

Testimony of Mickey Kantor, Former USTR and Secretary of Commerce before the U.S. 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 phenomena 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 a 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 to update 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 pluralateral 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.