

TESTIMONY OF PETER L. SCHER
before the Committee on Finance
United States Senate
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Thank you, Mr. Chairman, for the opportunity to testify before the Finance Committee today.

Since you have heard and no doubt will continue to hear a number of very distinguished witnesses articulate the economic case for why trade, and in particular, Trade Promotion Authority, is so important to the United States and our economy, I wanted to use my time this morning to address how we begin to realize the benefits of trade at a time when there is deep public scepticism -- indeed, in many cases -- strident opposition to globalization? How do we square the benefits and the potential of our global economy with rioting in the streets of Seattle? How do we build support and a constituency for trade among American workers and farmers?

Given the clear economic and social success of previous efforts to promote trade, you might conclude that support for future efforts should be easy. We know, of course, that's not the case. Despite fifty years of immense economic, technological and social progress where the world economy has grown six-fold, per capita income world-wide has tripled, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds and famine has all but disappeared from most of the earth -- despite all of this, there remains among so many Americans and frankly, so many citizens throughout the world, a deep skepticism about the global trading system. We saw it in Seattle. We saw it in Quebec City. We saw it last week as the leaders of the European Union met in Sweden.

While it might be expedient to dismiss all of the opposition in the streets as part of the fringe, young people searching for a cause, there is clearly a divide in this country on trade. A growing view that the global trading system benefits elites or big corporations and does not address the concerns of working people. Even among those Americans who accept that trade can benefit our economy, many believe that those benefits are outweighed by the costs for many sectors of our society.

The challenge then is how do we overcome these perceptions to regain support of the American people for moving our trade agenda forward?

This may be a political question -- but it need not be a partisan question. No significant trade legislation in the post-War history has been achieved without bipartisan consensus. In the last ten years, all of our trade accomplishments: fast track in 1991, NAFTA in 1993, the Uruguay Round in 1994, PNTR for China last year -- all of these required bipartisanship and active support from the President. By the same token, no future trade achievement will be possible without bipartisan support.

The question is, how do we do it?

Trade Promotion Authority is the obvious starting point for this discussion. TPA has significance that is both practical and symbolic. From a negotiator's standpoint, it is far easier to engage in trade talks under a clear grant of congressional authority. In fact, many of our trading partners demand it. More broadly, TPA symbolizes our national commitment – and Congress's commitment -- to trade expansion. The importance of TPA to our workers, farmers, businesses and the entire U.S. economy cannot be overstated.

But the debate over TPA has largely become a debate over labor and environmental standards. The threshold question is this: Are labor and environment legitimate topics for trade negotiations? For several reasons, I believe they are.

First, it is a matter of economics. With fierce competition in the global marketplace, the manner in which a country treats its labor and environmental standards can be very relevant to the economic position of our own companies. However repugnant, slave labor and child labor do confer a competitive advantage on countries which employ them -- but that is not a competitive advantage which the world trading system should accept as legitimate. The concern about US compliance with the Kyoto Convention to lower CO2 emissions is based on the belief that it would give an unfair advantage to competitors from developing countries. By this logic, shouldn't we also be concerned about countries that weaken or fail to enforce their environmental laws – thereby placing US companies at a competitive disadvantage?

In my view, it is clear that labor and environment standards can have a direct economic impact that justifies their inclusion in trade negotiations.

The second argument, frankly, is one that both President Bush and Ambassador Zoellick have so eloquently offered – that is, our trade policy should reflect our values. One of the values that it seems we can all agree on is that trade should lift people up, raise their standard of living and not become a race to the bottom with countries offering the lowest standards to attract investment.

So if you accept on some level that these issues are at least relevant to the trade discussion, the question then becomes, what kind of commitments should we be asking countries to make. I don't believe there is one answer to this question. Every trade negotiation and every trade agreement is different. One size does not fit all.

In terms of labor standards, I would suggest that it is reasonable and right for the United States to promote so-called “core labor standards,” as defined by the International Labor Organization. These are:

- ▶ elimination of forced labor;
- ▶ the abolition of child labor;
- ▶ the right to organize and to bargain collectively; and

- ▶ elimination of discrimination in respect of employment.

These are not exactly what you would call radical concepts -- in any country. In fact, virtually every country in the world is a member to the ILO conventions recognizing these rights. It is not unreasonable to suggest that when we open our market to the products and services from other countries they maintain these basic labor standards.

On the environmental side, my own view is that the recent U.S.-Jordan FTA struck the right balance. The agreement recognized the right of each country to establish its own level of domestic environmental protection and established as a goal that each country “strive” to ensure that its laws provide for high levels of protection. Further, the agreement recognized that it is inappropriate for one country to attempt to gain a competitive economic advantage by relaxing their domestic laws and that the countries should, once again, “strive” to ensure that they don’t waive or derogate such laws to encourage trade.

This is, in my view, a reasonable approach that respects the sovereignty of each country while recognizing the impact that these issues can have on global commerce.

Once we have established the obligations, the other difficult issue arises: how should those obligations be enforced?

In my view, one of the main reasons the public fails to support trade is the view that while the United States keeps its commitments and opens its market, other countries do not keep their obligations. The American people need to have confidence that when other countries make trade commitments, they keep those commitments. An effective enforcement mechanism is critical to this.

In my own experience, effective enforcement of trade commitments requires a credible threat that there’s a price to pay for a country failing to fulfill its obligations. We saw this with beef in Korea, with IPR protection in China, and with magazine sales in Canada – as well as a host of other disputes. In the banana case which Ambassador Zoellick recently concluded, Europe refused for years to even discuss a resolution until there was a real possibility of retaliation. While sanctions has taken up much of the debate over enforcement, sanctions may not be the only way, nor are they always to best way to achieve enforcement. But whatever mechanism is developed must be credible and must ensure that there is a price to pay for violating obligations. U.S. negotiators must have a range of options, including sanctions, to use as appropriate to ensure enforcement of trade commitments.

Mr. Chairman, I recognize that the issues of labor and environment are complex. I know you’re hearing conflicting advice from both ends of the political spectrum. On the one hand, there are those who believe that trade linkage is the mechanism for resolving all of society’s ills. I disagree with them. There are those who believe that trade and environment issues have no place in discussions of trade. I disagree with them as well.

There is a middle ground. In the spirit of throwing some ideas on the table, let me summarize the four elements that I believe are critical to building a new consensus on trade:

First, preserving national sovereignty: In setting standards, our starting point must be the sovereign rights of nation states. That means that no country should be held to an obligation that it has not willfully accepted. In labor, this generally would mean compliance with ILO core labor standards -- which virtually every country in the world already has accepted. In the area of the environment, this would mean compliance with a country's own environmental laws.

Second, there should be no "second class" standards: When obligations are undertaken in the context of trade agreements -- they must be upheld and all obligations must be treated equally. Labor and environment obligations should not be treated as less important than other trade obligations. There must be parity.

Third, there are limits: Disputes over labor and environmental issues should not be a part of trade agreements except where those disputes are *directly related to trade*. We should not make our trade agreements the fora for resolving every dispute over labor and environment. But we should also not allow countries that have open access to our market use their own environmental or labor standards to gain a competitive advantage. The requirement for a direct relationship to trade is a reasonable line.

Fourth, enforcement is the key: Sanctions are not a cure-all for compliance -- we've seen that in our dealings with Europe. But U.S. negotiators need the flexibility of an array of options that includes consultation, negotiation, adjudication, incentives and fines. Trade sanctions must also be one tool in the toolbox available to negotiators. When negotiators bring an agreement back to Congress for approval, they will have to demonstrate that whatever enforcement mechanism they developed is adequate for ensuring compliance.

The labor and environment issues underscore an essential fact about the trade agenda -- it's a moving target. Twenty years ago, trade negotiations focused primarily on tariffs and quotas. The politics of trade were tough then too, but the mechanics were mostly about math. Ten years ago, after years of effort we began to address agriculture, services and intellectual property, despite cries from many that these were not appropriate topics for trade negotiations and should better be left to other fora. While much work remains in these areas, their position on the agenda at least is clear.

Winning public support for trade requires us to keep up with the times -- to continue to address the issues that arise as the world economy evolves. One clear example today is the digital economy. When we concluded the Uruguay Round in 1993, there were a grand total of 130 sites on the world wide web. Today, there are 476 web sites devoted to Britney Spears alone. More than 300 million people are online, which is expected to grow to more than 1 billion by 2005.

The Internet is changing the way all of us do business, are entertained, for many, it is providing educational opportunities that once seemed impossible. Addressing issues on the

cutting edge of the technological revolution, developing a framework for a networked global society, these are some of the complex issues facing our trade negotiators today that our trade policies must keep pace with.

In the agriculture sector, which I know is of interest to many members of this Committee, our greatest challenges are no longer just high tariffs and restrictive quotas, but what are too often phony scientific barriers that countries use to block our exports of beef to Europe, or varietal fruit to Japan, or corn and other grains developed through modern biotechnology. The ability of U.S. negotiators to address these complex issues must be reflected in the grant of trade negotiating authority. Let me take this one step further: one of the complaints I often heard when I visited with farmers and other agricultural leaders throughout the country had to do with the different environmental standards our competitors had to comply with. As the Chairman, and other Members of the Committee may remember, this is one of the key concerns that many farmers in the Northern Plains states have about their competitors in Canada – that Canada farmers have different environmental requirements which skew the market-place. To limit the ability of negotiators to address these issues, frankly, will not help advance a more competitive and level playing-field for American farmers and ranchers.

Mr. Chairman, obviously none of these issues are easy. If they were, you wouldn't need to call all of us here today. There are competing interests and competing pressures, as well as genuine disagreement. But the challenge we face, to build a trading system for the 21st Century, to help create jobs, maintain prosperity and promote our shared values – that is very real and it requires the support of the American people.

The creation of the trading system in 1948 and its development over the next fifty plus years stands as a tribute to the ability of American leaders to define and realize our common interest. That is the challenge we face today and it is imperative that we meet it.

I very much appreciate the opportunity to take part in this discussion.