade Representative—or the Trade Minister, excuse me—from China would not meet with the six U.S. Senators.

Secretary HILLS. If I could just respond. First of all, I think it is tragic that the Trade Minister in China did not have the opportunity to meet with you.

Senator BUNNING. Well, he would not.

Secretary HILLS. I do not endorse that. Let us look at this country of 1.3 billion people and look back to 1990.

Senator BUNNING. Well, there are 1.3 billion people.

Secretary HILLS. There are 1.3 billion people.

Senator BUNNING. Yes.

Secretary HILLS. Right. In 1990, when I served, we were focused on Japan, and our deficit with East Asia as a whole was about 50 percent of the total. Today our deficit with East Asia as a whole is 40 percent of the total. The difference is that our deficit with Japan has shrunk. Our deficits with Singapore, Taiwan, and South Korea have shrunk, and our deficit with China has grown as other East Asian countries have moved their production facilities to China. So, China is now the biggest deficit contributor in East Asia, but East Asia's total deficit vis-à-vis the United States has gone down.

You mentioned intellectual property. I could not agree with you more. We should enforce our intellectual property laws, but we need different measures, domestic measures, to tackle our trade deficit as opposed to those needed to enforce our intellectual property laws. They are both important.

Senator BUNNING. My time has expired. The biggest problem I am having is that, if you have a problem with enforcement, and we do, and we have a problem with one country, and we do, the fact that they will not talk with the people who actually have to pass the trade laws that we make—it is not the administration. They negotiate it, but we have to pass it. That is the problem that Senator Stabenow has talked about. It is in the province of the Congress of the United States to pass a reasonable trade law that gives us—

Secretary HILLS. I understand your problem.

Senator BUNNING. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Conrad?

Senator CONRAD. Thank you, Mr. Chairman. Thank you very much for having this hearing.

This is a very distinguished panel, and people who have real-world experience dealing with these trade issues. I would just like to take a moment for a reality check, because, as I listen to the conversation here, it seems disconnected from the conversations I have when I go home. Let me just say, I represent North Dakota, a State that is heavily dependent on trade, because so much of what we produce in agriculture is exported.

Also, North Dakota is an energy State, although most people do not think of us that way. But we have major coal deposits. We have tremendous deposits of oil and natural gas. In fact, the Bakken formation—it has just been determined we have 150 billion barrels of oil in North Dakota, really quite a stunning revelation. Unfortunately, only a small percentage of that is recoverable under current technology, but nonetheless, enormous deposits there.

When I talk about a disconnect, when I go home people talk to me about their sense that we have not done a good job negotiating for ourselves, that we have a \$700-billion trade deficit. Although they do not know the number, they know that we are buying much more than we sell and that that disparity is increasing. We have told them we have had a series of great successes—the Canadian Free Trade Agreement, NAFTA, WTO, China PNTR, CAFTA—and the trade deficit keeps going up.

They say, how can we afford much more of this success? I have had people ask me that in meetings all across North Dakota. I can tell you, in a State like mine which had traditionally been very favorable toward trade, now there is great skepticism. They believe that we are not doing a very good job negotiating for ourselves.

Let me point to one sector, agriculture, which is the dominant part of North Dakota's economy. They say to me, wait a minute. The Europeans, our major competitors, provide more than 3 times as much support to their producers as we provide to ours. We enter into these agreements that maintain their advantage. This is after cap reform. Before cap reform they had a 5:1 advantage. Now it is something over, well over, 3:1. They see us make an offer in this negotiation. Nobody bites, so then we make another offer, more generous, negotiating against ourselves.

I just was at a meeting in North Dakota with some of the major industry leaders in my State, and they said, who taught our negotiators negotiation? How did anybody ever succeed in a negotiation by negotiating against yourself?

We make an offer, nobody bites, so we make a more generous offer. Nobody bites on that one, so we make another one. If anybody thinks that people out at home are not aware of what is happening, they are badly misinformed. These people read the *Wall Street Journal*, they read the *New York Times*. They do it online in the morning when they are going about their farm chores, and they know that we are out there negotiating against ourselves.

Let me, if I could, just ask each of you: what do we do about this growing trade deficit that is increasingly unsustainable? What do we do to recapture credibility by dealing with that?

Secretary Kantor?

Secretary KANTOR. Well, quickly, because I am sure my colleagues have a lot to say on this one, we just have to be more competitive, is one. That is a mid-term to long-term issue, but you know those issues from education, to energy, to health care, and so on, including doing something about this fiscal deficit, which of course you have been a great champion of trying to do something about in your career, Senator, and we appreciate that.

Second is, we have to restore credibility to our trade program. Unfortunately—or fortunately, and I think, fortunately—it means we have to look at our trade laws and trade agreements and enforce them. We need a trade prosecutor, we need labor and environmental provisions in every trade agreement. We need to address the issues of bribery and corruption. We need to make sure that we establish that trade prosecutor at USTR. We need to go to the Chinese and say there are 66 pages in the National Trade Estimates Report published by USTR of problems that China has with trade with the United States. It is 66 pages.

Now, I would take each of those pages, if I were USTR, and just start going down the list. We are going to resolve these one way or the other. On the other hand, we need to cooperate with China in so many areas, as my three colleagues have been very articulate in discussing. We need to update our significant trade agreements. NAFTA first began negotiations—I think, Secretary Hills, it was 1990. It was 18 years ago. Clearly, things need to be done, including putting labor and environmental provisions inside that agreement with a good dispute settlement mechanism.

When we negotiated that in 1993, as you remember, Senator, President Bush 41 had already signed NAFTA, and we had to put them outside the agreement. There had never been labor and environmental provisions in any trade agreement in history. Those provisions were all right, but not great. I negotiated them, but they were not terrific. We need to make them terrific. We need to put them inside the agreement and sit down with our Canadian and Mexican counterparts and get it done.

Now, will that affect the trade deficit? Maybe or maybe not. But what it will do is say to the American people, we are standing up for your interests. Nothing could be more important.

The CHAIRMAN. Senator Lincoln?

Senator CONRAD. I will come back on my second round and just repeat the question so others get a chance.

Senator LINCOLN. A special thanks to the chairman for gathering such a distinguished panel. We appreciate so much your willingness to come and work with us. It is such a great opportunity to step back and take a look at our trade agenda, particularly in today's world. We are now up here grappling with the idea of having to move from an old energy economy to a new energy economy. We are also seeing that in trade.

We have been begging for years to be a part of the global economy, and, now that the global economy is here, we have to figure out what our role is and how we participate in this global economy. Countries like China, India, Brazil, all of these others that are engaging in so much of this, we now have to figure out how we do it and what we do with this global economy that we have begged for.

I do find it interesting that there seems to be a consensus among our panel here that trade often does get unfairly characterized. I mean, I think you have heard that from a lot of us, but to hear it from you all as well is important. Certainly the skepticism of the benefits of trade is being fueled, I think in large part by not just agreements, but certainly other issues which you all have mentioned, stagnant middle-class incomes, inflation, caused in large part by our huge government deficits, rising energy and food prices. These are all things that are contributing to the skepticism that exists out where we all come from, which is the heartland of America.

But you all have some great suggestions, and we do very much appreciate that. I think you emphasized improving education. I think we all have to remember that our competitiveness, as Secretary Kantor recognizes, is a really important part of what we have to do in this global economy. It is definitely linked to education, where we have dropped internationally in terms of K-12, the investment that we are making in our human capital. Energy,

health care costs—nobody has really talked about raw materials and what that does to us, as well as producers in the global economy. Legal liability and other things really do affect how we participate in this global economy.

I would just like to ask a couple of questions. I guess the options that are on the table right now, you all have expressed an awful lot of things that we could do. But I would love for each of you to maybe take the top two, or maybe the most important thing that we could do in terms of the challenges that we face regarding trade, and what would be the number one or number two that we should do, in this next Congress—obviously our time is limited now—to focus this committee, to really start in that process of dealing with four, five, six, seven different things. But what would be the first one?

I think, Secretary Kantor, you also touched on our agricultural sector and its importance to trade. Many of you all have talked about that. We are in the midst of a global food crisis. We are also looking at our own energy crisis and the role that renewables and agricultural products are going to play in that energy crisis. We have seen some countries close their borders to agricultural trade in response.

I have been very interested in what is going on this past week with the Doha Round and the negotiations on agriculture, wondering what you all's comments would be in terms of believing that the so-called advanced developing countries, particularly China, Brazil, and India, are going to come to the table and really provide the kind of market access that our growers, our producers are going to need to be able to remain competitive and continue to grow the safest, most abundant, and most environmentally sensitive crops in the world and continue to be the leaders in those areas.

So the one most important thing is, do you think we are ever going to see other countries work with us in terms of opening markets for access to agriculture? Anybody?

Senator BROCK. I will start. If you want to deal with your trade deficit in the short term, live within your means domestically. Deal with the Federal deficits. You cannot continue to spend yourself rich. It cannot be done, and it is destroying our ability to compete. If you have a long-term answer, look at the fact that we have a knowledge-based technologically networked global economy. All productivity improvements come out of knowledge, not out of muscle.

We have a situation where 100 kids go to the 9th grade, 68 finish high school, 40 go on to college, 27 finish the first year, 18 have finished with a bachelor's degree in 6 years or an associate degree in 3, and 85 percent of the new jobs require post-secondary education. We have lost our minds in this country because we do not pay attention to human development. There is no higher priority for this country. If we do not address that, nothing else is going to work.

Senator LINCOLN. As the mother of twin 12-year-olds, I appreciate that answer. Thank you.

Ambassador BARSHEFSKY. If I can second what Senator Brock said. Richard Nixon equated trade deficits and unfair trade. That

was when our trade deficit was in the billions. This was never the right characterization, but it has stuck. Efforts by each of us to try to unstick it have always been unsuccessful because it is a very convenient moniker. A trade deficit is the difference between what we earn and what we spend, and it reflects what you see at a household level. Americans have a penchant for accumulating massive debt. We live way beyond our means.

Our national savings rate is a disgrace. It is 40 percent in China, it is still in the low 20s in Japan, and it hovers between a negative number here and 1. That is what a trade deficit is. If you were to remove all of the unfair trade barriers that exist in the world today, my guess—but it is a reasonably educated guess—is that you would move the trade deficit dial by maybe 10 percent. Not points, not 10 points, but 10 percent, 15 percent.

The aggregate imbalances are huge because Americans will buy anything that moves whether or not they have the money. [Laughter.] That is what we do best. It is what powers our economy. It is what has powered the global economy. It is why, when the U.S. slows down, there is a contagion-like effect, somewhat less today than it was 10 years ago, but there is still a contagion-like effect.

So I agree with Bill. The most important thing we can do is to address our fiscal imbalances and get Americans to understand the importance of savings. If we do not like trade with China, then why is China our banker, which we willingly accept? If we do not like trade with Asia, then why is it that we have put ourselves in a position where Asia is our banker? How many of us go to our banker to say, excuse me, I do not like your attitude? I would say none. [Laughter.]

The CHAIRMAN. Thank you, Senator.

I would just follow on that conversation a bit. One reason private savings rates are so high in other countries—let us say China, for example—is because China does not have nearly as well-developed a social services network, whether it is health care, pension, retirement, and so on and so forth.

I am not advocating this, but if the U.S. were to live totally within its means fiscally—that is, the government would—it would necessarily mean less expenditures someplace. Maybe that is Iraq. Maybe that is Afghanistan. Maybe it is Medicare, maybe it is Medicaid. Maybe it is other government expenditures. It would still mean taxes are not raised.

So it would mean, if my analysis is correct, some very significant dislocations if we started to live fiscally, totally within our means. So I am curious whether you have any thoughts on how we might adjust so we live more within our means, but in a way that is not totally cataclysmic. Anyone?

Secretary KANTOR. Mr. Chairman, this goes to Senator Lincoln's question as well. I can do this very quickly. It is not just the problem of Americans, as you say, in the heartland of America. We need presidential leadership, number one. We need an agreement between Congress and the next administration as to how we are going to proceed in some detail, and we need a bipartisan coalition up here to put that into action. Those are the things I would think would be most important.

All of what has been said here is absolutely correct. I associate with it, I am for it. But if we do not do that and we do not say to ourselves, as Senator Conrad has suggested, it is not just the problem of Americans overspending and not saving, we have a consumption economy—it is two-thirds of our GDP, we all understand that—we also have to come to some agreements here in Washington between the administration and the Congress, and within the Congress itself, as to how we are going to proceed if we are going to make progress.

The CHAIRMAN. Well, it really requires presidential leadership. It is hard for Congress to do this on its own if a president is not on board.

Secretary KANTOR. I could not agree more. It is not just leadership from time to time, it is constant and consistent leadership, advocating these policies and agreements with the Congress, that is going to make this happen.

The CHAIRMAN. Frankly, I do not see, so far in the presidential campaigns, a significant indication from either candidate that he understands this, grasps it, and understands that this has to be addressed in a very full way.

Senator BROCK. Mr. Chairman, I agree with that. I also think some very unfortunate statements have been made in the presidential campaign that lead us to think we are going to go negative in terms of our responsibilities. But candidly, if I were a candidate, I would pay attention to the fact that this is not a popular subject to talk about. We keep avoiding the hard issues.

The CHAIRMAN. Yes.

Senator BROCK. We are not talking about education reform. We are not talking, frankly, about training reform, about adjustment reform. We are not talking about health reform very effectively. We have not dealt with energy. You have to worry about where this country is in terms of, are we able politically to address the hard issues any more? I very much respect the question, but it is going to take not just a new president, it is going to take committees like this. I have worked with this committee for 40 years, and I have seen some terrific things come out of here. Russell Long was fun to deal with. [Laughter.] You are.

But here we are. Committees like this can play an extraordinary role. We talked about the U.S. and China with energy and environment. Hearings on issues like that would break some new ground in terms of the national conversation, that is really where you can make an extraordinary difference. I think this conversation today is a pretty good example.

The CHAIRMAN. It is a good start. I deeply appreciate it.

Senator Conrad? I have to leave. I have to go to something else. But, Senator Conrad?

Senator CONRAD. How much longer would you want us to go?

The CHAIRMAN. You can proceed as long as you want. [Laughter.]

Senator CONRAD. But we will not ask the witnesses to stay past noon, certainly. But thank you, Mr. Chairman. Again, thank you for having this hearing. What an excellent hearing.

Senator Brock, just for a moment I would like to go back to something you ran through just off the top of your head there in terms of education, because I want to make sure I have the num-

bers. You talked about, 100 enter school, I think you said 69 graduate high school.

Senator BROCK. Sixty-eight.

Senator CONRAD. Sixty-eight. Forty——

Senator BROCK. Go on to college.

Senator CONRAD [continuing]. Go on to college. Twenty-seven——

Senator BROCK. Some form of post-secondary. Yes.

Senator CONRAD. Twenty-seven complete the first year.

Senator BROCK. Twenty-seven enter the second year, let us put it that way.

Senator CONRAD. Twenty-seven enter the second year. Then was there something after that?

Senator BROCK. Only 18 out of 100, after 3 years, have an associate degree, or 6 years, have a B.A.

Senator CONRAD. All right.

Senator BROCK. That is scary.

Senator CONRAD. I really liked your going through that, because that goes to the heart of one of the issues that we have. I also very much like what all of you were talking about with respect to fiscal policy and the role it has as we continue to run these massive fiscal deficits which are dis-savings, societal dis-savings that put us in the hole Ambassador Barshefsky referred to where we actually have now a negative savings rate, at least by some measures, in this country. That has enormous implications for the future, because, if you do not have savings, then at some point you have reduced investment, which means you have less economic growth. I mean, these things are connected.

One of the great frustrations we have here is helping our colleagues connect the dots, because they are pulled in so many different directions. These things, to some of my colleagues, just become numbers on a page and they do not connect to real people's real lives. The great challenge we have collectively is to connect the dots so that these are not just numbers on a page. This is directly related to the kinds of lives, at least the economic lives, people are going to lead in this country.

If I could go back. I raised the question on the \$700-billion trade deficit and credibility. I wanted to give each of the others—Secretary Kantor had an excellent answer. I wanted to give you, Senator Brock, Secretary Hills, and Ambassador Barshefsky, a chance to give your reflections on that question. What do we do about this massive, yawning trade deficit? What are the specific steps you think we ought to bring to the attention of our colleagues?

Senator BROCK. The hard part of the answer is that we have to do things that are unrelated to trade. Negotiations are not going to fix—I think it was Charlene, or maybe it was Carla, who said, if we got everything we wanted, we might change the trade numbers by 10 percent. That is probably optimistic. Negotiations are not our problem. You can blame the negotiators all you want to, but they are not the problem. The problem is us.

We are not educating our kids, and they are falling further and further behind—Carla said 9th in the world; there are some studies that show us 28th in the world. In one literacy study, our adult literacy, we only beat Cyprus, for gosh sakes. Every other industrial country is doing better than we are. Here is Korea, that was below

Afghanistan 20 years ago, and now they are number one in the world in the percentage of their GDP that they are putting into education. That means they are number two in the world of high school graduates, number three in the world in terms of college graduates. We are not doing that. We are not paying attention to that. So, we have to go back to our human development. That has to be the top priority.

Second, if you are going to deal with this fiscal deficit, you have to think about the way we compose our tax policy. That is where this committee does have jurisdiction. Why is it that other countries have a value added tax, what we used to call a business transfer tax, on anything we ship over there, and they come over here, they are tax refunded at the border, and they come in tax-free. We have to compete over there against that. What if we had some equivalent tax instead of the payroll—

Senator CONRAD. Nothing rebatable at the border.

Senator BROCK. Yes. The payroll tax is a tax on work. Why are we taxing work in the United States? We ought to be taxing consumption, but not work. What if we replaced the payroll tax with some form of a business transfer tax or a value added tax? It would enhance our competitive viability, it would take the burden off of our workers, and it would give us more competitive opportunities.

Senator CONRAD. The last member who recommended that, you may remember the Congressman from Oregon who was on the Ways and Means Committee and found his career quickly ended. Part of the problem here is, if we are going to seriously address—my own belief is, our country is in a deep hole and we have to do a lot of tough things, and an awful lot of them are going to be unpopular. I really believe we have to deal with entitlements. We have over-promised.

Senator BROCK. We have to.

Senator CONRAD. We are going to have to deal with the tax structure. I think we have to have thorough-going tax reform. Our tax system was created at a time when we were a colossus. We faced very little competition. Now the world has fundamentally changed, and we are stuck with a tax system that has almost no relationship to our current competitive environment.

Senator BROCK. I completely agree. Completely agree. It can be done. Just to talk about the politics, though, Senator, if you are replacing a negative tax with one that has better economic logic to it, that is not necessarily a political hazard. There are ways that we can do this. The American people are not dumb. They know we are not living within our means. They know we have to do some things differently. They just want somebody to say, here, let us try this, or let us debate. All these primaries, we have had all these debates. We have not had a debate on education. We have not had a debate on real tax policy. What are we debating? I do not know.

Senator CONRAD. We have had really very little debate on economic policy.

Senator BROCK. Thank you. Absolutely.

Senator CONRAD. Secretary Hills?

Secretary HILLS. Well, Senator, I would agree with everything that Bill Brock has just said. The most important thing to correct in each of those areas is educating the American people. What we

have heard for months and months and months are untruths about trade; trade is responsible for stagnant wages; trade is responsible for our deficit; our trade policy is responsible for every ill in the economy.

A key issue is to educate Americans about the benefits that flow from global trade and our trade agreements, and this committee could play a big part in doing just that. And we must be clear with our fellow Americans, our Nation cannot be globally competitive unless we turn around that appalling and unacceptable statistic that 30 percent of our high school students fail to graduate. Americans need to know the facts so that they will understand the hard choices their elected leaders must make to deal with today's challenges. You mentioned the tax policy. Again, we do not talk about the fact that we tax work, not consumption. We can speak straight to the American people. I would like to see and hear every Senator talking to his or her constituents about such facts. For example, stop saying that NAFTA costs us jobs, when the fact is, and the non-partisan Congressional Research Service shows, that is false. It did not cost us jobs. In fact, NAFTA has provided a pay-off for the average American family of about \$600.

There are facts that we should be getting out on trade that would set the record straight, and let us talk seriously about policy changes that make economic sense. This, we have not been doing. We have been using slogans that are totally incorrect on education, on tax, and on trade. It has gotten us into a deep hole. When we talk about the deficit, we should tell the American people the facts: that the largest portions of the deficit are, (A) our negative savings, and (B) our energy costs. We could and should do something about both, and it is up to us to exercise the political will to deal with those issues, not to hide behind falsehoods.

Senator CONRAD. Yes. Energy costs now—we are spending about \$700 billion a year that is going out of the country. You wonder, how much better would our country be, how much stronger would the economy be if some significant portion of that were being spent here?

Senator BROCK. Like developing oil in your State.

Senator CONRAD. Yes. We are very excited about the prospects in my State, and we are developing the oil in my State. We have other States, unfortunately, that somehow have an attitude that it is fine to do it in North Dakota, but they do not want it. Not only do they want it in their State, they do not want it anywhere close to their State.

Ambassador Barshefsky?

Ambassador BARSHEFSKY. Yes. I would just add that I have been distressed now for a number of years about the level of political debate in the United States. It is at its meanest, lowest, and most ill-advised when, in presidential prime-time, two candidates debate who hates NAFTA more, as though NAFTA is relevant to our competitive position today, as though NAFTA makes a difference with respect to our responsibility to educate our children, as though NAFTA is the cause of job loss, when it is quite clear that it has not been, and that is a bipartisan result.

There is no question that, with respect to priorities, education is critical. How is it that a 4th-grader in the U.S. ranks quite well

in math among the OECD countries, and by 12th grade we are 28 of 30? What happened between 4th grade and 12th grade that we cannot seem, first of all, to acknowledge nationally, and second of all, to fix?

Senator CONRAD. Can I just interrupt you on that point? I have just done kind of a little experiment on this. I have gone to a number of schools, and I ask the students, how many of you do 2 hours of homework a night, high school audiences? Almost no hands go up. I ask the teachers, when I was going to school we were doing lots of homework. I was easily doing 2 hours a night, because it was right after Sputnik and so they established all these special classes, special classes in science, in math. I will tell you, we were doing homework. Now, somehow they are not doing it.

So I asked the teachers, why are you not assigning homework? Their answer is, the parents object. I said, really? What is the nature of their objection? Well, their objection is, the kids have a job after school. I said, what is the reason for that? Well, they have got to pay for gas for the car. I mean, somehow we have gotten all confused here about what this is about.

Senator BROCK. They gave them the car.

Senator CONRAD. They probably did give them the car. But honestly, I have had this conversation, not once, not twice, but dozens of times. So we are not doing homework. We are not doing homework because the parents object. The parents object because the kids have a job. The kids have a job to pay for the car. Wait a minute.

Senator BROCK. And the iPod.

Senator CONRAD. And the iPod, yes.

Senator BROCK. And the boom box.

Senator CONRAD. Yes. But this kind of gets down to a matter of priorities. Somehow I think our priorities have gotten a little skewed here. We have gotten way out there on things that are pretty trivial, and we have forgotten about the basics. The basics are, you have to get as good as—my grandmother was a schoolteacher. I was raised by my grandparents. My grandmother said, there are three priorities in this household: number one is education, number two is education, number three is education. Everybody got the message, and we need to do that.

Senator Lincoln?

Senator LINCOLN. Thanks.

Well, thanks again. I am extremely pleased in your response about education, because I think it is so important; I really do. In terms of the human capital that we have to invest in in this country, it is going to be just absolutely critical if we are going to be successful.

I would just like to go to two things. One, the labor and environment parts of the agreements that Secretary Kantor brings up. It seems now, more so than ever, when we are looking at the issue of energy, the cost of energy, what the cost of it is to our economy, to our businesses, to the climate, quite frankly, the issue of labor and the ability to be able to ensure that there is a quality of life in the labor force, I agree with Secretary Kantor that it has to be a part of these agreements. Is it appropriate for us, as we talk about energy, particularly, and the environment, to use those as

tools in trade agreements in regard to—I mean, our two big discussions up here have been about energy and its costs and how we move forward in this new energy economy.

We have been talking about climate change, and my biggest concerns in climate change have been the costs, making sure that the cost is relative and that we are not putting a disproportionate burden on low-income working families, making sure that what we are doing is cost containment and we are being reasonable in terms of how we administer those issues.

Can we use those as tools when we are negotiating in terms of encouraging—not just doing things to set an example, but doing things and using that as a tool in what we negotiate in those trade agreements? I would just add to that, hopefully my previous question, which was, when Doha right now is negotiating on agriculture, how do we stand there?

Do we really think that these other countries, particularly maybe the advanced developing countries like China and others, are going to open their markets to our agricultural goods or not? I mean, I think that has a direct relationship to the other question I have asked, which is the role that environment plays in the tools that you have in your toolbox to negotiate and move us forward in a new energy economy, and a new world global economy. Does that make sense?

Senator BROCK. Yes. Can I take a stab at it?

Senator LINCOLN. Yes, sir.

Senator BROCK. Reading the wires from the last 12 hours leads you to a certain amount of pessimism about the round. India is being a serious block to moving. China has joined them. They have maybe 30 of the developing countries associated with them. It is hard to see whether we can get a breakthrough or not. We have a terrific team over there, and they are working their hearts out.

Senator LINCOLN. From an agricultural-based State, no deal is better than a bad deal.

Senator BROCK. We have all agreed to that, and that is the truth of it.

Senator LINCOLN. Yes.

Senator BROCK. I am not sure—were you in the room when we were talking about a U.S.-China conversation? I do not think you were.

Senator LINCOLN. Maybe I was not.

Senator BROCK. Three of us have gotten involved in a private initiative to get China and the United States talking about the connection between energy and the environment—maybe doing some things together, because we are the two largest consumers in the world, by yards.

Senator LINCOLN. That is right.

Senator BROCK. There is no nation even close to us. When you put on top of that, we have the technology and China has a problem that is much worse than ours, frankly, if we could do this in just a bilateral context of getting something done—it would be more than an example, because, if the two of us really made a difference in this area, we would open the door for a huge amount of improvement in the rest of the world. We could work on joint technologies.

China has an extraordinary amount of creativity. We have to be sure that, when we work with them in this area, we have dealt with the intellectual property problem that we have with China. Now, all of these things are part of a whole. That is my point. I do not think we are grabbing some of these opportunities as effectively as we could to sort of leap-frog the present stalled situation, I guess.

Ambassador BARSHEFSKY. Can I make a comment?

Senator LINCOLN. Oh, sure. I just know Secretary Kantor had some comments.

Secretary KANTOR. This has been happening for years. Go ahead. [Laughter.]

Ambassador BARSHEFSKY. No, Mickey. You go. That has also been happening for years. You go. [Laughter.]

Secretary KANTOR. Just real quickly. Japan is 9 times more efficient in conservation and energy than China, 3 times more efficient than we are. You are right, we have to start with China. I think trade will not solve it. You cannot have trade agreements that solve all these problems. Trade is not the only way. But a bilateral agreement with China in a trade context of reducing tariffs and taxes, getting rid of them on environmental and energy equipment and high technology, it is in our interests. By the way, it is in China's interest too, to address the problem.

Senator LINCOLN. Yes.

Secretary KANTOR. But also in terms of introducing, here at home and in China, conservation techniques and technologies and requirements. I know the Senate is taking steps towards that, both with mobile and stationary sources. It will make a huge difference. Then we have to bring the rest of the world into this. But trade will not solve all these problems, and I think we all understand that, but it is one part of the solution.

Ambassador BARSHEFSKY. I would just add, the U.S. is the highest per capita emitter of carbon. We are 25 percent of total annual global emissions. Our per capita oil consumption is the highest in the world. It is twice that of Europe. The productivity with which we use that oil is among the lowest of developed countries. Americans seem to believe we have a right to waste, and so we do.

Yes, these are critical issues on which to negotiate, particularly, and I agree, with China, there is no question. Are these parts of trade agreements? I think the environmental issues readily stand on their own, and certainly the urgency of those issues with respect to climate change suggest that to put these in a global round-type setting from the get-go will lead to 10 years of basic inactivity. We cannot afford 10 years of inactivity in these areas.

I do think we have to be careful what it is we ask of other countries when we do trade agreements on the environmental side, because we are asking these countries to change their regimes for the privilege of buying our goods, when in fact we need to export our goods; but also, given our own quite dismal record on environmental usage, or rather energy usage and environmental degradation, we have to be a little bit careful when you are talking about countries that are vastly poorer than the United States, which do not have the kinds of resources we do to enforce environmental standards across the board.

So we just have to show a little bit of sensitivity. I think these are critical issues, obviously, but we also have to show a little bit of sensitivity, and again figure out what our priorities are. If our priorities are to export our goods, because of 20 percent of all American jobs and because those are the best-paying jobs in our economy, then we ought to make that a priority.

Senator LINCOLN. Well, it is difficult because we are an older economy. We are the developed nation. You look at China, there is an opportunity with China because as their middle class grows and they are purchasing more automobiles, they are purchasing them at a time when an alternative vehicle is much more likely than it is for an American, necessarily, to even replace one of those. So there are opportunities on both sides, and it is important for us to acknowledge what each of our respective opportunities are.

Ambassador BARSHEFSKY. If I might say, this is why I said that what we need to do actually is narrow the agenda with China, not expand the agenda with China. One of the most critical areas is climate change. So, if the U.S. and China do not come to agreement, it will not happen.

Senator LINCOLN. You are right.

Ambassador BARSHEFSKY. Each will believe it is severely disadvantaged by the other, and then that is the end of the conversation. So it is absolutely critical that the U.S. and China get together. It also suggests focused attention on the issue, not on the other 150 issues that are around the agenda, but there probably ought to be 5 issues on the agenda that merit really intense focus, one of which, of course, is macroeconomic policy and exchange rates. Then you go at these issues persistently and methodically, clear away the rest of the underbrush, because it does not matter.

Secretary HILLS. Let me say that I agree with what Charlene has said on the fact that we are the largest emitter, we are the largest consumer, and that we need to turn around our own behavior. It makes sense, as we said before you entered the room, Senator, for us to sit with China, not to dictate to China, but to find a way to link energy conservation—that is technology—clean energy, and the environment.

And were we to find a way for the two largest emitters in the world to reach agreement, we would find that we would set a precedent for how we might work with other governments in the future. So my strong recommendation is not to add this to our multilateral trade talks now. We have a number of multilateral environmental agreements, and we should start dealing with this issue by creating a bilateral partnership with China to see how we could mutually help each other. Also, you asked how Doha is going. Senator Brock gave you a somewhat pessimistic answer, and it brought to mind the fact that the Uruguay Round blew up in 1990 in Brussels.

My counterpart, Trade Minister John Crosby from Canada, from Newfoundland, said, when people were complaining that it had come to a halt, "Well, she's dead but she won't lie down." And don't give up yet. We will not get all of what we want, but please keep in mind that, in addition to the economic benefits, there are enormous security benefits. If we do not integrate the countries that are now on the fringe of our global trading system into that system and

bring down globally the barriers to what they have to trade, we will have serious trouble in the future.

Bangladesh, Indonesia, Pakistan, large Muslim countries, each have 100 million people living below the poverty line. We have higher barriers by 15 times on the products they sell to us than we have on the products that rich countries sell to us. That should be changed, and we could and should lead in that effort. Were we to add those large countries, among others, to the global trading system, it would copy the great programs like the Marshall Plan that we launched after World War II and it would greatly enhance our security as well as our prosperity.

But trade is not a silver bullet. Trade is one key component of a strategy for enhancing our prosperity and security. I hope that you will help, not hinder, the negotiations in Doha by refraining from putting limitations that are unrealistic on our negotiators, because, even if we get 50 percent of what we are after, it will not be a bad agreement. Because every time we improve the global trading system, we are better off. And, please, do not forget the pending Colombia, the South Korea, and the Panama trade agreements, which are strategic, and have profound security implications for us, as well as economic.

Senator LINCOLN. Well, it is so sad because there are so many possibilities there. But as we have discussed earlier, there are two sides here. People have chosen sides. I believe that TAA and many of those FTAs are very, very important, and I think a lot of us would hope that we could move those things parallel in a way that made sense. But I do not know. It does not look like that is going to happen.

Senator BROCK. You hang in there, Senator. [Laughter.]

Secretary HILLS. We are rooting for you on that one.

Senator BROCK. We have not given up. Everyone else on this panel agrees.

Secretary HILLS. There is a grand bargain to be made. You notice that we all supported an increase in Trade Adjustment Assistance.

Senator LINCOLN. It is absolutely necessary.

Secretary HILLS. Expanding Trade Adjustment Assistance coupled with opening up the current trade impasse and moving forward on pending trade agreements is a grand bargain that would serve our Nation well.

Senator LINCOLN. It is not only important for the economy, but it goes back to the other thing that we talked about earlier, which is the confidence that we need out in middle America, where people need to know that, when those jobs are compromised because of something we have agreed to, that we have not forgotten them.

Senator BROCK. But Senator, please, please, please be careful about relating unemployment to trade. Nine out of ten jobs are affected by changing consumer demands, changing market circumstances, changing technologies, changing productivity. We need to deal with unemployment, whatever the cause. That is one of the more fundamental things that has to be done. TAA is a misnomer. It is not Trade Adjustment Assistance.

Senator LINCOLN. But what it does for States like us is, it allows us to improve on that education and those skills. Like you said, I

am not saying that it is the whole reason, that trade agreements are the reason.

But they contribute to it in the sense that we are moving from an older economy to a newer economy, and we still have to be able to provide that education. And you are right, we are not doing it in K-12, so we have to make sure that, as those economies change and those jobs change, that there are the resources to provide the skills and the education.

Senator BROCK. We are in complete agreement.

Senator LINCOLN. My husband would say, we are in violent agreement. [Laughter.]

Senator BROCK. We are.

Ambassador BARSHEFSKY. Exactly.

Senator BROCK. But unemployment is unemployment. If you are out of work, you are out of work. We as a people are losing something important when that person is not able to participate productively. We need, whatever the cause of that unemployment, to help them get the tools to become more productive, more flexible, more able to adapt. Frankly, we are going to have to have some wage insurance to help them bridge the gap.

Ambassador BARSHEFSKY. And I think this goes to sort of a fundamental point that I think all of us have made, and that is, Americans, I believe, do not at all appreciate the world in which we live. This is not the world in which anyone here grew up. It is not the world that dictates that the children will do better than the parents' generation. It is actually quite the reverse in the minds of most Americans. Most Americans believe their children will not do as well as they did. This is the first generation where poll numbers show this quite unequivocally.

It should not be this way, but it will be this way so long as the level of debate is as truncated and as ill-informed as it often is, including by presidential candidates, including by educators, including by some members of Congress. It is vitally important—this is where presidential leadership, I think, particularly plays a role—that the American people understand what this economy actually is, what its implications are, what the side issues are, and what the real issues are that have to be tackled for our future.

Senator CONRAD. We thank you. Let me just say that the four of you can be extremely proud of your contributions to the country, and certainly to this committee, and we thank you for both.

[Whereupon, at 12:05 p.m., the hearing was concluded.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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### Testimony to the Senate Committee on Finance

**Ambassador Charlene Barshefsky**  
**Former United States Trade Representative**

Mr. Chairman, Mr. Ranking Member and Members of the Committee, thank you for this opportunity to discuss America's trade agenda.

The Finance Committee has a decades-old tradition of careful deliberation and bipartisan leadership on trade and the global economy. Today's event is a sterling example. Trade has rarely been so important – whether we speak of the long-run questions of America's future growth and economic position in the world; or the immediate environment, with exports America's only significant source of private-sector growth during a period of financial crisis and contraction. But public anxieties over globalization have rarely been so high, and reasonably so. Structural change in the global economy is creating new industries and overturning familiar old ones; outdating old domestic policies, social arrangements and elements of our trade regime; and, as China and India rise, raising questions about America's status as the world's economic leader.

This hearing, accordingly, is a remarkable opportunity to reflect and develop consensus on our response to a profound set of challenges. My first and most important point is that trade policy can be only one element in this response, and not the principal element. We should place national competitiveness at the center, examining our finances, our commitment to science and innovation, our high-tech and traditional infrastructure, our human resources policies in both education and immigration, and other matters. We should also restructure our domestic social contract, to remove powerful sources of anxiety, notably fear of the loss of health care, as well as to spread the benefits more equitably and mitigate the risks for individuals. Together with this, we need a battery of trade, financial and other global policies that allow us to draw maximum benefit from the global economy, tap new areas of growth, and support our goals in national security, development and poverty reduction, and environmental quality.

These basic points are the foundation of my testimony today. I will touch upon four areas:

- The backdrop for a trade agenda, in the dramatic acceleration of the phenomena we bring together as “globalization” and the resulting shifts in competitiveness;
- The policy context and the ways trade policy needs to mesh with policies in other areas;
- The appropriate goals for trade policy *per se*; and
- A trade agenda that better meets our needs.

### BACKDROP: ACCELERATION OF GLOBALIZATION

The need for a robust set of policies today is intuitively clear to the country, and is especially striking when we look at the changes underway beyond our borders and outside the world of policy.

We often use terms like “never in history” and “unprecedented” to describe the modern global economy. We should employ them with care, because in most cases there are precedents. Exports and imports of goods were probably larger, relative to America’s domestic economy, in the 1790s than they are today. Foreign investment peaked relative to GDP in the late 19<sup>th</sup> century. Immigration reached its highest point in the first decades of the 20<sup>th</sup> century. And alarm over low-wage competition from abroad was the basis of almost all American trade arguments from the 1820s until 1932; as early as 1791, Alexander Hamilton was pointing out that to match low-income European competition we would need to improve our use of technology and our productivity. More recently, concern with low-wage competition has characterized the debate over trade with the Asian tigers in the 1980s, Mexico in the 1990s, and many free trade agreements that have followed.

Ever since our first major trade agreement of the modern era, the GATT agreement of 1947, the growth of the world economy has been accelerating. The economic historian Angus Maddison suggests that the global economy grew about five-fold between the year 1 and the year 1800; then grew ten-fold to the year 1950; and grew again ten-fold between 1950 and 2000. And this decade has presented challenges that are unique in modern experience, and in some cases fundamentally new. The pace of change has again accelerated – and not only in terms of aggregate growth, but along other axes, with more players, new industries, and new patterns of industrial organization led by the multinational supply chain.

Most of these shifts have emerged from processes outside American policy, and sometimes outside the world of ‘policy’ completely. Despite many debates over specific agreements in this decade, our actual trade regime has been relatively static. The only significant liberalization of U.S. policy has been abolition of textile quotas (other than for China) three years ago. Even here, high tariffs remain. The drivers of globalization in this decade have instead been dominated by structural changes in technology, logistics and Asian geopolitics:

*Information technology and telecommunications:* International communications are easier and cheaper each year. The massive investment in IT infrastructure since 1998 – over 370,000 kilometers of submarine cable and the weekly launch of a new communications satellite – has driven down the cost and vastly improved the quality of communications. This in turn has improved productivity and reduced redundancy in goods industries, created dozens of new Internet-based services industries, and rapidly ‘globalized’ many existing services industries by enabling large-scale experimentation in global media, finance, entertainment and others. This includes heavily publicized back-

office work, research and development, software design and other functions now done in India, the Philippines and other mid-income countries, in addition to the United States.

*Logistical industries:* The capacity and efficiency of the shipping and air-cargo industries grow annually. In 1997 UNCTAD's annual maritime-industry survey counted 2000 container ships, with an average capacity of 1600 twenty-foot equivalent containers (TEUs). By the 2007 report there were 4000 container ships, with an average capacity of 2400 TEUs. This is likely to continue as new container ships with upwards of 12,000 TEU capacity enter service. Advances in air cargo and express-delivery are less easy to quantify, but at least as rapid and profound. The combination, especially when linked to information technology, has facilitated the creation of elaborate international supply chains, and made international transport of manufactured goods and intermediate products much faster, cheaper and more precise.

*Asian economic integration:* Asia has integrated its economies and become vastly more competitive. China's opening to the world, beginning in 1978 and continuing ever since, has catalyzed a rapid evolution of the entire Asian economy. The continent has integrated much as Europe has, but in one decade rather than six. This is best traced through FDI statistics. China has received on average \$40-\$50 billion in FDI from Hong Kong, Taiwan, Japan, Korea and Singapore annually. Early in the decade, China's Commerce Ministry reported that this investment – usually a larger figure than American direct investment in China, Mexico, India and all other developing countries combined – was putting up 10-15,000 mainland manufacturing facilities a year. The result has been to transform Asian manufacturing and trade patterns on a massive scale, fusing the technological and financial power of Japan, Korea, Taiwan, Hong Kong, and Singapore with the resource base of Southeast Asia and the large, relatively low-cost and educated workforce of China.

The consequence has been a sudden, dramatic broadening of the global economy, occurring simultaneously in several different dimensions:

- Trade in goods and services has accelerated. In 1980, America's trade in goods and services, combining exports and imports, amounted to 20.6 percent of GDP. By 2000 the ratio had risen to 26.2 percent of GDP. So far in 2008, the figure is 30.4 percent. For the world as a whole, goods and services exports rose from 21 to 24.8 percent between 1980 and 2000, and reached 31 percent by 2007.
- Financial flows have grown even faster than trade flows. Currency trading volumes have doubled from \$1.5 to \$3 trillion a day over the last decade, and FDI flows, though more volatile, are growing at comparable rates.
- The flow of information has accelerated still faster. To choose a very simple example, international phone calls have grown in volume - the FCC counted about 22 million international phone call minutes in 1994 and 42 million by 2004 – and have become vastly cheaper, with the price per minute dropping from about 70 cents to a dime per minute in the last decade. And information flows are of

incomparably higher quality each year, as satellites and fiber-optic cable spread high-speed, high-bandwidth Internet connections around the world.

The combination has already made some policies visibly obsolete. The falling cost of trade, for example, has largely transmuted many light-industry tariffs from trade policies into excise taxes applied to goods barely made or not at all made in America. In fact, the highest manufacturing tariff in the U.S. Tariff schedules, a 48 percent tax on cheap sneakers, applies to a product not made here for decades. The effect abroad is similar, with the countries facing genuinely high barriers in the United States not industrial competitors but very low-income Asian, Arab and other majority Muslim countries. Last year, for example, the Customs service recorded a \$523 million tariff penalty on \$3 billion in Bangladeshi goods, a \$419 million penalty on \$2.4 billion worth of Cambodian goods – and simultaneously a \$412 million penalty on \$57 billion worth of British goods. The rapid development of multinational supply chains likewise has raised questions about the relevance of bilateral free trade agreements, with businesses more and more frequently choosing to maintain supply chains rather than meet rules of origin. One striking example is the falling share of imports from Canada and Mexico that come in under the NAFTA.

Looking ahead, we should expect many of the structural changes to accelerate further. Two large regions, Africa and the ‘greater Middle East,’ are still largely outside the world of integrated manufacturing, value-added agriculture and services. They, especially the Muslim Middle East, retain the policy characteristics of earlier times – reliance on natural resources, fragmented economies, and chaotic politics at times producing virulent regimes and political movements. Together they account for 1.5 billion people yet to enter the global economy in a meaningful way. Elsewhere, the IT revolution is certainly still in its infancy. Asian integration is continuing, now through deliberate trade, financial and infrastructure policies by China, Korea, Japan, India and ASEAN as well as by business investment. Logistical advance may slow a bit to accommodate higher fuel prices, but is likely to recover as businesses become more energy-efficient. So integration is coming at tremendous speed and in many different areas. Barring some calamitous event – a great-power war, or a massive disruption of energy supplies – it is likely to speed up rather than slow in the years ahead.

#### **EFFECTS AND CHALLENGE TO U.S.**

The pace of change – and, as I will note later, the slow response of domestic policy to it – has naturally aroused public anxiety. Again, though, we have past experience to draw upon. Similar waves of anxiety emerged in the early 1970s and the mid-1980s, coinciding like today’s, with the rise of large new competitors, the growth of international imbalances, and domestic economic downturns. Each is a sign that we need to examine ourselves and our policies closely, and adapt to new circumstances.

We should begin, of course, by observing that globalization has many positive effects. With foreign markets more open to our farmers, factories and services providers than ever before, America’s manufacturing exports have roughly doubled since 2002,

from \$560 billion to a likely \$1.04 trillion this year. Services and farm exports have risen even faster, to likely records around \$600 billion and \$135 billion, respectively. This is important in the long run for our economic success – and it is essential today with exports our only significant source of private-sector growth during a period of financial crisis, falling consumer confidence, and recession. To be precise, since mid-2007 exporters have provided about 0.6 percent growth in GDP, while the rest of the private sector has been contracting by about -0.2 percent. And wages in export dependent jobs range between 13 and 18 percent higher than non-export related jobs.

On the other side of the ledger, an open market helps us remain competitive; and by lowering the price of consumer goods, helps American families shift spending from life necessities like clothes and food to education, health and other services. The Bureau of Labor Statistics suggests that Americans devoted 27 percent of family spending to food and clothing in 1973, and now only 17 percent. And attempts to ease anxiety through import limits have either simply failed, as the maintenance of shoe tariffs and textile quotas did; or made existing problems worse while creating new ones, as they did at the end of the 1920s.

But these benefits have often been poorly spread – wages and incomes in particular have risen rapidly for high-income Americans, but stagnated for middle-income families – and globalization also brings challenge. As individuals, Americans compete against a much wider range of consumers, businesses and workers. The IMF made an interesting observation on this point last year, noting that the number of ‘globalized’ workers – that is, people who work in businesses that export or compete against imports, people who are employed by transnational businesses, or people who work outside their home country – rose from 225 to 900 million between 1980 and 2005. Matched against the growth of the overall global workforce, this means ‘globalized’ workers accounted for about one in nine of the world’s workers in 1980, and now make up one in four.

On a national scale, we have to ask questions about our own ability to remain the world’s economic leader, with China likely to become the world’s largest economy in absolute size during the next decade or so, and India is catching up fast as well. We can look to the past as a sign for what may lie ahead. Maddison points out that in 1820, China and India accounted for about 49 percent of global GDP. Their share then shrank as the Industrial Revolution took off in Europe, and reached a low of about 8 percent in the 1970s. They have now rebounded to roughly 20 percent of global GDP, which is still far below their historic place in the world economy. Should they continue to grow at this rate, as a country with a smaller population, we can retain our present leading role – but only by growing more competitive, more innovative, and more educated than we are today.

Even successful private-sector adaptation to challenge, as essential as it is, can increase public stress. One sees this in the services industries, where the Internet has helped high-value American exports boom, and our sectoral surplus has risen from \$48 billion in 2004 to \$119 billion last year and perhaps \$140 billion this year. But this has

not eased the uncertainty emerging from the Internet's reshaping and 'globalizing' of banking, accounting, journalism, research and development and other services industries. Adjustment in manufacturing has been still more painful, as we have had a massive rationalization of production, accompanied however by record-setting output in U.S. value-added manufactures, but a swift and rapid decline in employment. And at worst, business adjustment without better public policies can tear the business interest from the national interest: if we avoid the public-policy steps necessary to hold our attractiveness as a site for research, finance and production, businesses can and will simply move operations elsewhere.

### **RESPONSE IN ASIA, EUROPE AND THE UNITED STATES**

The United States, of course, is not alone in facing these questions. All countries are grappling with them. But Asia, and Europe to a lesser degree, seem more successful in this decade than we.

#### **Asia: Rapid Integration, Rising Competitiveness**

Asian countries have devoted the last decade to integrating their economies, upgrading their national infrastructures, and raising their commitment to research and education. China, Korea, Taiwan, Malaysia, Singapore, Vietnam, Japan and India have all invested tens of billions of dollars in upgrading airports, container terminals, roads, bridges, telecommunications and broadband networks. The *Economist* reports that China will expand seaport capacity by 85 percent in the next decade, add 97 airports, and spend \$200 billion on railroads between 2006 and 2010. India may spend \$500 billion on infrastructure by 2012.

Each is also spending heavily on intellectual infrastructure, including public research and development and new schools at all levels. One result has been to sharply raise, especially in China and India, the rate of graduation in science and engineering. China appears to have recently surpassed the US in total science and engineering graduates. One can wonder about the quality of the graduates, of course. But the results appear, among other places, in the data published by the US Patent and Trademark Office each year that are not ambiguous – patenting by residents of India and China has grown nearly ten-fold in the first half of this decade, from 900 applications in the year 2000 to 6,000 in 2006.

At a slower but noticeable pace, highlighted in last month's Asian Development Bank report on 'Asian regionalism,' China, Japan, ASEAN and Korea, joined recently by India, have been designing trade, financial and infrastructure integration agreements among governments and coordinating policies through the East Asia Summits, ASEAN + 3 and other new venues. These are less ambitious than the agreements the United States has signed. But they are completed faster, include most of the major Asian economies rather than only smaller markets, and cover most of the manufacturing and new technology industries where trade is growing most rapidly. The U.S. is present in none of these agreements.

### **European Union: New Members, New Currency**

Europe too has responded. Discussion here often dismisses the European Union as old, divided, slow in decision and likely to decline over time. Europe does have some significant challenges, including a greater sensitivity to immigration, a less mobile public, somewhat lower rates of spending on research, and a more rapidly aging population than ours. But their policy has been far more active and successful than one infers from debate.

During this decade, the European Union has almost doubled its membership from 15 to 27 countries – one in seven of the world's independent states. EU GDP has risen to \$15 trillion, above the US level, and the combined population of its members has reached half a billion. The EU has also successfully launched the first common European currency in centuries, raising questions about whether the dollar will remain the world reserve currency. These are large accomplishments which we should not ignore or discount – especially given the state of our own policies.

### **U.S.: Policy Erodes, Debate Drifts**

For our part, the challenge is clear. Competitors have improved their policies and are rising rapidly. We need to match them if we are to hold our leading position. But we have been very slow to accept this reality. Instead, all too often we have indulged ourselves in resentment of Asian success (or in old debates largely centered on trade with Mexico), and in hopes that assertive trade and currency policy can substitute for better performance at home. Meanwhile, few of our policies have improved and some have degraded, leaving us less able to meet our challenge. Let me cite three particularly disturbing facts:

- Finance: Our financial position has grown extraordinarily weak. We have essentially no private savings, and changes in government tax policies in this decade have shifted a \$400 billion surplus into a \$300 billion deficit. This leaves us highly dependent on foreign capital to finance government deficits and consumer spending. Together with currency mismatches and oil-price inflation, it has also created a very large national current-account deficit.
- Physical infrastructure: Some spectacular events highlight the aging of our bridges and roads. But anyone who travels to Asia – not only Korea and Japan but coastal China, Malaysia, Singapore and others – is immediately struck by how efficient and new their airports, seaports and roads are in comparison to ours. Likewise our use of broadband Internet remains well behind that of Japan and Korea, and also of Taiwan, parts of urban China and parts of Europe.
- Energy: Our economy is much less energy-efficient than Europe and Japan. According to the World Bank's most recent annual list, a kilogram of oil produces \$4.60 in US GDP, but \$6.50 in European or Japanese GDP and \$4.80 in

Australian. The consequences are visible in our trade accounts. Energy now accounts for 18 percent of America's merchandise imports and 2.5 percent of GDP – in both cases the highest figure since the Iranian crisis of 1979-1982 – and keeps our aggregate national trade deficit high despite rapidly falling manufacturing deficits and rising surpluses in agriculture and services.

In some other areas we fare better relative to foreign countries, but still less well than we should expect. In 'intellectual' infrastructure, we maintain an exceptional university system, but have notorious weakness in middle and high school. With fewer Americans choosing science and technology careers, we have historically compensated by attracting skilled foreign students and workers. Here we continue to do better than almost all other countries, with the likely exceptions of Australia and Canada. But immigration restriction since 9/11, and perhaps a broader perception of anti-immigrant sentiment, is eroding our attractiveness vis-à-vis competing schools in Britain, Canada, Australia, Japan and Hong Kong. And while our public investment in research in life sciences is strong, in hard-science fields such as physics, math, computer science and chemistry it is low. Here public spending has dropped from 0.33 percent of GDP in 1975 to 0.21 percent today. The Internet's ability to allow firms to conduct R & D anywhere in the world means investment will likely flow in the future to wherever companies believe the talent is best, so we cannot count on private-sector research to compensate.

Finally, we have weak adjustment policies that do little to ease public anxieties. Some European countries, especially Scandinavia and Netherlands, remain much more exposed to trade competition than are we, if one measures the ratio of imports to GDP. They, like Europe generally, are also transitioning as rapidly as we to low-employment manufacturing. But their publics seem more confident than ours. One evident reason is their national guarantees of health care, access to job training, and job placement systems overseen by businesses and unions as well as governments. Without appropriate support, change here has become more frightening. Public anxiety is higher. And effective and honest response becomes more difficult.

Trade policy should be a part of this response. We need well-chosen trade agreements, measured not by the number completed but by the impact on our economy and enhancement of our strategic alliances. We need as well a strong policy to assert our rights and enforce trade agreements, and we need an effective financial and currency policy that removes sources of distortion in the flow of goods, services and investment. I will come to these in a moment. But we also need to be realistic and honest with ourselves.

Neither new trade enforcement measures, labor-rights policies nor currency measures will make China less efficient at manufacturing goods. Nor will they detach India's knowledge industries from the Internet. Nor are they likely to return labor-intensive manufacturing jobs to the United States. Manufacturing output in the United States has been steadily rising, with record output in 2005, 2006 and 2007. But factory employment, pressured by technological change as well as international specialization, has been falling relative to the total US labor force since the 1950s, and in absolute terms since the 1970s – and also in Europe, Japan, Korea, and even China.

Our goal instead must be a holistic agenda including ‘trade policy’ per se but resting upon a far broader foundation. This would examine and address our main competitive weaknesses; improve and in some cases rewrite the social compact for workers as the economy changes; reshape outdated institutions at home and abroad; and simultaneously use trade policy to ensure that we draw the maximum benefit from the world’s growth, protect our rights, and help meet major challenges in security, development and climate change.

### **TOWARDS A GLOBALIZATION AGENDA**

In designing this holistic agenda, we should begin not with trade policy or international negotiations but at home.

The top priority must be competitiveness. We will need to restore a commitment to publicly funded basic research in hard sciences, and to both train and recruit from abroad the scientists and engineers necessary to keep the U.S. at the leading edge of innovation. We will need a major effort to upgrade our traditional and high-tech infrastructure, to put it back at par with those in Asia. Congress I believe is considering very interesting proposals to create an independent entity to evaluate and finance infrastructure proposals of national significance.

We will need at the same time to strengthen the government’s fiscal position, and to promote private savings. The IMF reports show the United States with a gross national savings rate of about 13 percent. This is down from 18 percent at the turn of the century, driven by the return of structural government fiscal deficits as well as by a dearth of personal savings. By comparison, the world’s savings rate is 23 percent, the European Union’s 21 percent, Japan’s 29 percent and developing Asia’s 43 percent. Here is a basic contributor to our persistent current-account deficits. If we are to bring these down to a sustainable level – that is, setting aside fluctuations upward due to energy prices and downward from the present recessionary trend – currency policy is part of the solution, but more fundamentally we will need budgetary reform and savings incentives.

We will also need to reshape much of our social compact – helping workers upgrade their skills and take advantage of higher-paying jobs to broaden the benefits of globalization, designing better EITC and minimum-wage systems to support living standards for lower-wage families, while using public policies to mitigate the effects of competition on vulnerable individuals and communities and restore their confidence that career transition and industrial change are not synonyms for personal financial catastrophe. I am struck, for example, by the fact that Germany spends 3.1 percent of GDP on adjustment, while we spend only 0.5 percent of GDP. Here let me applaud the Committee’s work to broaden and ease access to Trade Adjustment Assistance, in 2002 and again this year. As time passes, I would hope this can evolve into a universal system which offers guarantees of health care, pension portability and perhaps other social-insurance measures to all workers dislocated for no fault of their own.

With these two points as the foundation, we need to reshape our trade debate and our trade policy priorities. To date, most argument over globalization has taken the form of defense or criticism of NAFTA. These both miss the point. The relationships with Canada and Mexico are large, and the agreement is important. But before the agreement, Mexico was our third-largest trading partner and Canada our first. Mexico is still our third-largest trading partner, and Canada still our first, albeit at vastly higher absolute levels of two-way trade. Their shares of US imports and exports, have however, declined in this decade – especially if total oil imports are excluded – and are only modestly above the levels of 1993. The fact is that NAFTA is not the source of technology-driven change in services, nor the source of logistics-driven decline in the cost of manufacturing trade, nor a factor in Asia's rising competitiveness. A trade debate focused upon it, therefore, misses the major structural changes underway in the world economy, and is not likely to lead to policies that directly respond to our problems today.

### **THE TRADE AGENDA**

What then should be the aim of trade policy? We can begin with first principles:

- It should create economic opportunities by opening markets and establishing fair rules in the major overseas economies and industry sectors which are likely to grow fastest in the coming years.
- It should support national security in the areas where economics and foreign policy intersect – strengthening our strategic alliances, smoothing great-power relationships where we do not have alliances, and promoting the growth and development that ease political challenges in troubled regions.
- It should create an efficient, innovative domestic economy and boost living standards by maintaining open U.S. markets, while also providing the public with confidence that agreements are enforced and make sure competitors play by the rules.
- And it should mesh rather than clash with policy in other major areas, in particular poverty reduction, worker rights, response to climate change, preserving free flows of information.

The basic tools of trade policy remains appropriate for these goals. Since the Committee considered the first Reciprocal Trade Agreements Act in 1934, American presidents of both parties have used a combination of international trade agreements that lower barriers to trade, investment and information flows; enforcement at the WTO and through domestic law; tariff preferences for low-income regions; trade remedies; and consumer protection policies. This approach has been fundamentally consistent across 12 multilateral trade agreements at the GATT and WTO between 1947 and 1998; the 'accession' agreements of 130 countries to the trading system, led in recent years by China, Taiwan, Vietnam, Saudi Arabia and Ukraine, and more recently a spate of bilateral agreements and preference programs. It has adapted to address changes in geopolitics, and to take on new issues as economic structure and technology change. And now it is time to adapt again.

I would urge the Committee to adopt a trade policy that addresses the genuinely major challenges. These can be divided roughly into three baskets, two dealing with trade policy issues and the third looking at institutional arrangements –

- *Economic expansion:* The economic integration and phenomenal growth of Asia; the secondary but still major development of the European Union; the technology-driven rise of new industries and acceleration of global integration;
- *Security and development:* The marginalization of many of the world's large Muslim countries, especially in and around the Middle East; the tilt of trade regimes in the United States and elsewhere against the poor; and the drift towards authoritarian populism in Latin America.
- *21<sup>st</sup>-Century Bretton Woods:* The need for a renewal and modernization of the international institutional arrangements launched at the Bretton Woods Conference in 1945, with particular focus on the fading of the international financial institutions; the absence or inadequacy of environmental institutions; and the challenge a climate-change agreement will pose in its own right and for trade policies in particular.

*Economic expansion:* Fundamentally, trade policy should turn from bilateral agreements with relatively small partners toward the fast-growing industries and major economies that we can tap for growth. Among these industries are services generally, energy and environmental technologies, infrastructure-linked industries where Asian countries in particular are large buyers, and medical and health industries. Our goal should be to ensure that American-based service providers and manufacturers can supply the goods and services where demand is greatest. Major targets should include the EU and Japan, China, India, Brazil, ASEAN, the Persian Gulf and similar large developing-country markets.

A quick conclusion of the Doha Round would be a good start here, though not at all sufficient. Whether Doha succeeds or fails, we should move quickly to a new approach, based on the negotiation of plurilateral sectoral agreements among the main economies. These would seek broad liberalization of large and rapidly growing industries: energy and environmental industries perhaps first, also selected medical and health industries, based on agreement among the major players rather than requiring participation of each one of the WTO's 153 members. The model would be the Information Technology Agreement of 1996, and the WTO's later agreements on financial services and basic telecommunications. Here is where we will tap rapidly growing markets, and ensure that America remains a leading player in the industries that will lead the 2010s and 2020s. These agreements have the further advantage of being sectoral in nature, not country-specific, and are therefore based upon MFN policies that work with rather than against supply chains and other business trends.

Joined with this we should take up two large regional initiatives. One would be an effort toward regulatory policy coordination with Europe and Japan. This should not aim principally at revising current regulatory policies, but at averting conflicts in new regulatory fields. Our experience with regulatory dialogues like the Transatlantic

Economic Partnership and various US-Japan initiatives shows that dealing with current regulations is exceptionally difficult, successful only in very narrow fields, and ought to be limited to areas of genuine dispute. A better approach would be to seek early consensus on regulation of rapidly emerging technologies like nanotechnology, energy and environmental technology, IT, and some medical industries. These are fields which are likely to grow extremely rapidly in the future, and where regulatory coordination among the developed countries will probably set the pattern for the world.

The other would be a restoration of the U.S.' place in East Asian trade and financial arrangements. This is the fastest-growing part of the world, and one in which the US is at risk of marginalization. It is natural that a revival of India and China will reshape Asian trade patterns, and that in some relative sense our share of Asian imports and exports will fall. But it is not natural or inevitable that initiatives like the East Asian Summits, free trade areas linking India, China and Japan with Southeast Asia, and financial coordination accelerate while the United States remains outside. Should this continue, we will lose opportunities in fast-growing markets and in industries crucial to our technological and economic leadership.

Here we should begin by passing the Korea-US free trade agreement. We need to significantly raise our level of dialogue, including agreements, with ASEAN and with India, which is rising very rapidly as a manufacturing-trade partner as well as a services trade partner. But two-thirds of our Asian trade is with China and Japan, and most immediately, direct engagement with both – not skirmishing and positioning in smaller markets – needs to be the heart of Asian policy. With Japan we should consider a comprehensive agreement similar to KORUS, or at minimum a comprehensive services agreement. And we need a well-honed agenda with China. The focus of U.S. China trade talks should initially center on the negotiation of a bilateral investment treaty and accelerated WTO government procurement agreement, in addition to further trade liberalization and compliance. The broader economic agenda should revolve around macroeconomic policy and climate change. Strategically, China must also come to accept a larger role on a range of issues, in helping manage global finance, macroeconomics and currency policies; contributing to the effort to slow climate change and develop a more energy-efficient global economy; managing the trading system; and other issues as well.

*Security and Development:* Here we need to think about reform of our own trade regime, to make it less punitive toward the poor at home and abroad and more likely to support rather than clash with our goals in the Muslim world.

The acceleration of globalization has left much of our trade regime antiquated. Light-industry tariffs in particular are exceptionally high and obsolete, and in need of unilateral reform. Tariffs on clothes, shoes, household linens, luggage, watches, silverware and a few other light goods raise half of our \$26 billion in tariff revenue, on about five percent of imports. They protect few if any jobs, but do noticeable damage to hopes for poverty reduction in the United States and overseas. And they tilt noticeably not only against very poor Asian states, but against Afghanistan, Pakistan, Bangladesh,

Turkey, and a number of other large majority-Muslim countries central to the campaign against radicalism and fundamentalism.

The greater Middle East is probably the trading system's major failure. Its countries, roughly spanning the Maghreb through the Middle East per se to Central Asia, participate less than those of any other region in the global trading system. In contrast to Southeast Asia or Latin America, they have been unable to integrate with the world economy; instead their share of trade and investment has rapidly declined, with bouts of excessive oil wealth only serving to camouflage a deteriorating economic position. Though Egypt and Pakistan have shown some encouraging trade and investment growth in the last two years, as a whole the region remains dependent on resource trade, and lags far behind others in both regional integration and participation in manufacturing and services trade. Weak domestic economic policies and education join a dysfunctional trade environment to give the greater Middle East region the world's highest unemployment, the lowest level of regional trade, and the largest disparities of wealth – and the most serious security challenge.

Economic reform and recovery is not a solution per se to the political and security issues we confront in this region. But it is a step that can help lower the political temperature, reduce the appeal of radicalism, and ease the tasks of peacemaking and democratic reform. A major effort to integrate this region into the world economy, as was done with Japan and Germany post-World War II, Southeast Asia in the 1970s and 1980s and Central America in the 1980s and 1990s, should be a top priority for the next administration. Its foundation should be a broad tariff exemption that makes the GSP system permanent, and grants 100 percent duty-free treatment based on simple and easy rules of origin to the least-developed countries and to other low-income states – Pakistan, Sri Lanka, Iraq, Lebanon – with high national-security significance. Ideally, this would be part of a larger international effort done in concert with Europe, Japan, China and India, designed to exempt all least-developed countries from tariffs and quotas, including sub-Saharan Africa, and to make a special priority of promoting growth and economic diversification in the Muslim Middle East and Muslim South Asia. Accompanying this should be a sustained and targeted foreign aid commitment, designed to help improve education and governance in large and strategically crucial countries such as Pakistan, Afghanistan, Egypt and others.

Africa policy can be developed in perhaps four ways, building upon the work initiated by the African Growth and Opportunity Act. One would be to open entirely AGOA's product eligibility, and a second would be a much more ambitious technical assistance program, focused in particular on training African farmers to meet American sanitary and phytosanitary rules. Together with this, we should continue to broaden our foreign aid programs, in particular for the countries hit hardest by the HIV/AIDS pandemic. We should also begin a dialogue, joined by Europe and perhaps China, on the use of natural-resource wealth, where the surge in energy and metals prices has provided a sudden and very large source of income, and consequently an historic opportunity for Africa to reshape its infrastructure and become fundamentally more competitive than it is today.

Also under the security category, we need a fresh start with Latin America. In South America, and not only in Venezuela, we are at great risk of a drift toward authoritarian, anti-American populism backed by resource money. Meanwhile, American policy has fragmented since the abandonment of the FTAA several years ago, with the free-trade agreement program increasingly controversial and lacking obvious new partners. Looking ahead, I do think we should begin by passing the Colombia and Panama agreements. We should, I believe, shift toward a policy of dialogue and engagement rather than isolation with Cuba and Venezuela. This should include steps toward eliminating the embargo on Cuba, which does more to undermine than to enhance our ability to influence events there and promote our broader hemispheric interests. But in the next years, the centerpiece of policy needs to be an integration of our existing trade agreements, and a path toward meshing them with Mercosur. Here the key is closer and deeper work with Brazil, which is the largest western hemisphere economy.

*21<sup>st</sup>-Century Bretton Woods* – Third, trade negotiations and policy need to be complemented by institution-building in finance and the environment.

The international financial institutions, especially the G-8 and IMF, no longer accurately reflect the realities of the world economy and need to be reshaped. If they are to be effective vehicles for policy, they must give appropriate roles to China and India. These are countries with large capital reserves, influential currencies, high and growing shares of goods and services trade, growing roles as exporters of capital, and accordingly influences on the global economy. They need a role in the global institutions commensurate with their influence – or else the institutions will fade as effective venues for policy. The G-8 thus needs to add China and India, and subsequent consideration should be given to Korea and Brazil. The IMF in particular, but also the World Bank, should ask more contributions from these countries, while dropping antiquated requirements that their heads be American and European.

Genuinely effective environmental institutions, meanwhile, have yet to be built. The best approximation of a central environmental institution is a branch of the UN known as UNEP, which has no independent Director-General, relies on voluntary contributions rather than mandatory dues for funds, and does not oversee its set of 98 multilateral environmental agreements in any meaningful way. Instead the agreements are usually overseen by Secretariats scattered around the world, from Japan to Quebec, Tasmania, Geneva and Germany. UNEP itself is in Kenya. Countries participating in the agreements are free to sign some and ignore others, neither governments nor interested citizens can easily assess their obligations or their partners' compliance, and no institution effectively oversees implementation of agreements. These deficiencies will be vastly greater as we consider a potential climate change agreement, which will be the most complex international agreement ever concluded. What we need here is a new institution comparable to the WTO – a Global Environmental Organization or GEO – which will serve as the venue for negotiating agreements, avoiding any conflict between their rules and those of the WTO, assessing their success, and managing disputes over implementation.

### **PROCEDURES: 'COMPREHENSIVE ROUNDS' AND FAST-TRACK**

Finally, procedure. Here I think the frequent error of administrations is to put procedure before substance. Our main goal should be to create an agenda that is broadly viewed by Congress as meeting America's economic, security and other interests. If we do so, we will be able to find the policies best suited to negotiating and implementing it. Having said this, it is my personal view that two traditional procedural devices – the 'comprehensive round' concept used at the WTO, and the 'fast-track' procedure used to pass agreements here between 1974 and 2005 – have outlived their time and are now more obstacle than aid.

### **Rounds**

The 'comprehensive round' is essentially a protracted negotiation involving all major issues and requiring assent by all WTO members. It worked reasonably well for the Kennedy Round in the 1960s and the Tokyo Round in the 1970s, spottily for the Uruguay Round in the 1980s and 1990s, and is now a hindrance.

The fast-growing future markets are fields like energy and environmental goods and services, medical and scientific technologies, and so on. Here the political obstacles to liberalization are in relative terms small. In the late 1990s, we were able to quite rapidly conclude very large agreements, with little domestic or international controversy, on information technology goods, financial services, basic telecommunications and duty-free cyberspace. These remain to this day the only multilateral agreements concluded since 1994. By contrast, a comprehensive round such as Doha, even when relatively limited compared to the Uruguay Round, covers difficult matters such as agricultural reform, movement of natural persons, trade remedies and other conflicted topics. Making very large potential agreements in fast-growing industries depend upon resolving these issues has been a recipe for slowing trade policy, and ultimately risks making the WTO irrelevant at least as a vehicle for new policy.

Thus if the Doha Round is completed – or in the regrettable event that it is abandoned – the WTO should drop the comprehensive-round concept. Its future is in integrated sectoral agreements in fast-growing industries, under WTO auspices, joining manufactured goods and services, which can be concluded among 'critical masses' of countries that cover most of the relevant trade depending on the sector involved. In the case of the ITA, this included eleven countries, expanding over time to a threshold level for the agreement to become effective. That number of countries would depend upon the aggregate percent of trade volume covered in the particular sector. Over time, as with the ITA, Financial Services and Basic Telecom, the number of participants expands rapidly, and each is now a condition of WTO entry.

### **Fast-Track**

At home, I believe the focus on the fast-track procedure as the key to trade policy is likewise misplaced. The important thing is to get the agenda right – that is, identifying the key economic and strategically important countries, and the purpose of an agreement with each – and build a Congressional consensus for it. If that exists, procedures to pass it will follow. If not, procedures will be no substitute. As the recent case of Colombia shows, Congress can remove fast-track rules from an agreement where consensus has not yet emerged; as the Doha experience in 2005 proved, the value of fast-track for negotiators can be overstated. No country refused to negotiate last week because fast-track is not in force; nor did any country rush to close the Round three years ago in Hong Kong and Potsdam when fast-track neared expiration.

More recently, trade debates have consistently seen actual agreements get more support than the fast-track or TPA procedure itself. This indicates that a measure designed to ease consensus on and passage of trade agreements has become more of an obstacle to them – just as the Reciprocal Trade Agreements Act of the 1930s ran out its lifetime by the late 1960s. So my conclusion is that the procedure has become more of an obstacle to successful policy rather than a facilitator. The next administration and Congress should find a different approach.

### **CONCLUSION**

In conclusion, Mr. Chairman, let me return to two points I made at the beginning, and add one more.

First, we face serious challenges – perhaps the most serious challenge to our position as the world's economic leader since the First World War – and we have not yet accepted their scale and seriousness. Complacency is a vast mistake. So is labeling the competitive pressure that comes from genuine advances in foreign countries as the consequence of 'unfair trade' or currency misalignments. We in fact need to remind ourselves that the United States does not own the position of world's economic leader; we need to earn it in each generation.

Second, more ambitious and focused trade policies are part of the solution. But on their own they are absolutely not enough. They need to be accompanied by an effort to improve our financial position, develop the public services that help create a more efficient and innovative economy, use energy more productively, and ease the transition for workers.

Third, if we accept the scale of the challenge and devote ourselves to meeting it, we should approach the task with some optimism. Because as much as I have stressed what I believe to be weaknesses and shortcoming, we have many strengths that should give the public confidence in the country's future. The United States is a vastly wealthy nation, with deep if depleted financial resources, a stable rule of law and democratic system, and a high quality of life. We attract the some of the world's most talented people

each year, as students and as immigrants. And we remain very strong in some of the industries – IT, life sciences and medicine, media and entertainment, financial services, and perhaps if we are skilled and focused, clean energy and environmental technologies – that will define the economy of 2020 and 2030. Our aging challenge, though profound, is less dire than that of Europe or Japan, and perhaps China as well.

So if we are committed to leadership and willing to be straight with ourselves about our weaknesses, the foundation for success is there. I look forward to this debate, and I am grateful to the Committee for this opportunity to offer some thoughts as it begins.

**Testimony of Former Senator William E. Brock****Presented to the Senate Finance Committee****29 July, 2008****A New Trade Agenda**

There are times when politics can be a tough business—especially, when doing the right thing means you have to tell your voters some hard truths. We are in one of those periods now—particularly when we are talking about globalism and international trade, and how to save, much less improve, the World Trade Organization (WTO). If you listen to some of the prophets of gloom in this country, you may come quickly to the conclusion that the United States is stumbling, desperately in trouble, that our best days are behind us, that we should pull in our horns, hunker down, and wait for the worst. “Run for the hills, boys! The Chinese are coming!” Well, that’s not the America that I know.

Let’s put a few facts on the table. There is no country in the history of the world that has been as dominant—not just militarily, but economically and politically—as the United States is today. There was never—in the history of the world—a nation that has had a more productive, vibrant, entrepreneurial, creative, innovative people than the American people. We attract more young people from around the world to our universities than any country in the history of man. We attract more investment than any nation. We are the largest manufacturing nation in the world. No people in the world have more freedom than our people. No people in the world have more opportunity than our people.

Because I have been around longer than virtually anybody else in the room, I would like to add just a bit more context. The last time I testified before this committee on a matter of trade relations, it was as United States Trade Representative, more than twenty years ago. Those were pretty good days. We had come out of the dark days of the seventies with a renewed spirit, great vitality, and a resurging economy. We had dealt with the oil shocks, the Arab embargoes. We were just beginning the conversations that led to the Uruguay Round, and its’ consequence, the World Trade Organization, and to Free Trade Agreements with Canada and Mexico—finalized as NAFTA under then President Clinton. We were beginning to get the rest of the world to think more broadly about a world trading system that would encompass areas of strength for the U.S., including services and intellectual property, not just goods.

It has been a great run since those formative years. World trade has doubled in just the past 15 years, and as a consequence, more than a billion people, I’ll say that again—a billion people—have found a way to climb out of poverty. There are more middle-income consumers in India, and probably in China as well, than there are adults in the United States. Have we gained as well?

Look at the facts. The U.S. is the most competitive, the most dominant economy in the world. Because we are the best, the most rewarding, and the safest place in the world for investment; we receive far more of the world’s investment dollars. This helps us maintain high rates of growth and low inflation. Even today, despite

horrendous oil shocks and the current subprime mortgage mess, we have a rate of unemployment well below its historical average of the past 40 or 50 years.

It is important to bear those things in mind when we talk about how we relate to the rest of the world, whether it is in trade or any other area for that matter. As we take steps to build a system to sustain a rapidly evolving global economy however, our role and responsibility as the world leader is virtually unique. Our actions always speak louder than our words. Thus, every time we break the rules with some new act of protectionism, add a new subsidy solely to satisfy a domestic constituency, let petty demagoguery deter us from passing a small bi-lateral trade agreement with an important neighbor, much less devalue our own currency through enormous deficits, we threaten the very global trade system which we have built, and which has given us such incredible growth.

Thus, the conversation we are having is important, and I am grateful, Mr. Chairman, for your leadership in initiating it.

Last week we witnessed Ambassador Susan Schwab devoting every resource to salvaging this seemingly endless Round of global trade talks. Having experienced some of the challenges she faced, I cannot tell you how much I respect her and the entire U.S. team. She is terrific. It is almost impossible to conceive the difficulty of dealing with officials from well more than 150 nations, each with its own diverse range of political and economic constituencies. The U.S. has much to be proud of.

As we look at the WTO today, we should acknowledge that we have come a very long way in the construct of a real trading system, one that will continue to facilitate the expansion of global exchanges while also providing a reasonable and fair dispute settlement process, something greatly needed in such a complex world. Yet, we have also seen how difficult it is to gather so many nations of such incredible diversity, not just in economic terms, but socially, and politically as well, and bring them to a clear common purpose.

Beyond that political complexity however, there is a major new overlay on the challenges facing the trading system, one more traditionally in the hands of finance ministers. Events of these past few months have given us ample evidence of the dramatically increasing importance of the financial sector, including exchange rates, sovereign wealth funds, capital flows, investments, and on and on. These matters may not be on the table as our negotiators seek ways to develop further the capabilities of the WTO, but few would question the impact they have on trade.

As if that were not enough, we now have witnessed the advent of an incredible new technology, which has had an even more dramatic impact on the trading as well as the financial system. Just a dozen years ago, a brand new way of connecting and communicating called the Internet stormed onto the stage. Today, because of that Internet, trillions of dollars move around the world every day in nanoseconds. That poses a whole new ballgame for us, and it is not just in the world of finance.

The pace of these changes is incredible. Their impact is almost incalculable. All this will require some very new and different thinking.

Early in my time at USTR, I asked my counterparts in Europe, Japan, and Canada to join me in regular off-line meetings to coordinate our actions as we sought to address the evolving trading system, and the need to work in harmony toward a common objective to the extent possible. We called it the Quad Group, and essentially it was tacit recognition of the fact that any of these four parties could keep the process from moving forward. If we wanted to get the larger community of nations to make progress in constructing what was to become the WTO, it was important that these four work together.

It is not asking too much to note the obvious fact that any such group today would have to be composed of a number of nations, which were not on our radar screen in 1982, but clearly suggests that such a group is needed today, even more than it was then.

In the 80s I also initiated something we called the Rio Group. It was composed of trade and finance officials, and was created so that we might talk through some problems common to both sectors. Today, the importance of this interrelationship between trade and finance can no longer be ignored institutionally.

I do not suggest a broader jurisdiction for the WTO, whose challenges are sufficient as they are. However, I do believe we need to think anew about the possible construct of institutions which can undergird the global marketplace, and enable the freest possible exchange of goods, services, ideas, and investments.

To do so will require international as well as domestic organizations with a capacity to facilitate, and to the extent possible, make transparent the financial flows of this global world, where transactions of mind-boggling magnitude occur in nanoseconds. However composed, they will need far greater scope and far greater competence (and they will have to be far more efficient, and far more expeditious in responding to possible challenges), than any we have at the moment.

Domestically, we have more to do as well. Over the last decade, since we first heard of the Internet and began to discuss that much-maligned word "globalization," it seems that many in this town, and around the country, have been increasingly focused on the jobs lost to "outsourcing." Politicians, talking heads at CNN and elsewhere, along with a great many others, began to rant about how unfair all this is, how unfair the Chinese, or the Indians, or the Vietnamese are, much less 'big business,' which to listen to many has no greater purpose than the export of U.S. jobs. Baloney!

Of course jobs have been, and are being, outsourced, but is outsourcing the primary factor in all this pain? No, not really. The fact is that in this, the world's most vibrant and innovative market, 7 or 8 million jobs are lost every 3 months in the United States, and almost an equal number, or slightly more, are created. These are not jobs

that are lost to outsourcing, they are lost largely to technology, to changing markets, changing consumer demands, and, yes, to enhanced productivity.

I have yet to hear a single member of the Congress—Democrat or Republican, liberal or conservative—condemn productivity improvements. Every one of us knows that our competitive viability in the world, and, in fact, our very standard of living, is dependent upon maintaining the highest levels of productivity. As the most productive people in the world, we've done a heck of a good job of doing just that. Are we worse off? Not on your life. We are more competitive, have lower unemployment, and higher rates of growth.

The fact is, for every job that is lost to outsourcing, nine or more are affected by changing market patterns, by productivity enhancements, by technology. By putting all the blame on "outsourcing," we divert attention from the other factors which compose this radical reshaping of our economy and which must be addressed in better ways if we are to prevail. So let's stop making excuses, finding someone else to blame, and address what we need to do to keep this nation at the top of the heap.

The explosion in world trade is the best opportunity the world has ever had to take people out of poverty, and it can be the best opportunity for U.S. economic wellbeing if we take advantage of it instead of reacting negatively to it. What does that mean?

Well, in fundamentally human terms, it means we have got to do a far better job of educating our kids and giving them the skills to be competitive in a knowledge-based, highly competitive, fully-networked global economy. The truth is that transforming our present system of education will take a long time, and it will have to be done in each state, so we must begin now. No more excuses.

The more immediate need is reflected in the fact that the great majority of men and women who will be in the workforce twenty years from now are already working. They are the ones who feel the pressure of the rapid changes besetting our economy, for they are on the front lines. And this is one area where we can, and must, do something now.

This Congress clearly needs to think about an urgent change in the way we address people whose jobs have been affected by all these varied economic forces, not just trade.

One of the problems in doing so is that our trade adjustment assistance is based largely on giving workers some help when their jobs are affected by trade. Well, what if it wasn't trade that cost them their employment? What if it was just the fact that Americans preferred hybrid cars to buggy whips? They are still out of work, and we need them just as much as they need a job. Why do we lead them to believe that we only care if they lost their job due to some competitor overseas, for that is at least the implicit message of our present trade adjustment assistance program?

I suggest that one critical step in a new trade policy would be to address this issue. In a world where the pace of change seems locked into 'warp' speed, hard-working

men and women are going to be faced with changes in their job situation time and again throughout their working lives. The studies we did when I was at Labor indicated that our youngsters coming out of school could expect to hold eight to ten jobs, and have two to three careers during their working lives. If anything, we may have underestimated the magnitude of the problem. To date, this nation has done virtually nothing to address this fact, but the loss of skills, which occurs because we do not, costs us dearly.

If we could create a far more comprehensive worker adjustment and training system, it would not only be more humane to those individuals who are suffering, through no fault of their own, but it would expedite their return to the workforce, perhaps more effectively than ever.

I must add that since many, and probably most, will be moving to new and different jobs, the odds are that they will, for a time, suffer a real reduction in earnings—at least until their skills are matched to their new responsibilities by additional experience and training. Some form of wage insurance would help expedite this transition, again, to the benefit of all parties.

I should note that Ambassador Hills and I have discussed this approach, and while the amount of the insurance, its duration, and the phasing of it are critical matters for your decision, I think we both feel some reasonable plan of this nature would be a signal contribution to the challenges posed our economy and its workforce by such a radically changing world.

May I now put on my other former hat, and mention a domestic concern in this context? I believe it is long past time that we lay to rest this nibbling talk that 'globalization' is the major cause of our current economic pain.

Yes, competition does come from nations around the world, many of which we never gave a thought to in terms of effective competition even a decade ago, and it is good competition, and tough. What Fareed Zakaria calls the 'post-American world' is alive and thriving. He notes that over that last decade 120 nations have averaged 4% annual growth. That represents a great deal of new competition; and we must not forget that it represents unparalleled opportunity as well.

Our challenge must be to understand that they want what we have, and they are fully aware of what it will take to get it—the best educated and trained workforce in the world.

For a long time, we have been talking in the U. S. about the consequence of having our economy driven not by muscle power, but by mind power. It was precisely a quarter-of-a-century ago when some remarkably thoughtful people published a report called "A Nation At Risk," in which they said that the coming changes meant that we had to do a much, much, much better job of educating our kids and our workers. Our inattention to the subject of better schools had, even in 1983, created a situation in which the authors said that if a foreign power were doing to our kids what we were doing to them, we would consider it an act of war. We did not pay

enough attention to that report then, nor to all the subsequent presidential Goals Panels and commissions that followed.

To repeat, it is the lack of attention we give human development in America that is my most pressing concern. Our people are, in fact, our only resource of consequence. If we do not see that they have to have the tools to compete fully and effectively in a global world where virtually all improvements in productivity are knowledge-based, they will face a steadily declining standard of living.

The United States is still the best, most competitive nation on the face of this planet, but because we have failed to do what we must in education and training in the last 25 years, we are increasingly reliant on the best educated among our citizenry to keep our competitive edge. Now, out of frustration with stagnant incomes for many in our middle class, coupled with unacceptable deficits at the federal level, some are suggesting that the solution is to raise taxes massively on those among the best educated. Why not, instead, take every step to improve the earning capacity of all our people through far better schools and far better training?

We are now competing with countries that can, and do, have highly educated workers, and many of these countries offer a better education to a higher proportion of their students than we do.

It is a tragic fact that American students finish anywhere from the middle to the bottom of the pack among advanced industrialized nations, and even among many developing nations, in math, science, and general literacy. The International Literacy Institute ranked 19 nations on literacy among high school graduates in the workforce. The United States ranked last.

Business can source its products and services anywhere, as it must if it is to survive in a highly competitive global economy, so it really matters if it is easier to get higher skills at lower costs than those available here. Yet, according to the National Association of Manufacturers' 2005 report of the skills gap, 84% of employers say that schools are not preparing students for college or work, and their job applicants with a high school diploma, have weaknesses in reading, writing, math, continuous learning, and workforce disciplines. Even college graduates' weaknesses were evident in math, writing, global integration, applied learning, and workforce disciplines.

Here's the problem: Out of 100 youths who enter the 9<sup>th</sup> grade, only 68 finish high school four years later. Of those, 40 go on to college. Of those, only 27 make it to their second year, and of those, 18 get an associates degree in three years, or a bachelor's degree in six. Yet, according the bureau of labor statistics, over the next decade, while the growth in jobs will outpace the growth in our workforce, 85% of all new jobs will require some degree of post-secondary education. Moreover, the number of new unskilled jobs will drop from a current rate of 12% to 2%, and the fastest declining jobs are those that require the lowest education and offer the lowest pay.

Knowledge jobs are complex, requiring workers grounded in higher level academics with adaptable skills and a capacity for problem solving, multi-tasking, and increased responsibility.

Even our vaunted system of higher education is not performing as a whole to the level required. The 2003 NAEP study showed the prose literacy of college graduates had fallen from 40% in 1992 to 31% in 2003, document literacy from 37% to 25%, while quantitative literacy held firm at an unacceptable 31%.

Clearly something must change, and soon. Are better education and training of fundamental importance to American trade policy? Absolutely!

**STATEMENT FOR SENATOR BUNNING**  
**SENATE COMMITTEE ON FINANCE**  
“The Future of U.S. Trade Policy:  
Perspectives from Former U.S. Trade Representatives”  
July 29, 2008

Thank you, Mr. Chairman.

During the past nine years, global trade has expanded dramatically, due largely to open markets here in the United States. With a GDP of over \$14 trillion, the United States remains the largest economy in the world and the largest factor in global trade policy. Since 1999, imports to the United States have doubled in nominal terms and increased 30% as a percentage of our GDP.

In 1998, according to the Commerce Department, our total imports from the rest of the world were about \$1 trillion, or 11% of GDP. In 2007, we imported closer to \$2 trillion or 14.1% of GDP.

By opening our markets, we have helped foster the development of a rising middle class in China, India, and many other countries as they reap the benefits of industrialization, the rule of law, and property rights so long denied to their citizens by the discredited political and economic theories of the past.

We should be glad that the world's citizens are enjoying greater prosperity, but we need to remember that the primary objective of our trade policies always has been to open markets for United States goods and services. We have tried to use the “lever” of access to the United States to pry open closed markets, but there is increasing evidence that this strategy has failed.

One reason is currency manipulation. Although multilateral and bilateral trade agreements may be used to control high tariffs, quotas, and non-tariff barriers, they are ineffective against concerted efforts to depress the bilateral exchange rate. In the case of China, this makes its products appear 30 to 40% cheaper to U.S. consumers and U.S. imports to China appear 30 to 40% more expensive to Chinese consumers.

It should not be surprising that our trade deficit with China was a record \$256 billion last year. Moreover, our overall trade deficit has risen from 2.7% of GDP in 1998 to 5.7% in 2007. This is unsustainable, and we must address it, by incorporating stronger restrictions on currency manipulation into our trade agreements. Only then can we be sure that concessions we win on tariffs in return for access to the U.S. market will not be taken away by finance ministers.

I thank the Chairman for holding this important hearing and I look forward to the testimony and discussion today.

Thank you.

**Statement of Senator Chuck Grassley**  
**Finance Committee Hearing**  
**The Future of U.S. Trade Policy:**  
**Perspectives from Former U.S. Trade Representatives**  
**Tuesday, July 29, 2008**

The timing is apt for today's hearing to consider the future of United States trade policy. There are a number of reasons why the future appears more uncertain than it has in a long time.

A little more than a year ago, the Administration struck the May 10th compromise with Democratic leaders in Congress. The May 10<sup>th</sup> deal was supposed to have paved the way for consideration of our pending trade agreements with Peru, Colombia, Panama, and South Korea, and to set the stage for negotiating additional trade agreements. Although I questioned some parts of the May 10<sup>th</sup> deal, on balance I thought it was worth doing if it would allow us to move forward on trade in a bipartisan way.

But it hasn't turned out the way I expected. Since then we've only voted on a single trade agreement – our agreement with Peru. Other than that, we've been frozen in place. In fact, it might be more accurate to say that we've been moving in reverse. That's because, in April, the Democratic leadership in the House abandoned a 34-year tradition of bipartisan cooperation on trade by eliminating the deadlines for a vote on the Colombia trade agreement.

Now that important trade agreement is in limbo. We've left a critical U.S. ally twisting in the wind. That's not just a trade concern — it raises significant foreign policy and national security concerns as well.

And we've left our exporters twisting in the wind too, because the Colombia trade agreement would give our exporters the same duty-free access to Colombia's market that Colombian exporters already have to the U.S. market. In other words, it would level the playing field.

We've been hearing far too little about the benefits of trade – including the fact that export growth has accounted for about 40 percent of our total economic growth in the past year. We need to acknowledge that 95 percent of the world's consumers live outside the United States. Our future economic growth depends increasingly on the ability of U.S. farmers, manufacturers, and service providers to sell their products and services in foreign markets. In other words, it's in our national economic interest to expand international trade and break down foreign barriers to our exports. The last thing we should be doing is turning our backs on allies and agreements that would significantly strengthen our international economic and geopolitical relations.

On the multilateral front, negotiations in the World Trade Organization appear to be stalling. Last week, the Director General of the World Trade Organization tabled a framework to try and advance those negotiations. I'm concerned that the framework may leave too much room for the advanced developing countries to avoid making meaningful commitments to liberalize trade. And this week it seems that India and China are pulling back from even that ambiguous framework. Their intransigence leaves us no closer to a successful conclusion of the Doha Round than we were before the ministerial meetings started last week.

So, we're left stymied on the domestic front because of politics, and stymied on the multilateral front because of a protectionist lack of ambition among our major trading partners. Under these circumstances, how can we adapt so that our trade policies continue to help advance our vital national interests?

Today's witnesses are here to contribute their perspectives on this point. They served in Republican and Democratic administrations. And they worked with Congresses controlled by both parties. Throughout their tenures as United States Trade Representative, they pursued positive trade agendas and they worked hard to advance our trade relations. I look forward to hearing their ideas about how to craft and implement an effective, bipartisan trade agenda for the future. I've been working hard to achieve that in this Congress, and I'll continue to do so, both this year and in the next Congress.

**STATEMENT OF**

**THE HONORABLE CARLA A. HILLS**  
**Chair and CEO of Hills & Company, International Consultants**  
**U.S. Trade Representative 1989-1993**

**BEFORE THE**  
**UNITED STATES SENATE**  
**COMMITTEE ON FINANCE**

**CONCERNING**  
**“The Future of U.S. Trade Policy”**

**Tuesday, July 29, 2008**

Mr. Chairman and Members of the Committee, thank you for inviting me to share with you my perspective on our nation's future trade policy, which I believe has the capacity to advance in a very major way America's economic, security, and strategic interests.

U.S. Policy of Opening Global Markets Has Greatly Enhanced Our Nation's Economic Growth

For more than 60 years, under both Democratic and Republican administrations, the United States has led the world in opening global markets. The results to date have been spectacular. World trade has exploded and standards of living have soared at home and abroad.

Economist Dr. Gary Hufbauer in a comprehensive study published in 2005 by the Institute for International Economics, now the Peterson Institute for International Economics, calculated that the opening of markets since World War II has increased our nation's GDP by roughly \$1 trillion per year, thus raising the average American household yearly income by \$9,500.

Trade and investment with partners in every region of the world have contributed to this very positive result. For example Canada and Mexico, our partners in the North American Free Trade Agreement, account for 25 percent of the gain; 15 members of the Europe Union for about 31 percent; Japan and China for about 8 percent each.

Global Markets have Cushioned U.S. Current Economic Downturn

Absent the boost that our economy currently receives from our international commercial activity, our nation would be in recession. As economist Dr. C. Fred Bergsten, Director of the Peterson Institute of International Economics, wrote in an Op Ed published in the *Financial Times* on June 30, 2008:

“Over the past two quarters, the United States has recorded positive growth at an annual rate of 0.8 percent. . . Its ‘net exports of goods and services,’ the gross domestic product equivalent of the current account balance, have strengthened at an annual rate of almost 1 percent of GDP during that period. Hence the totality of recent U.S. expansion has been provided by the strengthening of the trade balance. Domestic demand has been falling, but the United States has been saved from recession by the rest of the world.”

Further Opening of Global Markets Would Contribute Significant Additional Growth to the U.S. Economy

It is overwhelmingly in our nation's interest to continue to implement policies that will further open global markets. Dr. Hufbauer calculates that the additional opening of world markets to trade and investment would increase U.S. wealth by an additional \$500 billion per year, making the average American household richer by an additional \$4,500 per year. It is hard to think of another policy decision that could have such a positive impact on U.S. economic well-being.

Past U.S. Trade Policy of Opening Global Markets Has Helped to Reduce Global Poverty

It is not only the U.S. economy that has gained from the opening of markets; developing countries have benefited as well. On average, poor countries that have opened their markets to trade and investment have grown more than three times faster than those that kept their markets closed. Studies by the World Bank show that globalization has raised some 375 million people out of extreme poverty over the past two decades.

Further Opening of Global Markets Would Further Reduce Global Poverty and Enhance Economic Opportunity for All Nations, Including Our Own

U.S. leadership in achieving a broad agreement in the Doha Round of Multilateral Trade Talks would further reduce global poverty and build markets for tomorrow. As the early rounds of trade talks stimulated growth by rebuilding the economies of nations devastated by World War II, an agreement in the Doha Round that reduced trade barriers limiting developing nations' commercial opportunities would strengthen those economies and enlarge market opportunities for all nations, including our own.

Today nearly three billion people, almost half the world's population, live below the international poverty line of \$2 per day. According to studies by economist Dr. William Cline at the Center for Global Development removing global trade barriers would yield \$200 billion in long term economic benefits for poor countries and lift 500 million people out of poverty. About half of the benefit would come from opening markets for agricultural products.

Currently, agriculture tariffs are five times higher than tariffs on industrialized goods. That disproportionately harms the economies of poorer countries that typically have large rural populations. Making matters worse, tariffs are much higher on goods like textiles, apparel, heavy glass, and footwear that are primarily produced by poor countries, in effect placing a discriminatory tax on the products they trade. Last year, for example, Bangladesh paid the United States \$120 million more in tariffs on its \$3 billion of exports to us than France paid on its \$37 billion in exports to us---that works out to be a 15 percent tax on Bangladesh's goods and less than one percent on France's.

Not only does this sharp tariff differential constitute a gross inequity in our global trading system, but by limiting the commercial opportunities for poorer countries, it contributes to their continuing poverty. Dr. Cline calculates that on average when a developing country increases its ratio of trade to total output by one percent, it achieves a one percent reduction in its level of poverty. Integrating poorer nations into the global trading system is a proven way to reduce their poverty.

#### Reducing World Poverty by Further Opening Global Markets Would Strengthen Our Nation's Security

Reducing global poverty by enlarging economic opportunity for poorer states is not simply a humanitarian measure; it directly contributes to our nation's security. It is instructive to note that three large developing countries participating in the Doha Round---Bangladesh, Indonesia, and Pakistan---each of which have substantial Muslim populations and are challenged by domestic instability, together account for 300 million people living below the international poverty line. Similarly six African nations---the Democratic Republic of the Congo, Kenya, Mozambique, Nigeria, Tanzania, and Uganda together account for another 200 million people living below the poverty line.

Failure to enlarge the economic opportunities for these nations by further integrating them into the global trading system will condemn large numbers of their people to poverty making them more susceptible to recruitment by those who would do us harm.

The challenges presented by poverty are dire throughout the entire Greater Middle East. As pointed out by the Progressive Policy Institute:

“[T]his region---30 majority Muslim countries stretching from Morocco through the Middle East to Pakistan, Afghanistan, and Central Asia---saw its share of trade and investment plummet by 75 percent between 1980 and 2000, as its population grew by a quarter billion. The region now has the world’s highest unemployment with figures of 25 percent or more common among young people. This prolonged economic contraction is precisely the phenomenon that helped produce the fascist and communist movements of 20<sup>th</sup> century Europe and East Asia.”<sup>1</sup>

In addition, we know that impoverished states lack the ability to enforce their laws and secure their borders making it much more difficult for our government to deal effectively with serious transnational problems---like terrorism, organized crime, narcotics trafficking, money laundering, illegal arms sales, disease pandemics and environmental degradation.

#### The Benefits of Multilateral and Bilateral Trade Agreements

Our nation can achieve substantial economic, humanitarian, and security benefits from both multilateral and bilateral trade agreements. The liberalization that can be secured in a multilateral agreement like a successful Doha Round agreement results in enlarging commercial opportunities with 153 nations. The bilateral agreements that are negotiated by our government achieve far greater market liberalization but with a single trading partner.

The Korean Free Trade Agreement, for example, will eliminate tariffs on 94 percent of trade in industrial products within three years of enactment, and 60 percent of U.S agriculture exports to Korea will become duty free immediately. Also, the agreement will remove a range of non-tariff barriers and provide protections for U.S. investors. In addition the agreement will energize an alliance in a key region of the world.

Similarly in the Free Trade Agreement negotiated with Colombia, eighty percent of all tariffs on U.S. exports of industrial and consumer products and over half of the tariffs on all of our agriculture exports will be eliminated once the legislation approving agreement is signed---including the removal

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<sup>1</sup> See *Winning in the World Economy II*, a publication of the DLC Global Economy Project, July 2008, page 10

of tariffs of 80 percent on beef, 35 percent on cars, and 20 percent on furniture, and much, much more. Over time, all Colombian tariffs are eliminated, creating substantial new economic opportunity for our exporters. Equally important, this agreement will significantly advance our security interests in a region beset with instability and anti-Americanism.

Looking at the 14 regional and bilateral free trade agreements that the United States has negotiated over the years, with the exception of our agreements with Canada and Australia, in every instance before negotiations commenced, all of the nations involved had substantially duty-free access to our market through our various General System of Preference programs, the Caribbean Basin Initiative, the Andean Trade Preference Act, and the African Growth and Opportunity Act. Illustrative are two of the bilateral agreements currently awaiting Congressional approval: Today Colombia has 90 percent free access to our market, and Panama has 95 percent, whereas our producers of goods and services face very significant trade restrictions in both countries. Approval of these agreements will give them substantial new export opportunity.

It is also interesting to note that the nations with whom we have a free trade agreement account for almost half of our exports and about one-third of our imports, while in excess of 80 percent of our trade deficit is with nations with whom we do not have a free trade agreement.

And we should not forget that trade agreements, multilateral and bilateral, encourage rule of law, respect for property, and transparency. In the world at large there is a strong correlation between more open economies and the growth of a middle class that inevitably clamors for clean air, clean water, safe streets and a more accountable government...interests that we seek to encourage around the world.

In short both multilateral and bilateral trade agreements can deliver very substantial benefits in addition to broadening economic opportunities for our workers, farmers and businesses.

#### Erosion of the Bipartisan Consensus Supporting Open Trade

Notwithstanding the proven benefits that our trade agreements deliver, in recent years we have seen a sharp reversal of the bipartisan consensus favoring the free flow of goods, services, capital, and ideas that has guided

our nation for the past 60 years, and the election debates have polarized the trade debate even more.

It is hard to believe that just over a decade ago the United States, led by a Democratic administration, was celebrating the passage of the North American Free Trade Agreement, pledging with 33 other democratically elected leaders of the Western Hemisphere to negotiate a Free Trade Area of the Americas, and endorsing an agreement reached among the 21 economies of the Asia Pacific region to liberalize trade throughout that region.

Since then we have been drifting toward what Robert Samuelson calls “a new mercantilism” which he defines as “policy intended to advance [one country’s] own economic and political interest at other countries expense.” Mercantilism is in stark contrast to David Ricardo’s theory of comparative advantage that argues that all countries benefit if global markets are kept open and each country sells what it produces best. That theory has successfully guided our bipartisan trade policy for more than six decades.

Yet the polls of today reflect that a majority of Americans of both political parties are skeptical about the value of trade agreements.

In order to maintain an open trade policy that is proven to advance very significant national interests, we need to understand and respond to what is causing the disconnect between its documented benefits and the declining support it receives from the American public. I believe there are two basic causes. One is lack of information, and the other is economic anxiety.

#### Making the Case for Trade

One factor contributing to the decline in public support for trade is that Americans are uninformed about the economic, humanitarian, and security benefits that our nation derives from our agreements that open foreign markets to trade and investment. Most Americans have not thought about what would happen to our economy if we did not have access to global markets. With less than five percent of the world’s population, our nation produces roughly 20 percent of the world’s output, we need customers beyond our borders to buy our computers, machine tools, aircraft, soybeans, construction equipment, flat glass, and so much more.

Few know that international trade has made the average American household richer by \$9,500 per year or that an agreement in the Doha Round

that reduced trade barriers by just one-third would increase the average American's annual income by \$2,000. They are unaware that the Bureau of Labor Statistics has documented that trade has helped Americans of modest means lower their costs for what they must spend for the necessities of food and clothes from 27 cents of every dollar in 1973 to less than 17 cents today.

They hear repeatedly that the North American Free Trade Agreement (NAFTA) has cost our nation "millions of jobs." They do not know that studies by the nonpartisan Congressional Research Service document that NAFTA has resulted in "little or no impact" on aggregate employment in the United States; instead according to careful economic analysis by Dr. Hufbauer at the Peterson Institute for International Economics the payoff to the average American household from the NAFTA is roughly \$600.

Most Americans are unaware that jobs connected to international activity earn on average 13 to 18 percent more than jobs in the overall economy. They hear that imports costs jobs, when in fact studies show that there is a high correlation between an increase in imports and job creation.<sup>2</sup> They do not know that 97 percent of our exporters are small and medium size businesses that account for one third of our sales abroad and need foreign markets to prosper so that they can continue to be the backbone of job creation in this country.

They are unaware that the bulk of the foreign investment by U.S. multinationals is to secure market access not to secure lower wages. A full 80 percent of the overseas production by our manufacturing affiliates occurs in high-wage countries. Nor do they know that investments by foreign companies in the United States create over 5 million high paying jobs.

Very few Americans know that opening of global markets and expanding trade opportunities help to alleviate the poverty that puts weak states at risk. They are unaware that wealthy governments, including our own, pay their farmers huge subsidies that force more efficient farmers in poor countries out of the market or that 80 percent of the subsidies we pay go to large agribusinesses not to small family farmers. They would be surprised to learn that the United States, Europe, and Japan spend over \$7 billion each year to subsidize their less competitive sugar farmers, which is a sum greater than

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<sup>2</sup> See for example Karmin, Doug, *The Facts on Trade Deficits and Jobs*, Progressive Policy Institute, Policy Report.

the total exports of more efficient sugar producers in very poor countries in Africa.

Political leaders should make it a priority to educate Americans about such facts so that our citizens understand why open trade and investment are among the most effective tools our government has to generate economic growth, alleviate poverty, and encourage global stability. They could encourage universities, think tanks, business, and the media to better inform Americans about what they gain from opening world markets. All these groups could do more. Universities could offer more classes on international economics and trade, and think tanks could publish more articles on those subjects.

And businesses could do more. It would make a huge difference if the CEO of every U.S. business with any international activity would tell his/her employees, whether they number five or 5,000, the percentage of revenues the company derives from its foreign trade and investment and the percentage of the employee's paycheck that can be traced to the company's international activities. Depending on their size, companies could inform their employees about how foreign trade and investment boost America's prosperity, alleviate grinding global poverty, and strengthen our nation's security in a variety of ways---from posting relevant facts on wall posters, blackboards, closed circuit TVs, websites, and company newsletters, to enclosing information with the W-2 forms and in pay envelopes.

#### Reducing Job Anxiety

While educating Americans about the benefits of open trade is necessary, it will not be sufficient to turn the political tide. Making the case that the opening of markets expands choice, lowers costs, and creates opportunity will not persuade the textile worker in South Carolina who has lost his job and blames Chinese imports or the telephone operator in Ohio who learns that her job has been shipped to a call center in India.

And we will not win support for trade from a laid-off manufacturing worker by pointing out that the United States is still the world's largest producer of manufacturing goods and that technology, not trade, has transformed the manufacturing sector over the past decade enabling us to produce 30 percent more goods with 20 percent fewer workers. To be credible we must admit that the gains from trade do not make every citizen a winner.

To preserve the benefits we gain from open global markets, we need to do a better job of helping those who are displaced by the rapid changes driven by technology and globalization. We can do this---**not by closing down trade**--but rather by allocating some of the very substantial yearly gains we derive from trade to fund programs to help those who are adversely affected get back on their feet. Polls show that workers' anxiety is substantially reduced when they are told that free trade is accompanied by programs that help displaced workers.

Increasingly policy analysts are looking at wage insurance, a program that supplements the income of a displaced worker who takes an entry level job in a new sector at lower pay. Reducing the income-gap encourages the worker to stay in the workforce, and importantly secures for that worker the most effective training there is, which is training connected to an actual job.

The Alternative Trade Adjustment Act (ATAA) adopted by Congress in 2002 was a step in the right direction, but it is quite limited: it applies only to manufacturing workers who are 50 years of age or older earning less than \$50,000, and covers only half the pay gap between the old and new job, in an amount not to exceed \$10,000 over a two year period.. These limits on age, earnings, and insurance coverage coupled with the exclusion of service workers who currently constitute eight out of ten of those in our workforce, make the program inadequate. There are a number of thoughtful studies suggesting constructive changes in the program.<sup>3</sup>

Polls also show that making health care benefits portable and providing a tax credit to help fund health premiums during the period of unemployment help to reduce worker anxiety. Although the Health Coverage Tax Credit included in the Trade Act of 2002 was another step in the right direction, the Government Accountability Office recently found that the tax credit at its current 65 percent level is insufficient to offset the high cost of maintaining health insurance during unemployment. As a result, usage has been extremely low.

It is important to consider the costs of such programs. Significantly, the same studies that calculate the U.S. economic gain from foreign trade to be \$1 trillion per year, calculate that the annual costs of funding wage insurance

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<sup>3</sup> See for example Howard F. Rosen, *Strengthening Trade Assistance*, Policy Brief 08-2, Peterson Institute for International Economics (2008)

and transitional health care assistance for all dislocated workers, regardless of whether trade is the cause of the job loss, to be about \$12 to \$15 billion annually. Our government currently spends less than \$3 billion on programs to help displaced workers adjust. To rebuild public confidence in open markets, we need to do more.<sup>4</sup>

Growing income inequality is another factor contributing to Americans' anxiety. They are worried that the shift in earnings away from unskilled workers in favor of higher skilled workers will enable countries with large pools of unskilled workers to destroy the American dream. It is true that the pay gap is widening between those who are educated and those who are not. As Nobel Prize winning economist Dr. Gary Becker has pointed out the earnings differential of those with a college degree over those with a high school diploma has jumped from 30 percent in 1980 to 70 percent today, while the premium over that for graduate degrees is up from 50 percent to well over 100 percent.

If the United States is to remain super-competitive in the 21<sup>st</sup> century, we will need a workforce that is the best trained and most productive in the world. That will require us to improve education at the K through 12 levels. It is unacceptable that today more than one-third of our high school students fail to graduate. Funding is not the problem. According to a 2005 OECD study, the United States is tied for first place with Switzerland in annual spending per student in public schools. Rather than continuing to debate whether the teachers' unions or the officials in the public school system are to blame for blocking needed reforms, Congress could create a bi-partisan commission involving union leaders and some of our nation's recognized education reformers to develop a plan to improve our primary and secondary school systems.

We will also have to attend to deficits in our college education if our nation is to maintain its leadership position in today's technologically driven world. We need to encourage more of our young people to become better educated in the hard sciences. In a recent Op-Ed recently published in *Globalist*, Dr. Jacob Kirkegaard, a scholar at the Peterson Institute for International

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<sup>4</sup> See e.g., Kletzer and Rosen *Easing the Adjustment Burden on U.S. Workers* The United States and the World Economy, Institute for International Economics (2005)

Economics, points out that Americans no longer lead the world as holders of college degrees:<sup>5</sup>

“American baby boomers aged 55-64 led the global economy in tertiary education when they entered the workforce in the 1970s. Today’s American workforce entrants aged 25-34 barely make the global top ten. . . .At least ten percentage points more of young workforce entrants in Russia, Canada, Japan, and Korea today have a tertiary degree than does the present share of youngsters in America. That indicates that present and future generations of Americans may not possess the same relative skill advantages to thrive in the global economy as did Americans aged 55 and older.”

Dr. Kirkegaard explains:

“Measured as a share of the total number of bachelor’s, master’s, and doctoral degrees granted by U.S. universities, science and engineering (S&E) degrees have held largely steady at least since the mid 1970s. Shortages of new S&E graduates are thus related more to the general educational stagnation in the United States than to any relative decline in popularity of these fields.”

Some have called for incentives for college students to study math and science. Others believe that we should finance college education in exchange for public service. For years we have given tax incentives to encourage businesses to invest in capital equipment to enhance our nation’s productivity. Now we need to focus on how to create effective incentives to enhance our human capital.

#### Private Sector Involvement

Just as the private sector can help make the case for trade, so too can it help in creating and supporting programs that help cushion the costs of displacement and build the skills needed to adjust to today’s fast changing world. A new Administration and leaders in Congress should enlist its help. Business leaders have a genuine interest in figuring out ways to reduce economic anxiety here at home for they cannot afford to have global opportunities shrink. And policy analysts at think tanks and universities can

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<sup>5</sup> Dr. Kirkegaard draws from his book The Accelerating Decline in America’s High Skilled Workforce, (2007).

assist in thinking through policy recommendations that will most effectively deal with the issues that are contributing to the anxiety that is growing among Americans.

Some companies have already launched effective educational programs for their employees. For example, I know of one company that pays the tuition costs and gives up to three weeks per year of paid time off for its employees to take classes at accredited colleges and universities. It also grants \$10,000 in stock to those employees who obtain a degree.

When, for reasons of efficiency, it must relocate an employee's job domestically or overseas it extends its educational offer to four years. Since the program began in 1996, 20,000 of its employees have earned degrees. The company figures the program costs it about \$60 million per year. With revenues of \$48 billion, it believes this investment that enhances the skills and creates a bond with its workers is well worth the cost. Smaller companies could create programs to upgrade their employees' education that are suitable to their revenue streams. An all-out effort is needed.

#### We Must Learn from History

As Norman Cousins once said: "History is a vast early warning system."

There are some eerie similarities between circumstances that prevailed last century and those that currently exist. Remember that from 1860 to 1914 we enjoyed a remarkable period of global growth that was cut off by World War I. This earlier period was characterized by relatively open trade, limited capital regulation, tremendous technological innovation with the introduction of the radio, telephone, and internal combustion engine, and a robust global economy where America was the largest contributor.

After World War I, we failed to muster the political will to reopen the global economy. The decade that followed the end of hostilities saw tensions grow among the great powers, an unstable alliance system, and the spreading influence of the Bolsheviks who were hostile to capitalism and dedicated to using violence to change the world in accordance with their ideology.

In the face of a slowing economy, candidate Herbert Hoover pledged in the 1928 Presidential campaign to help American farmers by raising tariffs on agricultural goods. Domestic anxieties soared with the 1929 banking crisis,

and on June 17, 1930 Congress sent to the President the Smoot Hawley Act raising tariffs to record highs on over 20,000 imported goods.

President Hoover said that he disapproved of the Act, but signed it notwithstanding a petition sent him by 1008 economist urging him to veto. Before the ink dried on his signature, our trading partners began the retaliation that helped to bring the global economy and our own to a standstill contributing to the frictions that once again brought the world to war.

Today, by comparison, after six decades of stunning growth and truly extraordinary technological achievement, tensions are increasing as the world seeks to adjust to the rise of China and India. Alliances at the Security Council and NATO have weakened. Al Qaeda and other *Jihadist* groups hostile to Western values seek through violence to change the world according to their ideology, our financial institutions are again under stress, and high energy costs and the credit squeeze have slowed our economy causing steady lay-offs.

Against this backdrop, elected representatives are claiming that open trade is costing our nation millions of jobs and are pledging to vote against trade agreements already negotiated and to pull out of others. Restrictive legislation has been introduced in the 110<sup>th</sup> Congress ranging from penalizing outsourcing to curtailing Chinese imports, and members have passed a farm bill that has increased subsidies in the face of record commodity prices.

Efforts to limit trade as well as inward and outward investment because of a fear of foreign competition risk repeating the policy mistakes that have cost us so dearly in the past. And failure to integrate developing nations into the global trading system will not only limit our own future economic opportunities, but risks alienating large numbers of the excluded populations encouraging them to side with those who would do us harm.

Looking forward, our great country must marshal the political will to lead the world in lowering global trade barriers to create new economic opportunity for all nations including our own. That will require our public and private sectors to work hard to rebuild a domestic constituency that understands what is at stake and to take the steps necessary to ensure that

our nation can and will compete vigorously and effectively in the 21<sup>st</sup> century.

#### Recommendations

1. Encourage the current and the successor Administrations to complete the Doha Development Round to secure for our nation the very substantial economic, humanitarian, and security benefits it could deliver.
2. Enact the Free Trade Agreements with Colombia, Panama, and South Korea that are pending before Congress to secure for our nation the substantial economic gains and strategic benefits that each will bring.
3. Enact Trade Promotion Authority so that our trading partners will be willing to negotiate with our government about opening sectors that present them with tough political challenges. Because our Constitution vests Congress with authority over trade and the Executive branch with authority to negotiate with foreign governments, a compact between our two branches of government is required if we are to secure for our nation the greatest economic, security, and strategic benefits possible from opening foreign markets.
4. Inform Americans about the very substantial economic, humanitarian, strategic and security benefits that can be obtained from our nation's trade agreements that open global markets and encourage businesses, universities, think-tanks, and the media to do so as well.
5. Reform and broaden the Alternative Trade Adjustment Assistance Act by covering service workers, expanding the wage insurance program, and increasing the Health Coverage Tax Credit.
6. Create a bi-partisan commission to study effective ways to improve American's human capital, focusing on actions that will improve students' performance at our primary, secondary, and tertiary schools, as well as results from post-diploma training programs.

**Testimony of Mickey Kantor, Former USTR and Secretary of Commerce before the Senate Finance Committee Regarding the Future of U.S. Trade Policy on July 29, 2008**

Mr. Chairman and Senator Grassley, I appreciate the opportunity to join my colleagues in testifying before the Senate Finance Committee. We all appreciate your hard work and diligence as you confront these difficult and challenging issues. I would note that over the years all four of us and other former USTR's have spent many hours together in various forums discussing U.S. trade and other related issues. It is striking how similar are our views and our approach to these concerns. I am truly honored to be here at the invitation of the Committee and to appear with Ambassadors Brock, Hills and Barshefsky.

The development of future United States trade policy cannot be pursued in a vacuum. Conceptualizing, considering, concluding and implementing U.S. trade priorities will be dependent upon our ability and willingness to address the crucial issues of our competitiveness and strongly influenced by the credibility of our policies with the American people and the confidence that major U.S. constituencies will have in its eventual success and potential impact on our country.

Developing and implementing a successful trade agenda has been accomplished in the past when pursued on a non-partisan basis. The goal of a successful rules-based trading system will not be accomplished by adhering to strict theology or ideology. At its best, a trade policy would reflect practical and pragmatic considerations in a constant effort to raise standards of living, supporting and creating more and better jobs and growing the U.S. and global economy.

Any such agenda must be done in concert and communication with the U.S. Congress. Under Article I, Section 8 of our Constitution, international trade is the province of the Congress. Since Cordell Hull, Franklin Roosevelt's Secretary of State, pulled trade policy and negotiation into the Administration, there has been a constant tension between the Congress and nearly every Administration over trade policy and agreements. Because of this history, there needs to be a working arrangement between the Congress and the Executive Branch in pursuing trade policy goals.

Our countries' priorities will drive our trade policy, but neither policy nor priorities will be served if we cannot or will not recognize the reality of the world in which we live. Our agenda will not only be driven by our needs and priorities, but also by the influences of a world which is interdependent today and will even be more connected in the future. The end of the cold war, the rise of technology and an increasingly ubiquitous transportation system have brought us together in what has become a multi-polar world. The irony, of course, is that the continuing growth and influence of nationalism is a contradictory phenomenon which will continue to create barriers to taking advantage of this interdependent world.

We are in the midst of a remarkable era. Products designed in Europe can be manufactured in the U.S., using parts from Asia and marketed worldwide. Capital moves around the globe at an ever-increasing rate. Some see these profound changes as a threat. Certainly, these changes

create challenges which are different in degree and kind from the economic competition of the past.

Mr. Chairman, we should welcome the rise of Asian economies and, indeed, economies around the world. This economic revolution has been led by China. Millions have been extricated from poverty as a result. Tens of millions of people are being empowered and are joining a growing world middle class. People are eating better, and living healthy and more productive lives. Of course, those nations and people will become our competitors in world markets, but they are also a growing consumer base for our exports.

Mr. Chairman, we are truly “joined at the hip” with our world. Our major companies have become dependent upon international markets. They derive, in many cases, a majority of their revenues from outside the United States. Jobs connected to trade have grown impressively over the last number of years, and, on the average these jobs pay more than domestic jobs in our economy. Capital flows across borders, both in direct and portfolio investment, at an ever increasing rate. As a result, trade flows will only grow in the future – it is inevitable. Our challenge, as it has always been, is to address these questions: How do we take advantage of this growth? How do we continue to pursue and lead in the development of a rules-based trading system? What policies will serve the American people and the economy and will successfully grow the global economy? What mechanisms can we use or develop to address an ever more complicated economic environment?

Along with my colleagues, we will advance any number of ideas to engage our challenge and to confront these questions. Below is a brief enumeration of a number of ideas that I believe would serve as important steps in the right direction.

#### I. Building a competitive America

- A. Renewal and rebirth of public education (K-12);
- B. Energy security and addressing global warming, climate change and environmental challenges;
- C. Rebuilding and updating our infrastructure;
- D. Emphasis on science, discovery, research and development;
- E. A sound fiscal policy.

#### II. Restoring a credible, open and expanding trade agenda

- A. Enforcing trade laws and trade agreements;
  - (1) Vigorous enforcement of our trade laws and full use of the WTO and other dispute settlement systems;

- (2) Establishment of a trade prosecutor at USTR;
- (3) New comprehensive trade negotiations with China to ensure full compliance with international trade commitments;
- (4) Review and update all existing significant trade agreements;
- (5) Enforce legislative standards in all preference programs;
- (6) Initiate discussions with Mexico and Canada re: NAFTA, labor and environmental provisions and dispute settlement agreements;

B. Advancing U.S. trade and economic interests

- (1) Seeking multilateral and pluralateral sectoral agreements in critical areas;
- (2) Renewed efforts to implement the FTAA and APEC;
- (3) Complete the Doha Round;
- (4) Negotiate convergence and mutual recognition agreements on a multilateral, regional and bilateral basis;
- (5) Seek to resolve problems with the pending FTA's with the Congress;
- (6) Seek an FTA with Japan or an expanded agreement involving the Quad (Canada, the European Union, U.S. and Japan);
- (7) Opening markets for U.S. agriculture.

(C) Fair Trade Initiatives

- (1) Passing and implementing an expanding TAA program;
- (2) Seek to abolish abuse of child labor worldwide;
- (3) Include enforceable labor and environmental provisions in all trade agreements;
- (4) Implement stronger dispute settlement understandings in all trade agreements;

(D) Promoting developing countries access to international trade and spreading the benefits of an open, rules-based trading system

- (1) Removing barriers to entry of products no longer produced in the United States;

(2) Provide technical assistance and training to developing nations in negotiations and in WTO processes;

(E) Encourage presidential leadership and advocacy.

Mr. Chairman, Americans are not interested in a trade policy that “shoots from the hip.” The two key factors involved in addressing the challenges we face are pursuing an economically competitive America and implementing a trade policy which is credible with the American people. Americans will support a trade policy which is built on a foundation of economic changes that confront our challenges to compete in an expanding global market in an increasingly small world. And, as part of that competitive strategy, they will not accept trade policies which are not credible and which are developed, structured and implemented in a manner which do not serve their legitimate and critical interests.

In 2002, 78% of Americans believed trade was good for the country. According to a recent Pew poll, only 53% of Americans are convinced today about international trade’s positive value. This is the lowest percentage of support for trade in the 24 countries surveyed by Pew. There are many reasons for the loss of support. But, the fact that real medium income has fallen since 2000 and that the wealthiest Americans real income growth has far outstripped the expansion of income of everyone else is of particular relevance. This problem is probably more connected to the growing dominance of technology and the difference in educational achievement of workers as opposed to other factors. But, Americans prefer to blame trade. It is not only a concern about trade but real and supportable anxiety about our competitiveness that contribute to only 29% of Americans who believe the country is going in the correct direction.

The ingredients necessary to create a more competitive nation are well known. We are in the midst of a serious economic downturn. Whatever the technical definition, our economy is in recession. Although there are short-term “fixes” we have implemented and will continue to pursue, the long-term priorities must become number one on our agenda if we are to build a U.S. economy second to none. In fact, the legitimate economic fears of the American people serve to exacerbate concerns about trade policy. Middle class Americans have seen their income stagnate as costs have gone up, as their homes are threatened and jobs are less certain.

The elements necessary to create a more competitive economy are more easily articulated than achieved. But the implementation of these priorities must be pursued on a realistic basis, recognizing the resources necessary and the timeframe in which we need to address these issues. Given our difficult economy and fiscal situation, only a disciplined, focused approach will start us down the long road to meeting each of these challenges.

A competitive agenda begins with a renaissance in public education. In survey after survey, the achievement scores of American students seriously trail their counterparts in many other nations. Productivity and the ability to attract high-wage, high-skill jobs depends on an educational system which promotes high standards.

Our academic standards are too low, our school days and school years are far too short, we require too little of our parents, and we fail to trade off school reform and higher pay and better

working conditions for our teachers. Not to address these difficulties in our public education system will leave us vulnerable to foreign competition and will lead to the loss of effective contribution of millions in our next generation.

Equally daunting is our need to deal with the issue of a national health care system which is critical to alleviate the serious needs of the American people. We are the only developed nation on the face of the earth without a national health care program. Our companies and workers are at a great disadvantage as compared with foreign companies who are relieved of the responsibility of funding health care for their workers. Obviously, there are other critical factors supporting the adoption of a national health care program, including covering all those Americans who have no health insurance and in addressing the serious questions of costs.

Energy security is a major component of our ability to create a more competitive economy. Addressing America's needs to lessen our dependence on foreign oil and the twin problems of global warming and environmental damage are critical priorities. Congress has acted in this area and is considering new measures. Time is of the essence.

Like Roosevelt and Eisenhower knew, a competitive nation is one that can move commerce from coast to coast without a hitch. Rebuilding and updating America's infrastructure and investing in research and development to spark domestic commerce are similarly necessary.

China, India and many others are in the middle of impressive drives to build tens of thousands of roads, new bridges, airports and millions of miles of fiber optic cable. These countries are also training an incredible number of scientists and engineers. The result of these investments and government support will enhance their high-tech capabilities and provide increased competition for us in the future.

But none of these issues or measures can be successfully dealt with or will have the necessary impact in the absence of a sound fiscal policy. We face mounting budget deficits, which only grow as we attempt to address our needs. We have a serious lack of revenue and expenses which can only be described as out of control. This problem will dictate that crucial programs be subject to disciplined priorities and that we will not be able to pursue all of these solutions in the near term. But we must begin. We cannot grow our jobs, promote the recovery of our economy, enhance our standard of living and be competitive with the rest of the world unless we restore fiscal integrity. This will require focus, discipline and sacrifice, not to mention a healthy dose of bipartisan cooperation.

A well thought out, supportive trade policy is a critical component in the creation of a growing economy. The U.S. public has always exhibited a healthy degree of skepticism towards trade and trade agreements and, in recent times, towards globalization. Given our weak economy, our rising unemployment rate, higher costs of fuel, food, health care and education and less than intense White House leadership in trade policy has led to our failure to effectively address the fears as well as the hopes of these Americans. American's skepticism has turned to cynicism. For so many people a rising unemployment rate, the outsourcing of jobs and a rising trade deficit have become inextricably intertwined.

We are not alone in this. This attitude towards globalization and trade is shared by millions around the globe. In nearly every country, many see international trade as not in their interest and that their leaders do not stand up for their interests. Global cynicism aside, the fact is so many of these trade agreements have opened markets and removed trade barriers. Global trade has raised standards of living and helped to bring people out of poverty. Too many people continue to see these agreements as one sided or unfair.

Trade has never been a front page issue in our country, and for nearly a decade, we have become less dependent on foreign trade – until now. We are globalized and interdependent. Yet, for many, issues surrounding trade and trade agreements seem mysterious and the impact of these agreements elusive.

Untangling the cynicism that has contaminated globalization starts by doing our work at home. We will not build the kind of competitive economy we need – and foster a higher standard of living for America – unless and until we implement a common sense, non-partisan and practical trade policy.

In order to create that policy, we need to carefully build a working consensus around a number of trade issues. Below, I have briefly reviewed a number of trade concerns and opportunities.

I believe we can build a consensus by convincing the American public that we will address their concerns and enforce their interests. We can move forward to address the negative effects of trade agreements on certain sectors of the economy. Trade agreements are an important ingredient of domestic priorities and our foreign policy, not merely an adjunct of both. It is within our grasp to reflect our priorities as a nation and to potentially create important economic impacts with a well thought out policy. However, Congressional and Presidential leadership is absolutely necessary to build the kind of consensus we need.

For nearly eight years, we have been less vigorous than we should have been in enforcing our trade laws and agreements. Bilateral initiatives of diminished economic consequence were pursued to the detriment of a larger agenda. Important interests represented by the reinvigoration of APEC or the failure to make progress with the FTAA or to review and update major trade agreements currently in force were given a low priority or no priority at all. Aggressive trade initiatives, can, and should, be consequential as we attempt to build a stronger economy.

For many Americans, our large trade deficit with China is a symbol of our failure to pursue fair and balanced trade. All recognize the importance of the growth in the Asian economies, particularly China, and its impact on our economy. There are many areas in which China and the U.S. have important reasons to cooperate economically and where common ground exists. It is equally important that both nations strictly adhere to their commitments. China has implemented much of its accession agreement reached with the U.S. in 2000, but the enforcement of the resulting rules and regulations has been sporadic at best.

We have not effectively engaged China on a range of issues detailed in the March 2008 National Trade Estimates Report. Serious concerns about China cover 66 pages in that report – substantially more than any other country. The range of issues are large, led by deep

disagreements over barriers to agricultural imports, particularly SPS restrictions that are not based on sound science; export restrictions, which artificially lower the cost of inputs for China's domestic industries and raise the cost for foreign competitors; and a wide range of barriers which reduce the access for U.S. providers of services, especially financial services. In addition, we have continuing concerns over China's failure to enforce intellectual property rights, questions of currency manipulation and China's reluctance to fully satisfy its obligations under the WTO. This is not to say that China has not made progress. However, we need to be more resolute in pursuing our legitimate interests with regard to trade with China.

As we address energy security and global warming, all recognize that the growth and potential of these technologies has enormous potential job and economic benefits. China's leadership has recognized and articulated in an impressive fashion their understanding of China's need to invoke clear energy and conservation policies. U.S. industry has a growing and impressive capacity to provide these technologies. Building cooperation between the U.S. and China in this area can provide great benefits for both. New agreements removing barriers to the export of environmental technologies to China can expand trade impressively.

Most importantly, the President has not been personally engaged on a constant and consistent basis pursuing major initiatives in trade. Without presidential involvement and leadership, it is very difficult to move an aggressive trade agenda forward. Instead of advocacy from the White House, we have seen either active opposition or failure to participate in issues such as an expanded and strengthened Trade Adjustment Assistance program. The failure to establish a vigorous trade enforcement arm at USTR has allowed Asian nations to ignore APEC and drive for new regional trade alignments, which has virtually excluded the United States – failing to invigorate the FTAA by engaging our friends in Latin America.

I recognize that USTR and the Administration have been more vigorous in trade enforcement recently. I was pleased that the Administration moved forward with the May 2007 agreement with the Congress endorsing enforceable labor and environmental provisions in the pending free trade agreements with Peru, Colombia, Panama and Korea. And the Administration has made valiant efforts to reach a balanced agreement in the Doha development round. In addition, USTR has been more active in pursuing WTO dispute resolution matters with regard to China and others.

Hopefully our trade agenda will recognize the logic and importance of the Chairman's approach, along with Senators Stabenow and Hatch, which would create a congressionally-approved trade prosecutor at USTR. This legislation will have an important impact on creating credibility for an expanded trade agenda and will be an important aid in securing market access and fairness. The WTO dispute mechanism settlement works – it is the most effective mechanism in any international agreement in enforcing the rights and obligations of the parties. The Clinton Administration used this process 66 times in less than six years, in stark contrast to the present Administration who pursued this avenue only 19 times in 7 and a half years. Interestingly, foreign governments pursued the U.S. at Geneva 46 times in the last 7 and a half years. The logic of a trade prosecutor is clear. USTR does not have the staff nor the proper personnel to effectively implement an important enforcement program. By mandating a Senate-confirmed

appointment of an ambassador for trade prosecution with an adequate staff, we can meet our goals in this area.

The Chairman and the Committee are also considering updating the Trade Adjustment Assistance program. This program should be expanded. I am impressed by the proposal to expand TAA to cover workers in the service sector and the doubling of funds for placement and training. Also, the bill as presented, would soften the impact of globalization, making health care more affordable for those who lose their jobs due to the impact of trade agreements. The loss of a job through technology or competition or a trade agreement are equally painful. I would support a TAA approach for all workers whose jobs are lost due to phenomena beyond their control. Possibly, it is not fiscally possible at this point. But the pain of attempting to find comparable work in mid-career with kids in college, a mortgage on a home whose value is dropping, and with increasing costs of gas, food and health care should not be lost on any here today.

No trade agreement is perfect. Although a well negotiated agreement will grow our economy and enhance our standard of living, some workers will be adversely affected. We need a vigorous, expanded, effective TAA. I commend the Chairman and the Committee for addressing this important need.

Our agricultural sector is a major part of U.S. trade and our economic future. We have a number of problems which need to be faced in this sector including European subsidies, access to various countries of so-called sensitive products, and eventually reaching an open market in agricultural trade. Negotiations involving this sector are too important to allow to languish. If we cannot break the log jam in the Doha Round, we should seek a sectoral agreement instead.

In addition, we need to address the misuse and abuse of SPS processes which lock U.S. farm products out of many countries. We made progress in the Uruguay Round with minimum access, current access and tariffication. It is time to move forward.

Every trade agreement we reach should include enforceable labor and environmental provisions with a dispute settlement understanding, allowing offended parties to assert their rights and interests under the agreement. We should pursue these provisions in all agreements, including multilateral understandings reached at the WTO. No single policy will have more impact on restoring credibility of trade than the invocation of enforceable and environmental provisions. As part of this effort, we should continue to pursue a worldwide effort to abolish the unacceptable abuses of child labor.

In addition, it is time we updated the labor and environmental side agreements to NAFTA. These were negotiated and agreed to 15 years ago. We should draft new language based upon the Peru FTA and open discussions with our Mexican and Canadian friends to place stronger labor and environmental provisions in the body of NAFTA. These new commitments must be accompanied by an effective dispute settlement mechanism.

A failure to conclude the Doha Round would not be helpful to the future of the WTO. However, it should not be concluded without insuring it has appreciable benefits for our economy and

workers and perhaps more importantly reflects our values. The pending FTA's with Colombia, Panama and Korea are in different stages of consideration, for both trade policy and foreign policy concerns. Each is important in its own right, but we must be careful in our considerations to make sure important issues are resolved. As the Congress continues to debate these proposals, the concerns surrounding each of these pacts are legitimate, and renewed efforts to resolve these matters is critical.

In addition to reinvigorating the FTAA and APEC, we should begin to fashion initiatives to promote the most prominent growth industries in the United States. Industries such as biotechnology, nanotechnology, environmental controls, health care, education and financial services are prime examples. This, of course, is not to ignore the other important areas of agriculture, telecommunications and other copyright industries. The attempt to negotiate a new and comprehensive Doha development round agreement has stood in the way of sectoral agreements, which have the potential of large impacts on global growth.

Initiatives addressing these industries could take the form of sectoral agreements at the WTO or plurilateral agreements with key nations. We succeeded in the past with sectoral agreements in Geneva covering information technology, telecommunications and financial services. These three agreements taken together have had as much positive economic impact as the Uruguay Round agreement itself.

Agreements covering convergence of standards, mutual recognition agreements, regulatory regimes and transparency should be pursued. As we become increasingly connected, the ability to reach understandings covering accounting standards, corporate governance and financial reporting, product standards and safety and internet protocols can have a large impact on global growth and efficiency. Our businesses, workers and investors would profit immeasurably from progress in these areas.

The promise of regulatory harmonization and mutual recognition agreements to reduce costs, promote economic activity, and protect health and safety remains bright. The foundation laid by our efforts in the Clinton Administration, and lessons we learned, are relevant for the next president and his economic team. Challenges remain high: public concerns about trade generally, and about food and product safety standards are, if anything, even greater. Yet if the next Administration can work with trading partners around the world who have shared interests in this area, I am convinced that we can make progress. Indeed, I believe that these heightened concerns and skepticism should lead us to redouble our efforts. We need the active involvement of the private sectors for success. Regulatory agencies need increasingly to recognize the importance of international trade as to how they discharge their mandates to protect the public. And Congress needs to help advise the new president's team and reflect the people's concerns, as well as recognize the great promise that future success in regulatory harmonization can yield.

Bribery and corruption have become a scourge on international trade. It has literally become an epidemic. But we can address it in an updated Government Procurement Agreement at the WTO or as a stand alone understanding with countries committed to uphold laws forbidding these activities. Like labor and environmental standards, every nation has laws and regulations forbidding bribery and corruption. Enforcement is the problem. The failure to enforce has a

deleterious effect on trade and creates unfair and unbalanced situations. Of course, as noted time and again by Transparency International, the rule of law and weak institutions are substantially to blame.

If we are going to address global growth, we must address global poverty. Expanding and extending preference programs in Africa, the Muslim world and the slower growing Asian nations is not only the right thing to do, but the smart thing to do. We should certainly consider whether our tariffs and barriers to entry of shoes, clothes and luggage should be dealt with. Many of these products have no competitors in the United States, and lifting these tariff barriers would foster growth in the developing world and lower the cost of living right here at home.

These ideas are neither exclusive nor comprehensive. But the willingness to restore credibility to a renewed trade agenda and to address the issues of America's competitiveness is of paramount importance. If we do not engage these issues, we are missing the opportunity to create a 21st century economy that works for the American people. We cannot waste one minute as we pursue these goals.

Thank you.

**Statement of Senator Jon Kyl**  
**Senate Finance Committee Hearing on “The Future of U.S. Trade Policy:**  
**Perspectives from Former U.S. Trade Representatives”**  
**July 29, 2008**

Mr. Chairman, I find it a bit premature to hold a hearing today to discuss the future of US trade policy while we still have time to move the trade agenda forward this year by holding a mark up the Colombia Free Trade Agreement (FTA). It was my understanding that the Finance Committee was initially scheduled to mark up a bill to expand Trade Adjustment Assistance (TAA) at the end of this month. However, the majority decided to pull the mark up because it did not want to give those who support the Colombia FTA an opportunity to vote on the agreement in Committee.

Perhaps we should review the events of the past year-and-a half to understand the current state of affairs. On May 10th, 2007, Democrats and Republicans agreed to a framework that modifies future trade agreements to include provisions improving labor and environmental standards in order to move the Peru, Colombia and South Korea FTAs. After the Peru FTA was passed last year, the other side broke its deal with us in order to exact more concessions. This time the other side said that in exchange for passing the Colombia FTA, the Administration would need to accept an expansion of TAA benefits by increasing the refundability of the health care tax credit (HCTC) from 65 to 80 percent, expanding TAA eligibility to service workers, and doubles mandatory funding for worker retraining from \$220 to \$440 million.

When the Administration introduced the Colombia FTA, Speaker Pelosi responded by unilaterally rescinding Colombia's "fast-track" authority, essentially killing any chance of moving the agreement. Senate Democrats are now insisting that Republicans accept a \$10 to \$12 billion TAA expansion, an additional \$7 billion on what is being described as an unemployment insurance modernization and legislation that would create a duplicative chief trade enforcement officer at the Office of the United States Trade Representative (USTR).

Before discussing the future of U.S. trade policy, the Committee should find a way to move Colombia. It is inappropriate to discuss expanding TAA or any other trade related spending program until there is a timetable to move Colombia. Any future deal on TAA must be contingent on a bipartisan and bicameral agreement to move the Colombia FTA.

I would support a TAA mark up if it is contingent on a Colombia FTA mark up during the September work period. I would also ask that our staffs work together to develop a plan to ensure passage of the Colombia FTA, such as requiring a unanimous consent agreement that TAA be held at the desk until the House sends the Senate the Colombia FTA.

## COMMUNICATION

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TO: Senate Committee on Finance

FROM: Rachel Cooper

RE: The Future of U.S. Trade Policy: Perspectives from Former U.S. Trade Representatives, July 29, 2008, at 10:00 a.m., in 215 Dirksen Senate Office Building

DATE: July 29, 2008

Senators,

I watched the hearing today regarding trade and the United States. I disagree with most of the statements made by your witnesses. Ever since NAFTA, Americans have been losing jobs. From a consumer's perspective, goods from third world countries and China are being forced upon us. Whom do you believe is profiting from those goods – Americans? No. We have lost millions of jobs in both the manufacturing and now service areas. Do we Americans get the benefit of the lower wages being paid for the items or services? No. Companies' stockholders and executives are. The savings are NOT being passed on to consumers.

Have you tried to purchase anything made in the U. S.? I have. Mostly I find small items like candles and toilet paper. Not much is manufactured here and certainly not enough to support our economy. I don't want clothing made by someone in a country I have never heard of before and who is probably being paid pennies a day, just like I don't want to buy food from them. I want American-made clothing and food grown in MY country. If corporations want to use foreign labor, fine. They can open factories there. American consumers should be given a choice – not have our choices made for us and then have some Trade Representative blame American consumers for the state of the economy. Get real.

Why are service companies now importing workers from countries like India to take American jobs in this country? Because they can pay them 1/3 of what they pay an American and because they can hire them as contractors and not pay taxes, not because these are jobs Americans won't do. To add insult to injury, these Americans are being fired from their jobs and being forced to train their foreign replacements.

American taxpayers are not ATMs. You can't keep expecting us to subsidize every poor country, bailout banks and mortgage companies, fund AIDS initiatives, and take our jobs. You are breaking our backs and this great country with these policies. Businesses whine that they need more H1b workers and Congress obliges. Then you wring your hands when the trade deficit skyrockets and our economy is collapsing around us.

Do you really think the witnesses before you today would admit it was their policies that have led to this debacle? Perhaps you could have a panel of businessmen, like Richard Elkus, or at

least read his book. I saw the gentleman on C Span last night. I don't personally know him and have not read his book, but I think he is the kind of person you should be dealing with, not the clowns who have bankrupted this country in order to raise up the living standards of other countries at the altar of 'free trade'. We need to be more competitive, our children need to receive the same education as other countries give theirs. Perhaps a group could be sent to one of the top countries to inquire of their education system. Obviously, ours, like so many other systems, is broken.

Should we help poorer countries? Of course, but not at the expense of our own. Charity begins at home. We have a hard road ahead of us. Americans don't mind that, but we do mind being sold out to the lowest bidder. Have you heard the definition of insanity – you keep doing the same thing expecting the same results. It's time for you to do something different and get different results.

Here is a review from Amazon.com regarding Mr. Elkus and his book:

#### **Editorial Reviews**

#### **Product Description**

Over the past thirty years, the United States has lost commanding leads in business after business. We no longer make cameras, TVs, MP3 players, cell phones, or DVD players, and we have become the world's largest debtor nation. Everyone thinks this is because of cheap labor costs, but in fact Asian leaders have a fundamental and different way of thinking about business. They are playing a different game. If the U.S. wants to regain its competitiveness and preserve its global power, it must play the game as it's played in the rest of the world. *Winner Take All* tells us what it takes to be competitive, and how we need to reform our thinking to regain what we have lost. Richard Elkus isn't afraid to bring a few sacred cows to the slaughter. This is the essential primer for any policy maker, business leader, or general reader interested in knowing how America can regain the economic clout it once had.

#### **About the Author**

**Richard Elkus** has been chief executive or on the board of directors of over fifteen different high-technology companies, as well as a board member of the University of California President's Board of Science and Innovation, Scripps Research Institute, the Center for Strategic and International Studies, the Economic Strategy Institute, the American Electronics Association, and many other organizations. This is his first book. He lives in Atherton, California.

