

U.S. TRADE POLICY

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

SCHAUMBURG, ILLINOIS, MAY 20, 1996

Serial 104-86

Printed for the use of the Committee on Ways and Means



U.S. GOVERNMENT PRINTING OFFICE

42-690 CC

WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055492-6

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U.S. TRADE POLICY

MONDAY, MAY 20, 1996

**U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
*Washington, DC.***

The Subcommittee met, pursuant to notice, at 10 a.m., in Schaumburg Village Hall, 101 Schaumburg Road, Schaumburg, Illinois, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
April 26, 1996
No. TR-23

CONTACT: (202) 225-1721

Crane Announces Field Hearing on United States Trade Policy

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, announced today that the Subcommittee will hold a field hearing on the status and future direction of United States trade policy. This is the third in a series of hearings the Subcommittee is holding in 1996 to evaluate progress in United States trade policy. **The hearing will be held on Monday, May 20, 1996, at 10:00 a.m., at the Schaumburg Village Hall, 101 Schaumburg Court, Schaumburg, Illinois.**

Oral testimony will be heard from both invited and public witnesses. Invited witnesses will include Governor Jim Edgar and Acting United States Trade Representative Charlene Barshefsky. Also, any individual or organization not scheduled for an appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

The 103rd Congress proposed legislation implementing the results of two historic trade negotiations, the North American Free Trade Agreement and the Uruguay Round Trade Agreements, which established the World Trade Organization. These agreements have been beneficial in creating new jobs, stimulating the American economy and raising the standard of living of American workers. The Committee on Ways and Means has jurisdiction over United States trade policy, including proposals to extend authority to the Administration for use in negotiating new international trade agreements.

FOCUS OF THE HEARING:

The Subcommittee requests that witnesses address the form and content of future trade policy undertakings as the United States approaches the 21st century. By way of illustration, the Subcommittee seeks testimony from the public on such issues as:

- What is the role of international trade in creating economic growth for United States workers and firms?
- For companies with business strategies emphasizing future growth through international expansion, which foreign markets present the most opportunity? How do Illinois firms incorporate international markets in their planning?
- How can the United States ensure that it maintains its historic leadership role in a fast-changing world economy?
- Which key trade initiatives and institutions such as the Asia Pacific Cooperation Group, the Free Trade Agreement of the Americas, and the Transatlantic Marketplace hold the most promise for expanding United States exports over the long term?
- How important is it for the United States to negotiate Chile's membership in the North American Free Trade Agreement?
- How can the United States best encourage China to participate responsibly in the international trading system?
- What should the trade negotiating objectives of the United States be in the post-Uruguay Round environment? Are there trade issues such as international rules governing services,

(MORE)

intellectual property, and government procurement which should receive priority attention by the Congress and the Administration? What are the most significant trade barriers that face United States firms who seek to do business in foreign markets?

- What kind of trade policy will maintain and improve the competitive position of the United States in the world economy?
- How does the United States develop a trade policy that best reflects the national interest?

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225-1721 no later than the close of business, Thursday, May 9, 1996. The telephone request should be followed by a formal written request to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff at (202) 225-6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. **THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED.** The full written statement of each witness will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statements for review by Members prior to the hearing.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Monday, June 3, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the site of the hearing at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

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

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

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

Note: All Committee advisories and news releases are now available over the Internet at GOPHER.HOUSE.GOV, under 'HOUSE COMMITTEE INFORMATION'.

Chairman CRANE. Good morning and welcome to this hearing of the Subcommittee on Trade of the Ways and Means Committee on the status and future direction of U.S. trade policy. It is indeed a great pleasure to welcome my colleague from the House of Representatives, the Ranking Member on our Trade Subcommittee, my colleague from New York, Congressman Charles Rangel. And I am also happy that Congressman Don Manzullo, my friend from Egan, Illinois is able to be with us today. He serves as Chairman of the Small Business Subcommittee on Procurement, Exports, and Business Opportunities in the House of Representatives.

As the fifth-largest exporting state in the nation, open international markets are critically important to the creation of high-paying jobs in Illinois. By the same token, expanding trade is vital to our country, which is the world's greatest exporter. My purpose in bringing the Subcommittee here to Schaumburg is to focus on how one successful state approaches the international marketplace and to review how important trade is to future economic growth.

Finally, I have requested the witnesses comment on the most important trade issues facing their firms and associations.

We are honored to be joined later this morning by Governor Jim Edgar. And our first witness who will be testifying is Ambassador Ira Shapiro, who will share the perspectives of their respective administrations. It is important to put these issues into context by reviewing some key statistics which I expect our witnesses will re-emphasize in their presentations.

In 1995, U.S. exports increased by 14 percent, reaching a total value of \$784 billion. Here in Illinois we experienced an even bigger surge in export growth, as our exports rose by 24 percent over 1994 levels, to \$33 billion. These exports came from a broad spectrum of Illinois industries, including industrial machinery and computer equipment, electronics, chemicals, agricultural and food products, transportation equipment and many more.

The message I want to share with you today is that exports translate directly into jobs here at home. Indeed the U.S. Commerce Department has estimated that every \$1 billion in exports translates into 17,000 to 20,000 new jobs in the United States. Moreover, it has been estimated that those jobs pay up to 22 percent more on the average than their counterparts that produce for domestic consumption. Although Illinois is home to many of our country's largest exporters, including Motorola, Caterpillar, Archer Daniels Midland, Abbott Laboratories and Deere and Co., companies of this size dominate U.S. trade relations less and less. Increasingly, small businesses are succeeding in selling their products abroad. Already the U.S. Census Bureau has determined that 97 percent of Illinois companies that export, employ less than 500 employees each.

I am happy that the Subcommittee on Trade has this opportunity to receive testimony from our distinguished witnesses on the role that trade plays in the economy today and the future negotiating objectives of the United States to open new markets for the benefit of U.S. firms and workers. It has been estimated that trade will account for 36 percent of our gross domestic product by the year 2010, up from just 14 percent 25 years ago. Given this trend and the overall globalization of the world economy, I look forward to hearing our witnesses discuss priorities for future trade negotiations.

[The opening statement follows:]

**Opening Statement by Chairman Philip M. Crane
Ways and Means Trade Subcommittee
Field Hearing in Schaumburg, Illinois
May 20, 1996**

Good morning. Welcome to this hearing of the Subcommittee on Trade of the Ways and Means Committee on the status and future direction of U.S. trade policy. It is indeed a great pleasure to welcome my colleague from the House of Representatives, Congressman Charlie Rangel of New York, to my home state of Illinois. I am also happy that Congressman Don Manzullo, my friend from Eagan, Illinois is able to be with us today. He serves as Chairman of the Small Business Subcommittee on Procurement, Exports, and Business Opportunities in the House of Representatives. As the fifth largest exporting state in the nation, open international markets are critically important to the creation of high paying jobs in Illinois. By the same token, expanding trade is vital to our country, which is the world's greatest exporter.

My purpose in bringing the Subcommittee here to Schaumburg is to focus on how one successful state approaches the international marketplace, and to review how important trade is to future economic growth. Finally, I have requested that witnesses comment on the most important trade issues facing their firms and associations. We are honored to be joined by Governor Edgar and Ambassador Ira Shapiro who will share the perspectives of their Administrations.

I think it is important to put these issues into context by reviewing some key statistics, which I expect our witnesses will reemphasize in their presentations.

In 1995 U.S. exports jumped by 14%, reaching a total value of \$784 billion. Here in Illinois, we experienced an even bigger surge in export growth, as our exports rose by 24% over 1994 levels to \$33 billion. These exports came from a broad spectrum of Illinois industries, including industrial machinery and computer equipment, electronics, chemicals, agricultural and food products, transportation equipment, and many more. The message I want to share with you today is that exports translate directly into jobs here at home. Indeed, the U.S. Commerce Department has estimated that every \$1 billion in exports supports 17,000 to 20,000 jobs in the United States. Moreover, it has been estimated that those jobs pay up to 22% more on average than their counterparts that produce for domestic consumption.

Although Illinois is home to many of our country's largest exporters, including Motorola, Caterpillar, Archer Daniels Midland, Abbott Laboratories, and Deere and Company, companies of this size dominate U.S. trade relations less and less. Increasingly, small businesses are succeeding in selling their products abroad. Already, the U.S. Census Bureau has determined that 97% of Illinois companies that export employ less than 500 employees each.

I am happy that the Subcommittee on Trade has this opportunity to receive testimony from our distinguished witnesses about the role that trade plays in the economy today, and the future negotiating objectives of the United States to open new markets for the benefit of U.S. firms and workers. It has been estimated that trade will account for 36% of our gross domestic product by the year 2010, up from just 14% twenty-five years ago. Given this trend and the overall globalization of the world economy, I look forward to hearing our witnesses discuss priorities for future trade negotiations.

I would now like to yield to my distinguished colleague, Congressman Rangel for an opening statement.

Mr. RANGEL. Thank you, Mr. Chairman, and I ask unanimous consent that my entire written statement be placed in the record.

Chairman CRANE. Without exception, without objection, so ordered.

Mr. RANGEL. Mr. Chairman, I am glad to be here with you in Illinois and also with my colleague, Don Manzullo. New York has many of the same problems as Illinois and we are greatly dependent on expansion in foreign trade. I want to congratulate you for the bipartisan way in which you have led the Trade Subcommittee, notwithstanding the fact that we are presently going through the most difficult partisan atmosphere in recent history. Nevertheless, we have had a tradition of bipartisanship in trade and your leadership has really kept it that way, and I want to thank you publicly.

We all recognize that the economic future of the United States is going to be dependent on how we can expand our markets abroad. And since we are only 4 percent of the world population, we have to really develop these markets. Every billion dollars' worth of exports averages at least the creation of 15,000 jobs here in America, but the jobs that are being lost have to be of great concern to those people in urban areas and in former manufacturing areas since the jobs that are being displaced due to globalization and the emphasis on high tech have been the lower paying, lower skilled jobs. So it means that we have to ensure that foreign markets are not only held open, but also that there is a level playingfield. We want to make certain that nations do not take unfair advantage of us by not allowing our products a fair opportunity to compete. At the same time, our companies who are the beneficiaries of our open trade policy must recognize their responsibility to insist on higher levels of education for all of our people, as well as education and retraining for those Americans who are not benefiting from expanded trade.

There will be many more challenges in the future. This is a historic period that we are going through. I am proud to sit on the Committee and the Subcommittee that's going to have a lot to say about the direction in which the world and our country will be going, and I look forward to discussing these issues with the witnesses that will be here today. In fact, Governor Edgar has taken time out of his busy schedule to join us. I also would like to welcome my friend, Ambassador Ira Shapiro of the Office of the U.S. Trade Representative. He is one of President Clinton's top trade officials and international trade negotiators. And I look forward to hearing from the people of Illinois, on whom we must depend for support on a subject that has been exploited by many politicians as they try to have some Americans believe that if it is foreign, it has to be wrong.

Mr. Chairman, I thank you for the work that you have done in the Congress and for inviting me here to the great State of Illinois.

[The opening statement follows:]

**OPENING STATEMENT
CONGRESSMAN CHARLES B. RANGEL
SUBCOMMITTEE ON TRADE
HEARING ON THE FUTURE OF
UNITED STATES TRADE POLICY
SCHAUMBURG, ILLINOIS
MAY 20, 1996**

Thank you, Mr. Chairman, for holding this important hearing on the future of United States trade policy. I know that trade policy is an important public policy issue for the people of Illinois, who depend heavily on international commerce for their economic well-being.

I would first like to congratulate you for your outstanding work as Chairman of the Ways and Means Subcommittee on Trade in the 104th Congress. You have been a tireless advocate for open markets around the world, not only as Chairman of the Trade Subcommittee but also throughout your long and distinguished career in Congress. Moreover, as Chairman, you have continued to operate the Trade Subcommittee in a bipartisan fashion, which has long been the tradition in the Ways and Means Committee. We can only have a sound and sustainable trade policy for this country if it is formulated and implemented on a bipartisan basis.

Mr. Chairman, as you well know, the United States is the world's number one trader. We are the largest exporter of goods (\$575 billion in 1995) and the world's largest importers of goods (\$750 billion in 1995). We are also the largest international trader of services (with exports of \$209 billion and a surplus of \$62 billion in 1995). International trade, and exports in particular, are important for the well-being not only of the Illinois economy but of our national economy.

- In 1995, despite a large trade deficit of \$115 billion (both goods and services), our merchandise exports were expanding faster than our imports for the first time in recent years. U.S. exports rose by over 14 percent, which was 7 times more than our GNP growth. U.S. services exports rose by 5 percent.
- Eleven million workers in this country owe their jobs to exports. On average, these jobs pay 13 to 17 percent more than non-trade jobs. Every billion dollars of exports supports, on average, 15,000 jobs.
- On the other hand, imports displace jobs. It has been estimated by a University of Maryland economist that imports have displaced around 12 million jobs in this country. The jobs they displace tend to be lower-paying, lower-skilled jobs than export-related jobs.
- Thus, exports create better jobs than the jobs that are displaced by imports. Trade tends to make the economy more efficient as a whole by creating more competition, making the best products and technology available to consumers at the lowest possible prices, and lowering costs of inputs to producers.

Trade Policy Challenges for Public Officials

- The United States is no longer a self-contained economy and depends on trade with the world. As a mature economy with a low rate of population growth, our best opportunities for economic growth in the future are in trading with other countries. After all, the United States has only 4 percent of the world's population. That means that 96 percent of the world's market is outside our borders.
- Public officials with policy responsibilities for trade have three major challenges:
 - First, we must pursue policies to ensure that foreign markets are as open as ours to trade. We are generally doing a good job in negotiating agreements to gain access to markets abroad -- the recent Uruguay Round agreements are an example. We are also giving greater priority and attention, as we should, to overseeing implementation of those agreements by our trading partners and enforcement of our rights against violators.

- Second, we must devise policies to make the conditions of trade fair and equitable for U.S. companies and workers. While our past trade agreements have addressed issues relating to fair competition in trade -- such as antidumping practices, subsidies, and the like -- we must do a better job on labor and environment issues.
- Third, we must have domestic policies that will assist those who have been adversely impacted by trade. In this regard, we must acknowledge that trade creates winners and losers -- like any change in the economy -- and that the gain for the winners is much greater than for the losers. At the same time, our system must help the losers adjust and transition into new productive activities. This is an area where our policies have been deficient and must be improved -- we need better adjustment assistance, job-training, and education policies if all our people are going to operate successfully in, and benefit from, the global economy of the future.

Trade Policy Challenges for the Private Sector

- While public officials have a number of trade policy challenges, the private sector, and particularly those companies and individuals engaged in trade, also have a number of trade policy challenges in the future. These challenges are even greater as the public at large and some politicians increasingly question the benefits to the United States of international trade and trade agreements.
- First, the private sector must educate their employees, their customers, their suppliers, and their stakeholders about the realities of international trade -- both the benefits and the costs.
- Second, the companies that benefit from international trade must take more action in assisting those who are disadvantaged by international trade -- by locating new U.S. production facilities in areas that have been hurt by trade, by hiring and retraining displaced workers, and by getting actively involved in educational and apprenticeship programs for the less advantaged of our society.
- Finally, the private sector cannot expect the government to be responsible for managing the transition to a global economy. There must be a true public-private partnership involved.

Conclusion

I look forward to discussing these issues with our witnesses today. I am particularly grateful that Governor Edgar has taken time out of his busy schedule to be with us at this hearing. I would also like to welcome Ambassador Ira Shapiro of the Office of the United States Trade Representative. Ambassador Shapiro is one of the Clinton Administration's top trade officials and international trade negotiators. Finally, I look forward to exchanging views with the fine people of Illinois who are scheduled to appear before the Subcommittee today.

Thank you again, Mr. Chairman.

Chairman CRANE. Thank you very much, Congressman Rangel, and I deeply appreciate your making that trip out from New York and the weather permitted you getting in this morning. And I would like to yield to Don Manzullo now for any opening statement you might like to make.

[Opening Statement of Hon. Donald A. Manzullo follows:]

Mr. MANZULLO. Thank you, Mr. Chairman. It is a real pleasure to be here this morning. The district that I represent is just to the west and north of here. It starts at the Mississippi River and runs all the way across the top of the State of Illinois, to the McHenry-Lake County border. The 16th Congressional District of Illinois is responsible for approximately one-third to one-half of Illinois' exports. We have 1,800 manufacturing facilities, from the one-person shop to the Chrysler Neon plant, and we welcome the opening of a Motorola plant with 5,000 employees in McHenry County. So our Congressional District is intricately related to trade. In fact, it is dependent upon trade in terms of accessing those foreign markets.

So Mr. Chairman, I look forward to the testimony of the witnesses, especially our leadoff witness, Mr. Shapiro.

Chairman CRANE. Thank you. In introducing Ambassador Shapiro, I would like to just mention the fact that, and elaborating on what Congressman Rangel said, he was named by President Clinton as Senior Counsel and Negotiator in the Office of the U.S. Trade Representative. He was confirmed by the U.S. Senate on June 30, 1995, and he has the responsibility for bilateral negotiations with Canada and Japan. He was appointed by President Clinton in March 1993 as General Counsel of the USTR. Previously he was a partner in the Washington office of Winthrop, Stimson, Putnam & Roberts, specializing in legislative and regulatory practice and international trade policy. I might note, as a footnote to that, that he reminded me this morning that he moved up to Evanston in 1972, at exactly the time I lost Evanston in my original district with the reapportionment. I do not know whether there was any connection or not, Mr. Shapiro, but with that, I yield to you for your comments.

STATEMENT OF HON. IRA SHAPIRO, SENIOR COUNSEL AND CHIEF NEGOTIATOR FOR JAPAN AND CANADA, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. SHAPIRO. Thank you, Mr. Chairman. I very much appreciate the opportunity to be here, to come back to Illinois, where I actually started my professional career more than 20 years ago, to talk about trade policy, what we think we have accomplished during the administration, the challenges ahead. And I want to emphasize at the outset, as you have already indicated, our trade policy, what we have done and the challenges we still face, has been a very bipartisan endeavor. Your leadership in the Congress, you and I have worked closely together on difficult fights over NAFTA and GATT. We have had great support on both sides of the aisle. Frankly, it is unfortunate that I do not see Governor Edgar here, because we would find a fair amount of common ground as well.

One thing that we have discovered in the last few years is that there is a broad and emerging consensus on a bipartisan basis as to what U.S. trade policy ought to be, and the President has pro-

vided leadership in that regard and I am proud of that. But, it also converged with the views of many in Congress, many in the private sector around the country and the Governors as well.

We are beginning, to see, Mr. Chairman, the results from the President's policy of insisting that other nations open their markets to our products and services. When the President was elected he said that his central commitment was trying to build the strength of our economy so that we could compete and win the global marketplace, so our workers and then their children after them coming into the work force, will have opportunities. That required a good many changes on the domestic front, ranging from deficit reduction to increased investment in education and training, and in our urban areas where there are so many needs that we have not met. But, it also required a new trade policy.

In the first weeks of his administration, the President sketched out a new trade policy, one that rejected the false choice, as he put it, between unilateral free trade on the one hand, and protectionism on the other hand. In a speech at American University in February 1993, he said, "Open and competitive commerce will enrich us as a nation and we will compete, not retreat," but he also said, "We will continue to welcome the products and services and investments of other countries into our market, but we will insist that our products and services be able to enter other countries' markets on the same terms," that we favored open trade, but with comparable access and reciprocal treatment. The days when we could carry the trading system by importing everybody else's products but allowing them to keep their markets closed to us were long gone.

We have pursued that policy I believe consistently and some would say almost relentlessly in the pursuit of open markets, for the reasons you all have stated. Exports are crucial to our economic health and our ability to prosper as a country depends on our ability to sell our products and services to the 96 percent of the world that is not within our boundaries. If I had to say one of the keys here, this is, in fact, the key.

This administration starts its trade policy from the premise and indeed, from the fact that we have the world's most competitive companies, workers, and farmers. We have all the tools and talent we need to compete in the world, as long as government plays its role in opening foreign markets, in leveling the playingfield, insisting that other countries play by the same rules, and dealing with, as Congressman Rangel said, those who are hurt by trade and those who also need the skills to participate in the global market. For that reason, the President has pursued the NAFTA, and the GATT, 200 trade agreements overall, including 21 with Japan.

And there is another premise that guided our policy there. Because we started with markets that were more open than our competitors, we benefit when we open their markets. We move, not just toward freer trade, but toward fairer trade, and that has been the connecting premise between all the things that we have done, getting people to negotiate, to lower their barriers, to enforce our trade agreements, and basically to clear the way for our competitive companies and workers.

We are starting to see the results, Mr. Chairman. In the last 3 years, the United States enjoyed record export growth; 4 percent in 1993, 10 percent in 1994, more than 14 percent last year, the first year of the Uruguay round, as countries all around the world lowered their barriers. We have also returned to being the world's largest exporter. Our agricultural exports were up 22 percent in 1 year. But, what is impressive about this showing is the broad based nature of our trade strength.

We lead the world in sectors as diverse as aircraft and agriculture. We set the standard for entertainment, for computers, for software, for telecommunications, but we have also come back strong in areas that we were very concerned about during the 1980's; automobiles, steel, and semiconductors. And the thing that I need to say at this point is that we would never claim that trade policy or trade agreements are doing everything. What we have now is government policy and our efforts converging with the efforts that business, and labor are making to make themselves competitive. So, we are essentially taking down the barriers at a time when our companies and workers are working hardest to be competitive.

We are seeing the overall results in low unemployment and investment-led expansion, perhaps the first in 30 years. It has not reached everyone and we are not going to stop at this point, but we are making progress and we are seeing growth. We have been named the leading economy in the world in terms of competitiveness for the last 2 years.

You do not have to look much farther in terms of these policies than the Midwest, because this State and this region have made extraordinary progress in terms of trade. The Washington Post recently reported that the 1990s had been a decade of exports from this region and foreign investment in the region. And Illinois is one of the leading examples where you have a state that increased exports 49 percent in 2 years, to a total of \$32.6 billion, running the gamut from industrial to agricultural products. The story is the same through much of the Midwest. In Michigan, exports rose 40 percent in 2 years. This week's Business Week, Mr. Chairman, reported that Michigan is facing a shortage of skilled workers because the economy is doing that well and much of it is export-led growth.

Let me just hit a few of the areas that we are specifically interested in as well, and try to see how they fit into this mosaic. We have spent a great deal of time, Mr. Chairman, as you know, trying to open the market in Japan. Japan, for 20 years, has been one of the leading trade problems facing our country. We have proceeded on the view that sanctuary markets, closed markets, had no place in the international system particularly where the second largest economy in the world was concerned. We are seeing progress from the more than 20 trade agreements that we have negotiated. Last year the trade deficit was down 10 percent with Japan. Exports in Japan rose more than 20 percent last year and today I read in the Wall Street Journal that trade deficit with Japan had gone down from more than \$6 billion in March 1995 to just over \$4 billion in March 1996. It is still too much of a deficit and we have got work to do. We are seeing progress.

Here in Illinois, I read recently that Lt. Gov. Kustra had just been at the Neon plant, where they are making right-hand drive cars to sell in Japan. And we are seeing, as a result of competition between our auto companies and the success of our trade agreement with Japan, we are seeing the sale of cars and auto parts in Japan in significant amounts for the first time. At the same time, we are seeing the auto companies here in the U.S., Japanese companies, building more cars here rather than in Japan, and using more parts that are made in the United States. So, the picture is becoming an increasingly positive one, and the overall result, as the result of the work of our companies and our workers, is that for the first time since 1980, the United States was the leading automobile producer again in 1994, and the same thing happened in 1995.

As Congressman Rangel and I were talking on the way over here, one example struck me as illustrative of the globalization and the role of trade, as you described it, Mr. Chairman, 5 years ago Chrysler was selling vehicles in 22 countries around the world. Today, 5 years later, they are selling their cars in more than 100 countries. That's a stunning change, and it is a stunning change in world view that our best companies are taking and it is seeping down, as you said, to smaller businesses as well. Similarly, our auto agreement has benefited a great deal, Tenneco, here in the Illinois area. For more than 25 years they could not get into the Japanese market but now they are selling, for the first time, Monroe shock absorbers, in 1,400 Toyota dealers, affiliated companies throughout Tokyo and replacement parts in more than 6,000 service stations throughout Japan.

Now, as some have noted, I could go on at great length. I probably should not. I just want to say three more things briefly. First, part of the centerpiece of what we were doing was the Uruguay round and the new World Trade Organization. There was skepticism about the Uruguay round and the World Trade Organization, and yet it has both contributed to our export growth in the first year and it has also led to a very significant ability to use the dispute settlement system to pressure other countries to keep on opening their markets. I would be happy to get into that as questions go on.

Second, I do not want to gloss over the problem areas. We certainly face difficult challenges around the world, and the most prominent at the moment is China. We believe, as others do, that China should be an important part of the international trading system, but we believe they need to play by the rules of the trading system. At the present time, China remains one of the most protectionist trade regimes in the world. They block access to their market for many U.S. goods, capital goods, services and others, and they have engaged in rampant piracy with respect to our intellectual property. As you know, Mr. Chairman, last week we announced the publication of a \$3 billion preliminary retaliation list because of their failure to carry out the 1995 trade agreement. We did not take that action lightly or happily, but the concern that Ambassador Barshefsky, just as Mickey Kantor had before and as the President has said, if you do not carry out the trade agreements you have entered into, then you're not going to be credible

around the world in opening markets, nor is it acceptable for us to stand by and have China engage in what is still rampant piracy of our copyrighted products.

The last thing I would say, Mr. Chairman, is that part of what the President has done is focused on the importance of developing nations and markets, and you have been a leader in this area. We are extremely committed to continuing the progress that has been made in Latin America and in the Caribbean, in trying to continue expanded trade and open markets. This is an area that has many problems and yet, it is an area where so much progress has been made in recent years toward democratization and toward economic openness, that we intend to keep on moving in that direction. And I believe that next year hopefully, from my standpoint, the President will be re-elected, but whoever is President, will believe that continuing the effort toward market opening in Latin America will be critical.

Mr. Chairman, the last thing I would simply say is that we all look forward to continuing the work with Congress on a bipartisan basis. This administration, particularly Secretary Kantor, late Secretary Ron Brown, the leadership he provided in trade, and all of us have valued the work that we have been able to do with you and to keep on working for the American people.

[The prepared statement follows:]

**Testimony before the
Trade Subcommittee of the
House Ways and Means Committee
Ambassador Ira Shapiro
May 20, 1996**

Introduction

Mr. Chairman, I appreciate this opportunity to appear today before this Subcommittee. It is especially a pleasure to come to Illinois to discuss the successes we've had in trade over the last three years, as well as the challenges which lie ahead. We are beginning to see positive results from the President's leadership, with the bipartisan support in Congress, in insisting that other nations open their markets.

In the first weeks of this Administration, President Clinton set forth a new trade policy, one that rejected that false choice between unilateral free trade and protectionism. In a speech at American University in February, 1993, "Open and competitive commerce will enrich us as a nation." And so, he said, "we must compete, not retreat." But he also said, "we will continue to welcome foreign products and services into our markets but insist that our products and services be able to enter theirs on equal terms." We favor open trade -- but with reciprocity. The days of one-way trade -- when we opened our markets with out insisting on comparable access to foreign markets -- are over. This insistence on equal access on equal terms is the basis of his trade policy and part of an overall strategy to create jobs; raise standards of living; and ensure fair and free trade works to the benefit of Americans.

The President understands that we live in a changing world. There are essentially four new realities which mark this changing world, and have an impact on our trade policy.

First, our economic strength begins at home. Recognizing this fact, the President has worked hard to restore the domestic economy. That meant enacting a smart and tough deficit reduction plan and reducing the size and scope of government. At the same time, his Presidency is dedicated to giving the American people the tools they need to prosper in the new economy -- tools like a decent education, safe streets, a government that creates opportunity, not bureaucracy. At the same time he has called for workers and companies to make the most of those opportunities. No one can face the challenges of a new century alone. We all must work together.

Second, the global economy is now a fact of life. Businesses operate internationally, and the economies of the world are truly interdependent.

Third, trade is more important than ever to our economy. Trade now equals over 30 percent of U.S. GDP, up from 13 percent in 1970. Over eleven million workers in this country owe their jobs to exports. On average, these jobs pay 13 - 17 percent more than non-trade jobs. Every billion dollars of exports supports 15,000 jobs. To grow and prosper at home -- and create high wage jobs -- we must open the most lucrative markets in the world to U.S. exports. We are six

percent of the world's population -- and we have the world's most competitive workers, companies and farmers. We will prosper by selling our products and services to the other 94 percent of the world.

Finally, in the post-Cold War world, national security and economic security cannot be separated. The days of the Cold War when we sometimes looked the other way when our trading partners failed to live up to their obligation are over.

President Clinton has pursued a trade policy to ensure America remains strong in this new era. Over the last three years, President Clinton and his Administration, with the bipartisan support of Congress, has negotiated nearly 200 trade agreements, including Nafta, which created the largest free trade zone in the world, the Uruguay Round agreement, the most comprehensive trade agreement in U.S. history, 21 agreements with Japan, and scores of other key trade agreements to open foreign markets to U.S. exports. And he has fought hard to ensure our trading partners live up to their obligations. Enforcing our trade agreements and trade laws is an important feature of the President's trade policy.

We are starting to see the results. During the last three years, the United States has enjoyed record export growth -- exports grew 4 percent in 1993, 10 percent in 1994 and over 14 percent last year, which also was the largest dollar volume growth in exports in U.S. history. We returned to being the world's largest exporter. Last year we also hit an all time agricultural export record of \$55.8 billion --that's a 22% increase over 1994's strong performance. What is impressive is the broad nature of our economic strength. We lead the world in autos and agriculture, in software and entertainment, in computers and semiconductors.

The U.S. trade deficit with Japan fell by nearly 10 percent in 1995. U.S. exports to Japan were up 20 percent last year and 35 percent in the last three years. A study by the Council of Economic Advisors showed that in those sectors covered by recent trade agreements with Japan, exports have grown by 85 percent since the President took office. Exports to the dynamic economies in Asia (excluding Japan) and Latin America (excluding Mexico) have risen by 40% and 36% respectively in the last 2 years (1993 to 1995).

President Clinton has worked hard to help all Americans by building a strong economy. Because of his efforts --with trade a big part of the picture -- the U.S. economy is thriving. Our economy has created 8.5 million jobs in the last three years. Unemployment is now 5.4 percent. Recently the Bureau of Labor Statistics released numbers showing that wages are growing at their fastest pace in five years. All this growth has occurred while inflation has remained low and stable. The most recent indicator is that the GDP deflator for the first quarter of 1996 was 2.5 percent, about the same as the increase for the four quarters of 1995. Significantly, this continues to be an investment-led expansion. Business investment was up 14.5 percent at an annual rate this quarter. In fact, there has been an historic level of investment under President Clinton, laying the groundwork for future growth. Business investment has been up by 11 percent annually since President Clinton took office, a better record on investment growth than any administration since John Kennedy was President.

At precisely at the time when are businesses, workers and farmers regained their competitive edge, the Clinton Administration has fought hard to open markets around the globe. This concerted effort between the government and businesses, workers and farmers is a large part of the reason the World Economic Forum in 1995 judged the American economy to be the most competitive in the world for two years in a row --and up from number five in 1992.

Trade and the Midwest

We don't need to look any farther than right here in the Midwest to gauge our successes -- and the challenges before us. The President has fought hard to open markets so that workers and companies in the Midwest can sell their products abroad. But at the same time workers and businesses in this region have fought hard to regain a competitive edge in the global economy. Both efforts have paid off.

Remember a decade ago, when, if you said "Midwest," what came to mind was "Rust Belt." Dying factories. Boarded-up factories. Declining populations. But the workers and companies of this region, the heart and soul of this country, said, "We're not going to give up." They decided they were going to turn things around. And they did. It was hard, and a lot of folks suffered, but the region has bounced back. Now when you say, "Midwest," what comes to mind is exports, jobs, and new opportunities.

Trade has a lot to do with the brighter picture in the Midwest. The Washington Post recently said in a story about the economic revival of the Midwest, "The 1990s have been the decade of exports from the region and foreign investments in it." The Wall Street Journal recently reported that exports sustained the Midwest economy during the recent strike at the GM plant in Dayton.

Take Illinois for example, which is now an export powerhouse. Exports from Illinois rose 49 percent from 1993 to 1995, the largest such increase in the Midwest to a total of \$32.6 billion. As recently as 1991, the last year such data was available, 18 percent of Illinois' manufacturing jobs were supported by exports. The range of goods that Illinois sells to the world runs the gamut from industrial machinery to electronic equipment to food. Illinois is the nation's second largest agriculture exporter with 3.1 billion dollars of exports.

The story is the same throughout the Midwest. Michigan is the nation's fourth-leading exporter of merchandise, and Michigan's exports rose an estimated 40 percent between 1993 and 1995. Michigan's merchandise exports alone support an estimated excess of 533,000 jobs in Michigan in 1995, up 150,000 since 1993.

Most of the credit for this success goes to the workers and companies throughout the Midwest. But some of the credit must go to the President because he has stood up for the interests of workers in the Midwest -- and across the country. He recognized that it won't do any good to create an excellent product at a competitive price, whether it is a car, a shock absorber, a bushel of corn, or a piece of medical equipment, if foreign countries keep those products out of their market. That's why he has fought so hard to open markets and ensure American firms can sell their goods and services abroad.

Clearly we are on the right course. By working together -- Republican and Democrat, businessman and worker -- we are moving into the future together.

Japan

When President Clinton took office, he knew it was long time past to pursue a new trade policy towards Japan. The President believed that Japan's closed markets harmed the U.S. and the global economy and that there was no place for sanctuary markets in today's globalized economy. He knew that we could no longer just sign an agreement with the Japanese and assume everything was alright. We must keep up constant, determined pressure on the Japanese to open their markets.

The President's new approach to trade with Japan took root in July of 1993 when he traveled to Japan and we completed the Framework Agreement, a new comprehensive approach to guide our trade relationship with Japan, covering macroeconomic, sectoral, and structural issues. Overall, in three years, the Clinton Administration has reached 20 trade agreements with Japan, some under the Framework, and some not, but all containing the same firm commitment to measurable results, and all marked by firm and consistent pressure to open Japan's markets. And the President has diligently enforced our trade agreements, including those negotiated before this Administration, as well as our trade laws. President Clinton has sought to open Japan's markets using all tools at his disposal: multilateral, regional and bilateral efforts.

The Administration's efforts are working. Last year, the U.S. trade deficit with Japan fell 9.7 percent and, according to Japanese figures, in January fell to its lowest level in 12 years. Japan's current account surplus declined to less than 2.6 percent of GDP last year, down from 3.2 percent in 1994 and 3.5 percent in 1993. The Framework calls for a highly-significant reduction in Japan's current account surplus in the medium term. U.S. exports to Japan are growing at record levels, rising 20.3 percent last year over 1994 levels, which had been the previous record high. Since the beginning of this Administration, U.S. exports to Japan have increased by 34 percent.

We are seeing export growth in all major categories: foods, feeds, and beverages (up 15 percent in 1995); autos, auto parts, and engines (up 36 percent); other capital goods (up 22 percent); industrial supplies (up 20 percent); and consumer goods (up 17 percent). These gains are particularly impressive given the slow growth that the Japanese economy has experienced for the past several years. In those sectors covered by trade agreements reached by this Administration (from telecommunications to autos to rice), exports have grown by more than 80 percent since the President took office -- nearly 2.5 times as fast as overall U.S. exports to Japan.

Nowhere has the change been more significant than in the automotive sector, the heart of our trade problems with Japan. For decades, Japan has restricted U.S. cars and auto parts. Last year, we completed an historic agreement to open those key markets. The result? U.S. exports to Japan of passenger cars and trucks are up 53 percent through November 1995, compared to the corresponding period of 1994. U.S. imports of Japanese autos and auto parts have decreased by

5.2 percent.

The Big 3 have opened nearly ninety new sales outlets in Japan since the Agreement was signed, better enabling Chrysler, Ford and GM to sell their vehicles to Japanese consumer. We believe that the Chrysler Neon, which will be sold through these new dealers, has an excellent chance of selling extremely well in Japan.

I understand that Lt. Governor Kustra this month went down and drove a new right-hand drive off the line at the Chrysler plant at Belvedere. The right-hand drive Neon will be shipped to eight countries, including Japan. In 1991, Chrysler was selling vehicles in only 22 countries. Five years later, they are selling their cars in over 100 countries worldwide.

Numerous U.S. parts companies that were previously unsuccessful in Japan now report significant new contracts and sales opportunities. *Tenneco Automotive*, headquartered in Chicago, is certainly one of these companies. Tenneco, which made significant efforts in Japan for 25 years, will for the first time sell Monroe shock absorbers as in Toyota's 1,400 dealer-affiliated repair shops and as replacement parts in more than 6,000 service stations throughout Japan.

Other US companies like Ohio-based *Dana Corporation* have also benefitted. Dana recently reached a contract with Toyota to be the first U.S. parts supplier to serve as the sole provider of auto frames to a Japanese company. Dana will manufacture the auto frames for Toyota Tacoma pickup trucks in Stockton, California.

Toyota, Nissan, and Honda all announced substantial new investments in automotive production within the U.S., and reached record levels of exports of their vehicles to other countries. Included in these investments were a \$700 million light truck manufacturing plant by Toyota in Indiana, a \$80 million transmission and engine assembly plant in Tennessee by Nissan, and expansion of engine production capacity by Honda in Ohio. Toyota announced that in 1998, at least three quarters of their vehicles sold in the US would be made in North America. Honda announced plans to produce 100% of its Accords and Civics in the United States by the end of 1996.

We are exporting Big Three cars to Japan. Our auto parts manufacturers are capturing a share of the Japanese market. And we are seeing a two-tiered change by the Japanese auto companies: Japanese auto manufacturers are enlarging their presence here -- making cars here that they used to make in Japan -- and buying more U.S. parts. Because of the Clinton Administration's commitment to open Japan's market, U.S. companies made commitments to invest there, for example making 17 new right hand drive vehicles. This is a big part of the reason last year the United States was the number one producer of automobiles in the world, for the first time since 1980.

We still face a great deal of challenges with Japan. We are committed to ensuring that Japan live up to these agreements, and that they open those markets that are still closed. There are a number of important trade issues which still must be resolved, such as renewing the semiconductor

agreement, insurance, and film.

But overall, we are on the right course. These agreements are working. They are making it easier for U.S. companies to sell their goods and services in Japan, but they are also providing more opportunities for Japanese consumers. Obviously, our trade agreements are only one factor in this success. But they have had an impact.

President Clinton knew that the naysayers and pessimists who said that Americans simply can't compete in Japan were wrong. President Clinton knew that the problem was that Japan's markets were closed.

China

Nowhere are the opportunities and obstacles in this new era of trade relations more apparent than in the U.S. relationship with China. China is the world's fastest growing major economy, with real growth of almost 12 percent last year, and average growth rate of greater than 7% for each of the past fourteen years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

It is an understatement to say that the U.S.-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, and are critical when basic international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection. And increasingly, trade is at the center stage of our relationship.

Unfortunately for the United States, the potential of the China market remains unfulfilled in many respects. China continues to maintain one of the most protectionist trade regimes in the world. China blocks access to its markets for many U.S. goods -- especially capital goods -- limits investment opportunities, and discriminates against U.S. and other foreign business people in many other respects. In areas of increasing U.S. comparative advantage -- especially services - - China keeps its markets closed while Chinese companies scramble to monopolize it.

The growing U.S. trade deficit with China symbolizes for most Americans the inequity in our bilateral trade relationship. If current trends continue, the U.S. trade deficit with China--growing at a 25% rate per annum -- will hit \$38 billion. Within just a few years, our deficit with China is on pace to surpass our trade deficit with Japan. This is a situation that cannot be sustained.

China must open its markets. Its first step is to ensure compliance with commitments already made. China is falling short in this regard.

As you are well aware, last week the United States announced the publication of a \$3 billion preliminary retaliation list targeting Chinese exports to the United States. This action, which set in motion a 30 day clock to gather public comment on the list before any final action occurs, came as a result of China's failure to enforce satisfactorily our 1995 agreement on intellectual property protection.

We did not take the move toward retaliation lightly. U.S. copyright industries alone represent more than 5 percent of the U.S. work force -- roughly equal to the U.S. auto industry -- and are growing three times as fast as the rest of the economy. The copyright industries contribute more than \$350 billion a year to the U.S. economy, accounting for more than 6% of GDP. The U.S. computer software industry alone maintains a 75% market share worldwide.

We have worked very hard to solve this problem. We have met dozens of times with the Chinese. We sincerely hope that we can solve it before the 30 day deadline runs out. We have said all along that we will enforce our laws if China does not live up to its obligations. We will protect our economic interests.

WTO

I'd like to make a few points about the new World Trade Organization, created by the Uruguay Round. In 1993, President Clinton provided the leadership to complete the Uruguay Round negotiations. In 1994, Congress passed, with overwhelming bipartisan support, the legislation implementing the agreement. The Uruguay Round is the centerpiece of the President's efforts in trade. The largest, most comprehensive trade agreement in history, the Round opened new markets to U.S. exports in key U.S. industries, and established a new standard for the multilateral trading system by ensuring that everyone play by the same rules. The Uruguay Round is a big part of the reason exports have grown so dramatically. And although the WTO is still in its infancy, it is working in our interest already, helping to create open and fair trade.

We are using the new WTO rules aggressively to enforce U.S. rights under the Uruguay Round agreements. The United States has taken more complaints to the new World Trade Organization (WTO) than any other country -- we have invoked WTO dispute settlement procedures in 12 cases since the WTO was established in January 1995. Six of these 12 cases have been initiated since January of this year, and 4 of those are aimed at enforcing new obligations assumed by our trading partners during the Uruguay Round negotiations: involving failure by Japan, Portugal and Pakistan to enact certain laws protecting intellectual property rights, as called for under the new WTO agreements, and involving Hungary's failure to limit its agricultural export subsidies.

We have already seen results. The WTO rules and the new dispute settlement rules are already paying dividends by helping us increase jobs and exports. The new dispute settlement rules often make it possible for us to enforce WTO agreements without ever having to reach a panel decision. The fact that the WTO can and will authorize us to retaliate enables us to reach earlier settlements opening markets for more of our exports.

- **EU grains.** Last July we invoked WTO dispute settlement to enforce the EU's market access commitments on grains. In only five months we successfully reached a settlement. The grains agreement reduces import charges on rice and provides for review and consultation on the implementation of the European Union's "reference price system" for all grains.
- **EU enlargement.** When the EU enlarged to include Austria, Finland and Sweden, our

exports to these three countries of semiconductors and other products suddenly faced higher tariffs. After negotiations under WTO procedures, we succeeded in getting full compensation, through an agreement by the EU to lower tariffs on a range of semiconductors and hundreds of other products, for the entire EU market.

This was a long-time objective of our high-technology industries and will strengthen their ability to export from the United States. The tariff reductions in the agreement will result in \$4 billion in tariff savings by U.S. companies over the next ten years. The agreement also commits the two parties to attempt to conclude an Information Technology Agreement that will eliminate tariffs in the information technology sector by the year 2000. The EU has already implemented these tariff cuts. This negotiation was more successful than negotiations in earlier EU enlargements, because we had WTO dispute settlement to back us up and the EU knew that we meant business.

- **Korea meat.** Our meat exporters had persistent problems with Korean regulations which banned sale of meat except within an arbitrary "Shelf life" that was too short to permit overseas shipments. We used the new WTO rules and the new WTO dispute settlement procedures, and we consulted with Korea. Korea agreed to fix our problem because they knew we were prepared to take them all the way through WTO dispute settlement and win.
- **Japan sound recordings.** We invoked WTO dispute settlement procedures in response to Japan's denial of protection to millions of dollars' worth of our intellectual property in sound recordings made between 1946 and 1971. Japan has already offered to change its law --but unless we are completely satisfied, we are going all the way through the dispute settlement process. WTO dispute settlement will help us fix this problem not only in Japan, but in other high-growth export markets in Korea, Taiwan and elsewhere in Asia.

We expect to continue to settle cases --or pursue them through the dispute settlement process until we obtain satisfaction --and we will be taking additional cases to the WTO in the coming weeks. At the same time, we will find ourselves defending U.S. measures in WTO dispute settlement proceedings, and we will keep the Congress apprised of every development in the cases brought against us. It would be unrealistic to deny that there are going to be cases in which WTO panels properly find that a U.S. law or regulation does not comport with WTO rules. When that happens, we will have to decide, in consultation with Congress, what is the best course of action to pursue.

The gasoline dispute. As we have already advised the Committee, on April 29 the WTO appellate body found against us in the dispute brought by Venezuela and Brazil regarding EPA's regulations on gasoline. While we would have preferred to win that case, I want to emphasize that (1) that we lost on fairly limited grounds and (2) that there were also important positive aspects to the findings in that dispute. To be clear, the Clean Air Act was not at issue in that case but rather one element of EPA's implementing regulations that treated foreign and domestic refiners differently. The appellate body recognized that discriminatory treatment might be justified to deal with EPA's concerns about access to data and enforcement with respect to

foreign refiners. However, it felt that EPA had not adequately explored options available to deal with these concerns, and that the United States had been more concerned about the costs of the various regulatory options to domestic refiners than to foreign refiners. We were gratified that the appellate body ruled in our favor in overturning the original panel's excessively narrow interpretation of the GATT's exception for conservation measures and that it admonished WTO panels to stick to the words of the WTO Agreements and not embellish upon them.

This element of the ruling recognizes and reaffirms the balance in the WTO agreements that provides us access to foreign markets while maintaining our freedom to protect the environment and conserve natural resources. We are currently reviewing our options for responding to this case, in consultation with Congress, and would welcome any input from the Committee. Let me reassure you that in assessing our options, our bottom line is that the results of this dispute will not compromise this Administration's commitment to strong and effective implementation of the Clean Air Act.

Telecommunications. At the end of April, the Clinton Administration led a successful effort to extend multilateral negotiations aimed at opening the global telecommunications market. Vice President Gore announced last year that the United States would open its telecom market *if other nations would open their markets*. Unfortunately, a critical mass of offers had NOT been reached. Rather than accept a bad deal -- or walk away from the good offers tabled by many countries -- the United States won support for an extension of the telecom talks to February 15, 1997.

The United States took the initiative to forge a consensus on an extension of the talks. The additional time will allow other nations to improve their market-opening offers and help to achieve our common goal -- a global telecom agreement. Such an agreement -- if done right -- can unleash the tremendous pent-up demand in most other countries for better and cheaper telecommunications services.

Much has been accomplished in the talks to date. For example, thirty countries have accepted pro-competitive regulatory principles -- a particularly significant achievement in light of past domination by monopolies. In addition, ten countries have tabled offers with market opening roughly equivalent to the U.S. offer. We are cautiously optimistic that the extension will allow us to obtain access to foreign markets. Many of our trading partners are currently in the middle of legislative processes that can influence the quality of their offers. Others have legislative authority to commit to more than they offered in these talks. Still others have made offers that need sharp, specific improvement. We aim to use the extension period to persuade all of these countries to bind the full range of market opening possible under their laws, and to change their laws, if necessary, including the adoption of fair and effective rules of competition.

Conclusion

Mr. Chairman, President Clinton believes we can never build walls of fear around our country. American workers are the most productive and competitive in the world and they are not afraid of fair, head-on competition. Our choice is not between one way trade and no trade. Our challenge is to make sure we have two-way trade.

The President has set the nation on a course that will forge prosperity into the next century. He's done it with his efforts on the economy, in foreign affairs, and with trade. We are moving in the right direction. But we still have a long way to go and we must all work together to get there. We must all take responsibility to do our part to forge new opportunities for the American community. For the President that means he will continue to stand up for the interests of American workers, farmers, and companies. As Americans we must join together to create the new American Century -- an era of limitless possibilities. Together, we can build a better future for our families and ourselves. Thank you. I would be happy to answer any questions.

Chairman CRANE. Thank you, Mr. Ambassador. You touched on the WTO, World Trade Organization, and its trade dispute resolution process, and said that you could elaborate a little bit more on that. Could you really get into the question of addressing some of the specific complaints some American businesses have registered against foreign trade barriers, and how that process has worked.

Mr. SHAPIRO. Yes, Mr. Chairman. When we fought for the WTO, we said that the dispute settlement system would give us the opportunity to aggressively enforce U.S. rights, and we have done so. We have taken more complaints to the WTO than any other country. We have invoked dispute settlement procedures in 12 cases already, and since that time, we have seen a number of cases that we have been able to settle on positive terms, that we would not have been able to settle under the old system because the old system was nonbinding. For instance, we were able to invoke dispute settlement to enforce the EU, European Unions, market access commitment on grains. For many years agricultural exports and the European barriers have been quite critical, but we were able to get a quick settlement there because they knew if we went to dispute settlement, they would lose and we would be able to retaliate.

Similarly, we have been able to get quick settlement on the EU, so called enlargement. When they expand EU, they basically were able to raise tariffs on certain of our products. They are supposed to compensate us and they often take a long time to do that, by lowering tariffs. But in this case, we were able to get full compensation and lower tariffs on hundreds of products, including semi-conductors because we started dispute settlement.

In the same way, with Korean meat and shelf life restrictions and with the Japanese law by which they were not giving our sound recordings full 50 year protection, by starting WTO procedures, we have been able to get settlements or move toward settlements. We have not gotten a final settlement in the sound recordings. So we have also brought intellectual property cases against Portugal, Pakistan, India and Hungary. So, there are a number of cases where we are moving ahead and using the dispute settlement aggressively.

Chairman CRANE. Mr. Ambassador, there has been a lot of political rhetoric, from a variety of sources about the alleged negative effects of our North American Free Trade Agreement. Now, it is because many people have not separated that peso devaluation from what the objectives were of the NAFTA Agreement and it fails to take into consideration the past history. With the peso devaluation in 1982, our exports to Mexico dropped to half of what they were because of the erection of tariff barriers against our products going into Mexico. This time the drop was less than 10 percent because they still are continuing to move forward in lowering any kind of tariff barriers, and in addition to that, it took us 9 years after 1982 before we got into a trade surplus again with them. And last year's exports to Mexico were approximately, as I recall, \$1.5 billion higher than they were before the peso devaluation, so our exports are still going up. But could you elaborate a little bit on that situation, because there is a lot of misrepresentation, and a lot of folks are

confused thinking that we handicapped ourselves and put ourselves at a disadvantage as a result of NAFTA.

Mr. SHAPIRO. Mr. Chairman, you have made the best arguments and made some of the most important points on this, so I do not want to repeat them all. But from our standpoint, the case for doing NAFTA at the outset was compelling. The barriers in Mexico were much higher than the barriers coming the other way. Most of the overwhelming number of changes made in Mexico, the lowering of their barriers to our exports the first year of NAFTA, our exports soared. Last year, despite all the trouble, and this is about the worst case one could go through, because of NAFTA, exports did not decline very much and Mexico was not able to go back to the kind of closed market that it maintained in the past. Interestingly, Mr. Chairman, in addition to the numbers you have indicated, the fact is that the benefits of NAFTA for us, vis a vis other trading partners in Mexico were quite clear. It was a sharp drop in European exports to Mexico, and in Japanese exports to Mexico, but ours stayed pretty firm despite the very serious economic impact.

The other thing, though, is that we firmly continue to believe that Mexico is our neighbor, it is a friend, it is a country that we have to maintain positive relationship with. Our ability to do that would have been hampered seriously had we not had NAFTA. You can look at recent events; there have been cases where Mexico has cooperated in unprecedented ways on law enforcement, for the first time extradition from Mexico to our country, which has been a problem for many years, has been cooperative. A week ago they signed a 5 year agreement with respect to cleaning up and working together at the border on pollution. So there are still many problems, but overall we are in a stronger position with NAFTA than we would have been.

Chairman CRANE. What would be the status, Mr. Ambassador, or the economic effects rather of termination of most-favored-nation, for China with our pending reexamination of this issue in June and July?

Mr. SHAPIRO. Mr. Chairman, the effects would be extraordinarily serious economically and they would be very serious in terms of our relationship with China. The most favored nation, does not connote special treatment. It is basically the treatment we give to all our trading partners. If we end MFN, most-favored-nation, tariffs facing Chinese goods would go from something like an average of 5 percent to 50 percent. Basically it would radically change the trade relationship, and it would cut off trade. It would be a major setback in terms of any relationship with China. We have difficult problems with China that we all acknowledge at the present time, but the policy that the President wants to pursue and is seeking bipartisan support in Congress for is a policy of engagement with China, continuing MFN, but responding in targeted ways with sanctions where appropriate. That's what we are trying to do in the intellectual property area. Giving them MFN does not endorse all their policies. It does not endorse the human rights, trade, or proliferation policies. Without MFN, we will have a grave, grave problem.

Chairman CRANE. One final question. Can you speak to the challenges that lie ahead for U.S. trade policy? You touched, in your

testimony, on Japan, China, and the WTO, all of which are important, but what can you tell us about the administration's plans for reinvigorating our negotiations for, not just Chile's accession to NAFTA, but the pursuit of the President's stated objective for hemispheric free trade by 2005, and also the Asia Pacific cooperation effort.

Mr. SHAPIRO. As I said, Mr. Chairman, I always manage, despite the length of my written statements, never to cover everything. But, we are committed to moving ahead with the agenda of the Summit of the Americas and free trade in the Americas, which we have set a goal with 34 nations in this hemisphere for free trade by 2005. While obviously you and I have talked about this, not moving on Chile now has been something of a delay, but overall the free trade in the Americas effort is moving ahead. There are a number of working groups dealing with the issues and preparing for time at which trade agreements, at higher and higher levels of discipline, can be entered.

This is the second most rapidly growing area in the world in terms of economics. They are our hemispheric neighbors and we believe it is a critically important region. Frankly, we also believe that our European and Japanese competitors are working very hard to try to compete with our foothold in the hemisphere. So, we are going to keep on moving in the direction of expanded trade because it is freer and fairer trade. The APEC, Asia-Pacific Economic Cooperation Forum, process is a longer term process. Asia is the fastest growing region in the world; great potential, but great challenges, too. We need to be there fighting to insure that the countries in Asia do not follow the Japanese model, that as they prosper, they open rather than trying to stay closed. So we are going to continue being engaged in Asia. The President will be at APEC in Manila at the end of the year and the APEC work continues.

Chairman CRANE. Thank you, Mr. Ambassador.

Mr. Rangel.

Mr. RANGEL. Mr. Ambassador, I do not know how high a priority trade is on America's domestic agenda. However, most people who speak out politically frame trade in the most negative terms—that the foreigners are taking advantage of American manufacturers. Certainly, the manufacturers of pharmaceutical products, the recording industry, the movie industry, and the software industry have claimed that they cannot effectively compete if all of their research and development is just going to be illegally reproduced abroad without any of the cost and that they might as well not be in the country if that country has, as a matter of policy, the idea that just stealing Americans' products is going to be a way of life.

Now, with China, we have entered into all types of agreements with them as well as having China pledge to reduce the barriers to the introduction of American products there. And even as we talk, when the President has threatened sanctions against them, as you said, of \$3 billion, their response is that they are prepared to put sanctions against us. So we are talking about a possible trade war with China, while many in the United States are concerned with the violation of human rights, many leaders are concerned with the reports that they use prison labor for many of the goods exported all over the world and into the United States. I just want

to know how do you sell most-favored-nation treatment for China to America when it appears as though China has not been a very friendly country to do business with as it relates to fairness and standards of mutual respect; other than saying of course, that if we do not give it to them, there would be grave consequences. But, how do you explain it to someone who is unemployed or who has been downsized, who cannot find the low-skilled job and we hear all of these reports, and not just from troublemongers. How do you explain why China should be treated equally when the record indicates that they have not treated us fairly?

Mr. SHAPIRO. Congressman, I guess I would answer in several ways, or make several points. First, in supporting MFN, we are not in any way turning our eyes away from those problems that you are identifying. That is why we have the sanctions and that is why we will continue pursuing the human rights abuses and the abuse of child labor or prison labor at the same time.

Mr. RANGEL. But, doesn't it appear to be a reward for China to be treated like other nations that trade with us, that they have a mutual respect for our concerns? I know that those issues that we talk about can never go away but it seems more like a reward for their failure to obey international principles.

Mr. SHAPIRO. I do not think it is a reward if you're continuing to take action against them where appropriate. And, if we are providing and continuing to provide the leadership in driving the hard bargain with them about the terms if they will ever get into the World Trade Organization, what we are saying, though—and I agree. I understand that this will not be the easiest sell in the world. But what we are saying is, we are still better off being engaged with China, and you cannot walk away from the problem posed by more than 1 billion people in the world economy, or the problem posed by a government that is not playing by the rules of the trading system.

Mr. RANGEL. We will leave it there, that it is a difficult sell. When you have countries that have such low wage standards or that have indentured servants or prisoners do a lot of the work, and when you find that in the United States we have basically given up manufacturing as being one of the key assets that we have, and as it has been clearly pointed out, that while we do get more jobs, those jobs are in high tech areas and the losers are those people that have marginal skills. One of the things that's made our republic so great—I was at Ellis Island last night and as we listened to how many poor people came to the United States without education, but had hopes, they had dreams, but most importantly they had low skill jobs where they could hope that their kids would get a better education and do a lot better than they would be able to do. Now we find that our school system is not working the way we want, that there seems to be a connection between poverty and less education, and there always has been the connection between less education and low skilled jobs. So if the school system is not working, and the low-income jobs are not available, and the leadership in the Congress wants to do away with the Department of Education, and there are less funds being appropriated for education than there is, for jails and penitentiaries, don't we really need to have the level of education in this

country be an important and vital component to successful leadership in the trade area?

You mentioned Michigan was having problems with finding high tech employees. But, it seems to me that there is a major problem in America with the low skilled people and some communities having little hope for the future also being those most involved in drugs, violence, crime, and jail. I see a direct relationship between the low investment in education and high investment in research and development, but I do not see any attention being paid by our government or the private sector in bringing up the educational level in terms of exports.

Could you share with me your observations?

Mr. SHAPIRO. Well, you're focusing on what is probably the fundamental problem facing our country, which is, while we can talk about and indicate that we have become the most competitive country in the world, we are generating high wage jobs. What is happening to the people who are not the beneficiaries, who do not have the skills and the education to participate. I guess I would answer it this way. The first is that the trade policy that overall generates the strongest economy and the strongest economic base is a benefit to our country. Beyond that, though, there is no doubt that you have got to take money, government money, and you have got to have private sector leadership, you have got to directly address the questions of education and training and particularly, in those areas that are the poorest areas.

The President has talked about education and training and infrastructure since the beginning of the administration. So, I do not see that those two things are things that one would trade off. I think you need to do both. I mean the low wage jobs that existed in the past are not all there, and yet there are jobs in Michigan, manufacturing jobs in Michigan, that are going unfilled at the moment because we are not training people adequately enough to take them. So, we have to do that as well.

The one thing where I would somewhat disagree with one point you made, Congressman, we are not getting out of manufacturing. We are manufacturing more, we are manufacturing with fewer people because that's the nature of the change, but part of the reason we are coming back economically strong is that we have a strong auto sector, machines.

Mr. RANGEL. I misspoke. I meant the type of manufacturing that required the least amount of education.

Mr. SHAPIRO. I agree it is a problem, because those entry level jobs and the lower skilled jobs are not there as much. I went through an auto plant the other day and they make a lot of cars with fewer people, as you know. We have got to invest directly in these problems.

Mr. RANGEL. My last question is when we were fighting the communists, we had all types of leaders dedicating their lives to breaking down the solidarity of the communists as a threat to the free world. And as we deal with the narcotic problem, we have people fighting internationally and domestically in that area. I do not find anyone defending the Department of Education, and in some communities the local school boards are so ineffective and corrupt that no one would believe that the future of our country should remain

in their hands. And so, I would just ask for a little direction in terms of what you describe to be a vacuum in terms of our success and exports. After the President expresses his feelings about how important it is, and after exporters respond to questions of how important it is, I cannot find the leadership in terms of doing something about it. Could you help me there?

Mr. SHAPIRO. I am not sure I am the best person to help you, but I did spend time the other night with Secretary Riley who you know and who I believe would argue that in a lot of ways in terms of goals 2000, in terms of upgrading education, in terms of school to work transition, and in terms of other areas, we have been, as an administration, fighting to improve the education system. I would probably be better off referring to my wife because she is the educator in the family. But, I do not think any of us think we have done enough, and in the next 4 years, I am hopeful that this will be the priority that it ought to be, because obviously, as you and I discussed on the way over here, we are not going to make the progress and sustain the progress unless we have the world's best education system.

Mr. RANGEL. I will leave it on that, because I have given the maximum cooperation to my Subcommittee Chairman here because he has earned it and he deserves it. But, I am going to ask publicly and privately that he try to assist me in focusing on what we have to do as a nation to raise our National standards in education, not just through statements or programs that we open up with work, but to set that out as a national goal, as Kennedy did to reach the moon, so that we can continue, not only to provide the leadership in the world in trade, but also to improve the standard of living for every American, which really is what leadership in trade is all about. So I look forward to working with you, and certainly, Chairman Crane, I will be working very hard in trying to see that we do not get involved in education, but we try to show those who are the beneficiaries of expanded trade how they have to assume more of the responsibility. Thank you very much.

Chairman CRANE. Thank you, Congressman Rangel. Let me thank you also for the bipartisan support for the tax credit for corporations educating employees. Upgrading skills in that manner is a very positive initiative and it originated from the private sector, not from government. But I appreciate your support.

Mr. MANZULLO. Thank you very much. I have more of a comment than anything. If you want to respond to it, that's fine, Mr. Ambassador.

I am very much troubled over the Clinton administration's dualism in exports. Let me get very specific. In reference to the Three Gorges Project in China. We met with Mr. Brody, who was the president of the Ex/Im Bank last November. The administration pulled the rug on Ex/Im financing for Caterpillar, which was in process of selling 200 million dollars' worth of machines to the Three Gorges Project in China. This is the world's largest public works project. The reasons given for that were in the words of Senator Paul Simon, not sufficient. The Illinois House Members along with Senator Simon, met with Mr. Brody, and as Senator Simon said, the project will be built with or without U.S. participation. Because of the environmental concerns over the Chinese alligator,

the Yangtze River dolphins and the Siberian crane, which in the minds of many people who are experts in aquatic life, would not be in danger, the Chinese Government, 10 days ago, put out a request for offers to Norway, France, Germany, Japan, Switzerland, Canada, and Russia for 4 billion dollars' worth of capital improvements, purposely excluding the United States.

I have just about had it with the administration. I have made a real pest of myself on Capitol Hill, again in a hearing, International Economy Policy and Trade Subcommittee on which I serve as vice-chairman along with Congressman Toby Roth. Because for the administration to whine, and I am not saying you're doing that, but there is an incessant whining going on over the widening trade deficit between the United States and China. Then to talk about China as one of the most protectionist trade regimes, well, I would submit, Ambassador Shapiro, that Mr. Clinton, the President of the United States, is one of the most protectionist trades, because he does not understand international trade in the manner that the late Commerce Secretary, Ron Brown, understood it. This man was a real hero to the international business community. Secretary Brown was light years ahead of the administration.

And here we are, the administration asking for MFN for China. I have several industries in the district I represent, ranging from TC Industries in Crystal Lake which makes the blade tips for Caterpillar to Bergstrom Manufacturing in Rockford which makes the heating and ventilated air conditioning system. In a meeting that we had in December with Senator Simon, the administration's excuses for not participating in the Three Gorges Dam Project were so weak. For example, the Department of Justice said that in the National Security Council interagency working group, which supposedly got together and came up with this consensus not to allow Ex/Im Bank to be involved with the financing, that they were afraid there would be a lawsuit over the extraterritorial application of the Endangered Species Act. And I turned to the lady from the Department of Justice and said you were hired by the U.S. Government to defend our laws and not to cowardly back away from a threat of a lawsuit, and to those talking about the violations of the human rights because there will be displacement of a lot of people.

The erection of the Three Gorges Dam will produce the world's largest hydroelectric dam. The energy provided from this dam is the equivalent of a train 5,000 miles long filled with high sulfur coal. It is one of the premier projects in the world. And here we are now with the bids going out. We will see those Komatsu tractors as opposed to Caterpillars at the site. We will see all the foreign countries being involved in this project, and the project will be completed. It is not a maybe, it is not an iffy, it is being built. This dualistic trade policy in the Clinton administration is blocking out, in the State of Illinois, hundreds of millions of dollars of exports. When I hear people, such as yourself, talking about the Clinton administration and how great it is doing in the promotion of exports from this country, I simply have to pinch myself to say there is another side here. We are missing out on one of the largest exporting opportunities we have.

In addition to that, there is the Freeport Gold Mine expansion in Indonesia. We found out that the U.S. AID had funded an orga-

nization called WAHLI, to the tune of \$1 million, which is an Indonesian environmental organization. That organization, funded with American funds, in turn lobbied OPIC not to allow American investment in Indonesia. We have got some big problems in international trade. The biggest problem is that exporting has become politicized and that is wrong. When Mr. Rangel said, in his opening statement, that this Congress has become more politicized than any other Congress, well, perhaps that's from his perspective because his party has been in control for 40 years. But in a sense he was correct, because everybody is politicizing every issue.

If you want to comment on the Three Gorges Project, that's fine and maybe beyond the area in which you have been working. It is, because your expertise is Canada.

Mr. SHAPIRO. Japan and Canada, also some GATT.

Mr. MANZULLO. Right. If you want to comment on it, that's fine. I just wanted to make that a part of the record and I do not expect an administration response from you, but I would like to hear your thoughts.

Mr. SHAPIRO. Well, Mr. Manzullo, I would say first that we have, as an administration, pursued and given a great deal of support to all kinds of projects around the world. There have been those that have been criticizing the administration at different times for being too involved in supporting various company efforts, whether it was aircraft or telecommunications or other matters.

On Three Gorges, and I appreciate the comment on Secretary Brown, who obviously was a great leader in the effort to give support to business around the world. On Three Gorges, I have not been involved in it and really cannot comment, except to say a project of that magnitude was studied carefully and not at all the concerns of Caterpillar and others in Illinois, the genuine concerns and desire to participate and certainly by no means taken lightly. But I cannot comment beyond that, because I have not spent the time on it.

Mr. MANZULLO. I appreciate that there is a lingering problem that came over from the Bush administration. The TDA, Trade Development Administration, and OPIC are not allowed to get involved in China. That obviously is neither a Republican nor a Democratic type of issue. But, we really have to take a look at where the United States stands in trade.

I understand there are a lot of problems going on. We in Illinois fear that if China retaliates against vegetable oils it could hurt Illinois farmers. Illinois is the largest soybean producer in the United States and a few years ago China was an exporter of soy meal. Now they are an importer of soy meal and soy vegetable oil and that is coming from our state.

I just want to take the opportunity to share with you those thoughts. I also want to share with you the fact that I was down in Mexico 2 weeks ago with the Inter-Parliamentary Union with Mexican Members of Congress and U.S. Members of Congress. Last year I was in Canada with the Canadian-American Inter-Parliamentary exchange. We had the opportunity to spend 3 days with the new Mexican Ambassador to the United States, Jesus Herzog, who went to the University of Illinois and understands a lot of our problems. And aside from the fights over tomatoes and

avocados and shrimp and tuna, it is apparent to me that NAFTA has really forced Mexico to come to grips with maturing in the international market. We are looking forward to more NAFTA success stories, and I want to thank you and the President for the persistence in pursuing a congressional adoption of NAFTA and GATT.

Mr. SHAPIRO. I want to thank you and the Chairman for the steadfast support that we had. It was obviously a difficult political battle. There are those in the Congress and in the country who still doubt it, but over time, the fact that it was the right thing to do and the right course of action for our country and the hemisphere will become evident. Thank you very much.

Chairman CRANE. Thank you, Mr. Ambassador. I know you are on a tight time constraint with a flight to make, weather permitting.

One quick note to what he had to say about Three Gorges, though, and those Yangtze cranes. Now, you do want to take care of the cranes.

Mr. MANZULLO. Yes, take care of the cranes.

Chairman CRANE. Have a good trip, too. Thank you very much.

Now, what I want to do is invite our next panel up and arrange some priorities in presentations, because I know one of the panelists has a flight to catch, also. And Governor Edgar should be in here shortly. I would like to now invite Martin Singer, with Motorola; Robert F. Kelley, managing partner of international affairs for Andersen Worldwide; Marschall Smith, senior vice president, secretary and general counsel of IMC Global, Inc.; and Ron Bullock, president of Bison Gear and Engineering.

If you gentlemen would proceed, with Mr. Singer going first, and I do not know that time constraints are on any of the rest of you. Are you on really tight time constraints as far as catching flights? If not, we'll let Mr. Singer go first. But if you would be so gracious, when the Governor gets here, to let us put him on and then we can let him exit, because I know he has tight time constraints.

But with that, Mr. Singer, we would like to hear your remarks. If you can confine your statement to 5 minutes or less, any printed statement will be made a matter of the permanent record.

STATEMENT OF MARTIN SINGER, VICE PRESIDENT AND GENERAL MANAGER, WIRELESS ACCESS AND BUSINESS DEVELOPMENT, DIVISION, CELLULAR INFRASTRUCTURE GROUP, MOTOROLA CORP.

Mr. SINGER. Thank you very much.

Good morning, Mr. Chairman and Members of the Subcommittee. My name is Martin Singer. I am the vice president and general manager of the Wireless Access and Business Development Division of Motorola Cellular Infrastructure Group. It is a great pleasure to appear before you on behalf of Motorola. We appreciate the chance to offer our perspective on the status and future direction of U.S. trade policy, and we congratulate the Chairman on reaching out to the business community to solicit our views. I will offer a few observations on broad themes and will focus my remarks on the issue of U.S.-China commercial relations. Let me begin with some background about Motorola.

Motorola is the world's largest producer of cellular telephones, two-way radios and pagers. We are also one of the largest semiconductor companies in the world, and the remainder of our sales are in related areas of electronics. Total Motorola sales worldwide have doubled in the past 3 years to \$27 billion in 1995.

While Motorola is a global enterprise, with facilities in 70 countries, our roots are planted firmly in the U.S., specifically in Illinois. Motorola is proud to call Schaumburg home of its worldwide headquarters.

Motorola currently employs about 23,000 people in Illinois, with more than 7,000 of them located here in Schaumburg. The infrastructure for cellular systems is in Arlington Heights and McHenry. Cellular phones and accessories are made in Libertyville, and our newest facility is in Harvard. Motorola's Land Mobile Products Sector is headquartered in Schaumburg, where we recently assembled the wireless communication system that will be used at the Atlanta Olympics. Our Messaging, Information and Media Sector is also headquartered in Schaumburg, and our Automotive, Energy and Controls Group is based in Northbrook. The company also has operations in Lake Zurich, Vernon Hills, Buffalo Grove and Urbana.

International trade plays a pivotal role in creating and sustaining economic growth for American workers and companies. A few Motorola statistics illustrate this point.

In 1988, 36 percent of Motorola's total revenues were derived from sales outside the United States. In 1995, that figure was 63 percent and growing. Indeed there are some products, such as the one I manage for Motorola, that are designed solely for non-U.S. markets. Over that period, our worldwide revenues grew from \$8.25 to \$27 billion and our employee base grew from 102,000 to more than 140,000.

Of the 40,000 new jobs created, half were created outside the United States and half were created in this country. Although the U.S. sales as a proportion to the total worldwide revenues decreased from 63 to 37 percent during that period, we still added 20,000 new jobs in the United States.

The best way for the United States to maintain its leadership in the world economy is by pursuing a trade policy that combines three elements: persistent efforts to break down foreign tariff and nontariff barriers to market access. While much progress has been made, U.S. goods and services still face significant barriers in many markets. Second, advocacy and export promotion, including elimination of existing U.S. export disincentives. Other countries recognize the critical importance of trade to the well being of their economies and provide significant support to their exporters. Three, aggressive enforcement of United States trade laws aimed at unfair foreign trade practices. My written statement addresses these issues in detail, so I will focus the rest of my remarks on one of the most important relationships the U.S. has today, namely with China.

Motorola has a keen interest in ensuring that there are sustained positive relations between the United States and China. Motorola's U.S. exports to China have grown significantly in recent years, reaching about \$1.2 billion in 1995. Indeed, we have about

a 48 percent share now in the cellular infrastructure market. These exports support thousands of high wage American jobs at Motorola and at our supplier companies around the country. A fact sheet detailing Motorola's activities in China is included with my written statement.

Motorola strongly supports China's most-favored-nation status without conditions. MFN is not preferential treatment. It is the cornerstone of any normal bilateral trading relationship.

We are especially grateful for your continued leadership in support of MFN, Mr. Chairman, as well as the support of other Members of this Subcommittee. We are heartened by recent indications that there is growing bipartisan congressional support for MFN renewal. We understand that, as this hearing is being conducted, President Clinton is affirming his support for MFN renewal as part of a major address to the International General Meeting of the Pacific Basin Economic Council, over which Motorola's vice chairman and CEO Gary Tooker is presiding.

We would like to believe that this strong showing of bipartisan support for China's MFN renewal without conditions would make it easy to accomplish. But, there are some who would want to use the MFN debate as an opportunity to express their concerns about other issues, including human rights, proliferation, security, intellectual property right, market access barriers and so on.

All these issues are important. They demand careful consideration and cannot be dismissed lightly. But, we believe that efforts to address concerns about such matters through alternative legislation that would be considered in tandem with China's MFN renewal would be highly counterproductive.

Withdrawal or conditioning of China's MFN status would invite retaliation, which would jeopardize Motorola's exports to and business in China. This would give our competitors an unfair advantage in the rapidly expanding Chinese economy and would threaten Motorola's ability to compete throughout the Asia-Pacific region.

The annual debate over China's MFN status puts the U.S. Government in the position of trying to measure progress in artificially short increments. Since Motorola first went to China in 1986, we have seen a rise in the standard of living and improvement in the human condition in China. In some areas, they still have a long way to go, to be sure. But, it is important to look at how things are evolving.

Motorola exposes its Chinese employees to market-driven business and management practices and to our core principles of respect for the individual and uncompromising integrity in everything we do. We provide thousands of hours of training to employees, suppliers and government officials at Motorola University in Beijing and Tianjin. Motorola is the largest donor to the Hope Project, which builds elementary schools in rural China. Last fall, Motorola became the first foreign company to cosponsor an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners, and we are now exploring other environmental protection and awareness projects with fellow companies. Finally, Motorola is sponsoring an Employee Home Ownership Program, which covers construction fi-

nancing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability.

Our ability to contribute to positive change in China demands that ties between the United States and China stabilize and deepen over time. Renewal of China's MFN status this year is the right short term objective. But over the long term, the United States and China should take the steps necessary to stabilize and normalize their commercial ties.

Normalizing these ties would include permanent MFN extension, China's accession to the World Trade Organization on commercially acceptable terms, and additional improvements in bilateral trade ties through a step-by-step reciprocal process. Motorola's ability to compete in China on fair terms is essential, and we call on policy makers in both nations to do their part to help us accomplish these vital objectives.

Motorola's continued ability to create American jobs and support economic growth in the U.S. demands that we compete in markets around the world. To be successful, we need the U.S. Government to act as a partner, through market access negotiations, aggressive export promotion efforts and elimination of U.S. export disincentives, effective enforcement of U.S. trade laws and an enhanced appreciation that actions taken for domestic political purposes can have an adverse impact on American companies' ability to compete in the international marketplace. Thank you.

[The prepared statement and attachment follow:]

**Statement of Motorola Inc.
Before the
Ways and Means Subcommittee on Trade
May 20, 1996
Schaumburg, Illinois**

Good morning, Mr. Chairman and members of the Subcommittee. My name is Martin Singer, and I am the Vice President and General Manager of the Wireless Access and Business Development Division of Motorola's Cellular Infrastructure Group. It is a pleasure to appear before you today on behalf of Motorola.

The focus of today's hearing is on the status and future direction of US trade policy. We commend you for conducting this hearing, because these are important matters that deserve careful deliberation. I will offer some general observations on the broad themes suggested for discussion, but would like to focus my oral remarks on the timely issue of US-China commercial relations.

Let me begin by giving you some background about Motorola.

About Motorola

Motorola is the world's largest producer of cellular telephone, two-way radios and pagers. That accounts for about 60% of our total sales. We're also one of the largest semiconductor companies in the world, which accounts for another 30% of our sales. The remaining 10% is from related areas of electronics. Total Motorola sales have doubled in the past three years, to \$27 billion in 1995.

While Motorola is a global enterprise, with facilities in 70 countries, our roots are planted firmly in the United States and specifically in Illinois, the location of our corporate headquarters. Motorola is proud to call Schaumburg home of its worldwide headquarters.

Here in Illinois, the infrastructure for cellular systems is made in Arlington Heights and McHenry. Cellular phones and accessories are made in Libertyville, and our newest facility is in Harvard. Our Land Mobile Products Sector is headquartered in Schaumburg, where we recently assembled the wireless communications system that will be used at the Olympics in Atlanta.

Schaumburg is also the headquarters of our Messaging, Information and Media Sector, which is planning a facility in Elgin. In Lake Zurich, the sector's Multimedia Group makes cable telephony equipment. A telephone system that provides voice, video and high-speed data communications service has been demonstrated in a test system in Arlington Heights. The group also makes cable modems that connect users with the Internet. Our Automotive, Energy and Controls Group, based in Northbrook, makes a wide variety of electronic components. Battery packs for wireless products are made in Vernon Hills, while electronic ballasts are made by Motorola Lighting in Buffalo Grove. The Motorola Computer Group has a software design center in Urbana.

The Importance of International Trade to Motorola

International trade plays a pivotal role in creating and sustaining economic growth for American workers and companies. The importance of being able to trade freely and on fair terms across international borders will become increasingly important as we move toward the 21st century.

The expansion of trade is not a one way street -- increased trade flows of goods, services and investment provides benefits to United States as well as to our trading partners. A few Motorola statistics will illustrate the point. In 1988, 36% of Motorola's total revenues were derived from sales outside the United States. In 1995, that figure was 63% and growing. Over that period, our worldwide revenues grew from \$8.25 billion to \$27 billion. By the year 2000, we anticipate that fully 75% of our total revenues worldwide will result from sales outside the United States.

Also, between 1988 and 1995, our employee base grew from 102,000 to over 140,000. Of the roughly 40,000 new jobs created, half were created outside the United States and half were created right here in this country. As we have created these new jobs in the US, the proportion of manufacturing jobs relative to the total has remained stable. And we've been able to eliminate such jobs as quality-assurance inspectors and expeditors as Motorola's quality and cycle time have improved, so both the "quality" of the manufacturing jobs and the total number of jobs in the US have gone up.

The number of our employees right here in Illinois nearly doubled during the 1988-1995 time frame, growing from about 12,000 to more than 23,000. More than 7,000 of Motorola's employees are located here in Schaumburg today.

In other words, though our US sales as a proportion of total worldwide revenues decreased from 63% to 27% during that period, we still added 20,000 new jobs in the US. These statistics bear out the fact that access to international markets has allowed Motorola to grow and strengthen its competitive position and its contribution to the US economy through increased jobs and revenues.

Since 1988, countries containing four-fifths of the world population, or more than 4 billion people, have either moved or begun the transition from closed markets to become integral players in the global economy. This has created enormous opportunities for telecommunications, one of the most basic forms of infrastructure. Wireless systems enable developing economies to leapfrog old technologies and install modern networks very quickly.

Our most dramatic growth has been in Asia, where sales represented only about 5% of Motorola's total in 1985, and now account for more than 30%. Latin America is another rapidly growing region with huge potential. Exciting changes also are taking place in Eastern Europe, the Middle East and Africa.

Components of a Successful US Trade Policy

The best way for the US to maintain its leadership role in the rapidly growing and changing world economy is by pursuing a trade policy that combines three fundamental elements:

- (1) Persistent efforts -- through bilateral, plurilateral and multilateral means -- to break down foreign tariff and non-tariff barriers to market access. While much progress has been made in recent years, US goods and services still face significant barriers in many markets;
- (2) Advocacy and export promotion, including the elimination of existing US export disincentives. Other countries recognize the critical importance of trade to the continued growth and well-being of their economies, and provide significant support to their exporters. The US must take steps to ensure that its exporters are playing on a level playing field; and
- (3) Aggressive enforcement of US trade laws aimed at curbing unfair foreign trade practices. As trade barriers have been removed and international competition increases, the potential for infringement of intellectual property rights (IPR) and other unfair trading practices continues.

Let me address each of these issues in turn.

Market Access

There are several initiatives underway in regions around the world to address tariff and non-tariff barriers, including the Asia-Pacific Economic Cooperation (APEC) forum, the Free Trade Area of the Americas (FTAA) dialogue, and the Transatlantic Business Dialogue (TABD). Each of these offers an important opportunity to work cooperatively with other nations to address significant remaining tariff and non-tariff barriers, and it is important for the United States to stay engaged in them.

At the same time, it is equally important for the United States to be realistic about what it can reasonably expect to achieve in each of these fora. Over-ambitious expectations will erode the credibility of these opportunities, and risk producing lowest-common-denominator results. Through a process of consultation with the private sector and with the Congress, US negotiators should identify its priority objectives in each of these regional negotiations.

Likewise, as the United States develops its objectives for the WTO ministerial to be held in Singapore later this year, it is important to be realistic about expectations of what can be accomplished. First and foremost, all WTO signatories should focus on meaningful and effective enforcement of their Uruguay Round obligations. Where possible, efforts to adhere to negotiated commitments should be accelerated.

It is also important to conclude successfully the as-yet unconcluded WTO negotiations in basic telecommunications services. Unfortunately, as the original April 30 deadline set for these negotiations drew near, it became clear that the basic US requirement for high-quality offers from a critical mass of foreign countries had not been met. Offers to open markets, particularly from developing countries, were woefully deficient, especially for international services, including satellites. Rather than seeing those negotiations fail, however, we have strongly supported the WTO Secretariat's plan to extend the talks until February 1997 and to implement all final offers on January 1, 1998. Both services and equipment providers will benefit from more open markets and competition worldwide, but a satisfactory result entails improved access from a significant number of countries -- not just a handful.

While the Uruguay Round agreements should help US companies do business in foreign markets by removing formal governmental barriers to trade and providing increased protection for intellectual property, many unfair obstacles that still remain. Principal among these are anticompetitive practices and structures created by foreign businesses to prevent US and other companies from competing on an equal footing in those foreign markets. Often these practices are openly condoned by the foreign governments. These anti-competitive practices take many forms, and are often secret and difficult to prove, but we must continue to

press for their elimination. The US Trade Representative must continue to use its authority under Section 301 and related trade laws to identify and challenge such practices where they have the effect of restraining US companies seeking to do business abroad, and the US must push the WTO to begin to work on measures to eliminate such practices. Only when this is accomplished will foreign markets be as open to American companies as US markets are to foreign companies.

To accomplish the full compliment of its trade agenda, the United States Government clearly needs fast-track negotiating authority. This is critical if the US is to retain its credibility with our international trading partners. Important work is going forward in various regional fora, even though that activity is confined to information sharing rather than negotiation at this time. The United States cannot continue to open markets and remove barriers to competitive American goods and services without fast track authority in place. Indeed, some Latin American countries in particular have pointed to the lack of fast track authority as an indication that the United States is not really serious about wanting to open markets. We therefore urge the Congress and the Administration to work together toward adoption of an acceptable fast track provision.

Japan

As noted earlier, Motorola most dramatic growth has been in the Asia-Pacific region, where sales now account for more than 30% of our total revenues. We are actively pursuing opportunities in several markets throughout Asia, and welcome the trend in many of these countries towards greater liberalization of their trade, investment and regulatory regimes.

In addition to the multilateral efforts ongoing through APEC, the US needs to continue on a bilateral basis to address continued market access barriers in several key markets in Asia.

This is particularly true in Japan. Japan remains a high priority market for Motorola. Our business there includes semiconductors, pagers, cellular telephones and other wireless communications. Although we have made strides in the Japanese market, they have often come about largely as a result of US Government pressure to eliminate trade barriers. Section 301 and other provisions to combat foreign unfair trade practices have been invaluable in prying open the Japanese market in cases where multilateral rules have not been up to the task.

The agreements negotiated with Japan have indeed yielded positive results for Motorola. The Semiconductor Trade Arrangement led to an increase in many foreign-capital companies' semiconductor sales to Japan, including Motorola's. In addition, the March 1994 Cellular Telephone Agreement was a win for all involved -- users, manufacturers and carriers. Under the terms of the agreement and the subsequent system deployment plan, sales of Motorola infrastructure equipment grew dramatically, as the system was built out in the Tokyo/Nagoya region. Combined with deregulation in the cellular telephone market -- which enabled customers to own and maintain their subscriber units and allowed carriers to reduce service costs and usage rates -- the Japanese cellular market saw an explosion of users. Japanese and non-Japanese manufacturers alike now offer a wide range of cellular telephones to the market. As a result of greater consumer choice, lower prices and more comprehensive service, the number of subscribers on IDO's Motorola-based analog cellular system grew from 12,000 in March 1994 to more than 600,000 in December 1995.

Other areas have not reached their full potential, however, including Japanese Government agency procurement, where the foreign share of the market remains essentially flat despite the Framework procurement agreement negotiated in October 1994. We continue to need vigilant US Government monitoring and enforcement of bilateral agreements such as this to ensure that Japan does indeed implement measures and practices that will increase foreign share.

Similarly, in the case of the Semiconductor Trade Arrangement, we continue to need a new government-to-government agreement that builds upon the successes we have seen over the last decade in expanding foreign market share in Japan. The current agreement expires in July, and the Japanese Government must be convinced to come to the table before that time to negotiate a renewed pact.

Latin America

Countries throughout Latin America have undergone dramatic transformation in recent years, with democracy, economic stability, privatization and full participation in international political and commercial circles. The countries in this region have re-written their rules, and are opening up for trade and investment. They look to the United States for support and leadership as they undergo these dramatic changes.

Some of our hemispheric trading partners, notably Chile, have undergone significant reforms to join the US in free trade and investment. Unfortunately, the United States is not there for them, and they are turning elsewhere. For example, MERCOSUR and Chile are entering into an agreement to zero out their respective tariffs. Chile is the 35th largest trading partner of the United States. Not significant in macro terms, perhaps, but what kind of message does it send when the US cannot enter into negotiations with a country that has done everything we could ask to liberalize its regime? The United States, regrettably, has lost the upper hand in trade negotiations. This policy-by-default enables us only to hope that new arrangements

forming without US participation will not undercut or harm American interests -- hardly the leadership stance one would expect from a superpower that professes to be interested in writing the rules for its economic future.

Europe

In Europe, Motorola is participating in several initiatives to ensure that trade relations are open and fully competitive. In the Trans-Atlantic Business Dialogue (TABD), we are pursuing initiatives to: expand the use of mutual recognition agreements in order to reduce unnecessary costs of testing and certifying electronic equipment; reduce the burdens of export controls, and reduce semiconductor tariffs. We are optimistic about achieving some progress on all three of these issues.

Export Promotion and Advocacy

The second critical element of a successful US trade policy is advocacy, export promotion and the elimination of existing US export disincentives. Foreign companies increasingly enjoy a significant competitive advantage over American firms because of the extent of support they enjoy from their governments. In addition to negotiating for the reduction or elimination of tariff and non-tariff barriers in foreign markets, there are several steps the US Government must take to support American companies as they strive to compete in today's international marketplace. Chief among these are: (1) The continued expansion of export promotion and advocacy efforts, and (2) The elimination of existing US disincentives to exports. These cannot be considered "optional" activities by the US Government.

The support Motorola has received from both the Administration and the Congress has been a key factor in many of our successful bids, from Hungary to Honduras. We note in particular that Ron Brown's personal enthusiasm and attention to export promotion and advocacy were exemplary. We look forward to continued support from Secretary Kantor and his team at the Commerce Department, as well as from Capitol Hill and from our embassies around the world, to ensure that there is a level playing field for American exports.

Beyond advocacy, the US Government must act expeditiously to eliminate a number of critical disincentives that hinder American exports and tend to make American exporters relatively less competitive than our foreign counterparts. These include both the relative paucity of US Government-backed trade financing resources and the US export controls that remain tighter than those maintained by most of our major trading partners.

On the trade finance front, we are concerned about recent congressional efforts to sharply curtail or in some instances eliminate programs. Though perhaps well intentioned as means to address budget constraints, such measures would set US competitiveness back significantly at a time when greater, not less, support is required.

On export controls, we note the still highly restrictive export controls on all of our telecommunications and computer products that contain encryption. These controls cost Motorola market share, yet they do not protect national security because the customer can buy similar products from foreign producers. The United States needs to eliminate controls on widely available encryption and stop treating encryption as a munitions item subject to the same types of procedures as exports of tanks and F16 fighter aircraft.

Enforcement of US Trade Laws

The third element of a successful US trade policy must continue to be aggressive enforcement of US trade laws aimed at curbing unfair foreign trade practices. Motorola has long sought to assure that companies throughout the world compete on an level playing field. Unfair trade practices result in a break-down of the rules of competition and can destroy even the best, most efficient companies, particularly in the electronics field.

The growth and prosperity of the US economy has been driven largely by American technology innovation and leadership. Therefore, it is essential that the United States have and use the tools necessary to ensure the effective protection of US intellectual property rights. This includes both urging other countries -- through Special 301 and other means -- to adopt and enforce effective IPR regimes, and maintaining effective mechanisms -- such as Section 337 -- to preclude infringing products from being imported into the US.

In addition, great progress was made during the Uruguay Round to expand and strengthen the scope of the rules of the road governing international trade. But the Uruguay Round did not address the full range of issues that confront American companies in foreign markets, such as anti-competitive practices. Moreover, not all of our major trading partners are now members of the World Trade Organization. And even among WTO member countries, not all have signed on to the voluntary elements of the package, such as the Agreement on Government Procurement. Therefore, it is critical for the United States to retain both its ability and willingness to utilize Section 301 and other mechanisms as appropriate in order to address these outstanding issues.

Finally, the capital investment required for companies in the electronics industry is massive, while the variable costs of production are ever-decreasing. Therefore, economies of scale and positioning at the early stages of the market are crucial to success. In such an environment, foreign industries can gain tremendous advantages over US companies if they are able to use

protected or subsidized positions in their home markets to underwrite the capital costs and then produce large volumes, dumping the excess onto the US market at little more than variable cost.

The United States has only limited ability to attack the portion of this problem that occurs solely in foreign countries, but it does have the ability to counteract the unfair aspects of these practices as they spill into the US. This is what the antidumping and countervailing duty laws are designed to do. They do not prevent foreign producers from selling in the United States, they only seek to prevent foreign industries from using their unfair advantage to dump their products at low prices in the US market, destroying American competitors in the process.

Three times, Motorola has faced this scenario - - massive and severe dumping of pagers, of cellular phones, and of semiconductors in the US market, while the foreign market for such products was severely restricted to American companies. It was only through the application of the antidumping laws that these US industries were able to oppose this strategy and avoid being driven from the market. Today, Motorola and the US industry are world leaders in these industries, and US workers are successfully building and exporting these products worldwide.

We must resist any short-sighted efforts to undermine the effectiveness of these laws. Efforts to make the laws more susceptible to political pressure or to waive them where the customers who have been paying the dumping prices to foreign companies complain about having to pay fair prices are misguided. Regrettably, we believe that this is precisely what the so-called "short supply" legislation would do, and for this reason, Motorola opposes this measure. As with any other law, the antidumping laws on rare occasions may produce temporary undesired results, but only the existence of a predictable, objective and effective law will discourage foreign industries from attempting to take advantage of the open US market to supplant US businesses fighting to compete in the global economy.

US-China Relations

The remainder of my remarks is focused on one of the fastest growing and most important bilateral trading relationships that the US enjoys today, and which is of particular interest to Motorola, namely: China.

Motorola has a keen interest in ensuring that there are sustained positive relations between the United States and China. Motorola's US exports to China have grown significantly in recent years, reaching about \$1.2 billion in 1995. These exports support thousands of high-wage American jobs, at Motorola and at our supplier companies around the country. A fact sheet detailing Motorola's activities in China is included with this statement for your reference.

As you can imagine, Motorola strongly supports renewal of China's most-favored nation (MFN) status without conditions. MFN is not preferential treatment. It is the cornerstone of any normal bilateral trading relationship. The US extends MFN treatment to imports from virtually all of its trading partners.

We are especially grateful for your continued leadership in support of MFN extension, Mr. Chairman, as well as the support of other members of this subcommittee. We are heartened by recent indications that there is growing bipartisan congressional support for MFN renewal. And we understand that as this hearing is being conducted, the President is affirming his support for MFN renewal as part of a major Asia address to the International General Meeting of the Pacific Basin Economic Council, over which Motorola's Vice Chairman and CEO Gary Tooker is presiding.

We would like to believe that this strong showing of bipartisan support for China's MFN renewal without conditions would make it easy to accomplish. But as you well know, there are many in the Congress who want to use the MFN debate as an opportunity to express their concerns about a range of issues, including human rights, proliferation, security, intellectual property rights, market access barriers and so on.

All of these issues are important. They demand careful consideration and cannot be dismissed lightly. But we firmly believe that efforts to address concerns about such matters through alternative legislation to be considered in tandem with China's MFN renewal would be highly counterproductive. Such "messages" may address a certain domestic need, but they also contribute to Chinese perceptions that the United States is intent on pursuing an antagonistic policy of containment. Though this may be the furthest thing from the truth, these actions fuel such perceptions, which unfortunately contributes to an endless cycle of mutual misunderstanding.

Achieving and maintaining good US-China relations require a sustained long-term commitment by both nations. Corporations can and should play a supportive role. Motorola is trying to convey to Chinese policymakers the importance of recognizing that their actions do have an impact on public opinion worldwide, and that they shouldn't behave as though their actions in one area do not affect their interests in other areas. Likewise, American policymakers must understand fully the implications of their actions. If we treat China as an enemy, it will behave as an enemy. No US interests are served by backing into a confrontation with an emerging world power.

Withdrawal or conditioning of China's MFN status would invite retaliation, which would jeopardize Motorola's exports to and business in China. This would give our foreign competitors an unfair advantage in the rapidly expanding Chinese economy, and would threaten Motorola's ability to compete throughout the Asia-Pacific region.

The annual debate over renewal of China's MFN status puts the US Government in the difficult position of measuring progress in artificially short increments. Since Motorola first went to China in 1986, we have seen a rise in the standard of living and improvement in the human condition in China. In some areas, they still have a long way to go, to be sure. But it is important to look at how things are evolving, not at a snapshot.

Motorola does not condone China's actions towards Taiwan earlier this year. Likewise, we support further improvements in China's human rights record. But Motorola believes that withdrawal or conditioning of China's MFN status, or the imposition of unilateral sanctions that hurt American workers or exporters without significantly affecting Chinese policies or actions, is not an effective response to these issues. For this reason, we were relieved that the United States was able to address its most recent concerns about alleged Chinese violations of nonproliferation agreements and norms without resorting to unilateral sanctions.

Unilateral sanctions are never our first preference as a means to resolve an issue. Thus, in the case of the current intellectual property rights dispute between the US and China, we remain hopeful that negotiators in both countries will make every effort to resolve this dispute before the sanctions are actually imposed. But Motorola believes that faithful implementation of negotiated commitments is extremely important. If these commitments are not being met satisfactorily, then the issues must be addressed.

Doing business in China is not just about making profits. The American approach to doing business and to corporate responsibility can and does foster positive change. We believe Motorola's presence in China contributes to improvements in Chinese society in several ways.

Just as we do in every country in which we operate, Motorola exposes its Chinese employees to market-driven business and management practices, and to our core principles of respect for the individual and uncompromising integrity in everything we do. We provide tens of thousands of hours of training to our own employees, suppliers and government officials at Motorola University in Beijing and Tianjin, and through on-the-job training. Motorola is the largest donor to the Hope Project, which builds elementary schools in the poorest parts of rural China. Last fall, Motorola the first foreign company in China to co-sponsor an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners, and we are now exploring other environmental protection and awareness projects with fellow companies. Motorola is sponsoring an Employee Home Ownership Program, which covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability.

Our ability to contribute to positive change in China with activities such as these demands that ties between the United States and China stabilize and deepen over time. Renewal of China's MFN status this year is the right short-term objective. But over the long term, the United States and China should strive together to take the steps necessary to stabilize and "normalize" their commercial ties. By "normalization" we mean promoting changes in US and Chinese policy that will allow the two countries to enjoy a commercial relationship regardless of where we stand on other issues. Motorola believes that stable US-China commercial relations are in our company's best interest, but more importantly, serve the interests of both nations.

Normalizing US-China commercial relations would include permanent MFN extension, China's accession to the World Trade Organization (WTO) on commercially acceptable terms, and additional improvements in bilateral trade ties through a step-by-step reciprocal process. Motorola's ability to compete in China on fair terms is essential, and we call on policymakers in both nations to do their part to help us accomplish these vital objectives.

Conclusion

In conclusion, Motorola's continued ability to create American jobs and support economic growth in the United States demands that we compete in markets around the world today and in the future. To be successful, we need the US Government to act as a partner, through bilateral and multilateral market access negotiations, through aggressive export promotion efforts and elimination of US export disincentives, through continued effective enforcement of US trade laws, and through an enhanced appreciation that actions taken for domestic political advantage often can and do have an adverse impact on American companies' ability to compete in the international marketplace.

Again, Mr. Chairman, we commend you for conducting this hearing and thank you for your continued dedication to ensuring that the formulation and implementation of US trade policy are conducted with purpose and proper direction.

Thank you.

Motorola in China

Overview

Motorola is a leading supplier of advanced telecommunications and electronics equipment in China today. Products sold by Motorola in China include cellular phones, pagers, radio communications systems, and communications and semiconductor components.

The goal of Motorola in China is to serve as a model for cooperative development. Motorola is undertaking a wide variety of initiatives with both its employees and customers to achieve that goal. The company employs nearly 7,000 people in China today. That number is expected to grow to 14,000 by the year 2000.

Motorola's long-standing commitment to training and education are evident in China. All Motorola employees in China receive extensive training in human resource principles of participative management, empowerment, motivation, individual dignity and ethics.

A branch of Motorola University (MU) was established in Beijing in 1993 to train employees, customers, suppliers, and government officials in a range of management, technical and other areas. MU established a second branch in China, in Tianjin, at the end of 1995.

Customers in China include the Ministry of Posts and Telecommunications, provincial telecommunications authorities, municipal and other public safety authorities, financial institutions, educational institutions and private companies.

History and Evolution

Motorola opened a representative office in Beijing in 1986 and has experienced rapid growth since the early 1990s as an active participant in China's transition to a market economy. Motorola (China) Electronics, Ltd. (MCEL), a wholly-owned Motorola entity, was incorporated in March 1992. P.Y. Lai is president of MCEL.

In June 1992, Motorola broke ground on its first major manufacturing facility in the Tianjin Economic Development Authority (TEDA) area of Tianjin. The facility began operation in March 1993. Motorola's Tianjin factory produces pagers, cellular telephones, communications components and semiconductors, mostly for sale in China and other markets in Asia.

In March 1995, Motorola announced its first joint-venture arrangement in China with Leshan Radio Factory for the manufacture of discrete semiconductors. Since then, Motorola also has concluded joint venture arrangements with Nanjing Panda Electronics Group Corporation to produce home computers based on certain PowerPC™ microprocessors, and with Shanghai Radio Communications Equipment Manufacturing, Ltd. to produce pagers.

In September 1995, Motorola announced plans to build a large capacity integrated circuit wafer fabrication plant in the city of Tianjin. The plant will begin manufacture of eight-inch semiconductor wafers with sub-micron line widths by 1997. These products will serve customers in automotive, communications, personal computers, peripherals, and digital consumer markets.

Motorola began operation of its Asia Manufacturing Research Center (AMRC) in Beijing in December 1995. This is the company's first manufacturing research lab outside the United States. Earlier in 1995, AMRC announced a joint manufacturing research project with the Computer Integrated Manufacturing System-Engineering Research Center at "China's MIT," Qinghua University in Beijing.

In addition to production facilities in Tianjin, Motorola investment in China includes headquarters offices in Beijing; branch offices in Shanghai, Guangzhou, Tianjin, Harbin, Nanjing and Chengdu; a Motorola service shop and software center in Beijing, and Motorola University training centers in Beijing and Tianjin. Future plans call for opening sales and service offices in another 20 cities throughout China.

Operating and Financial Results

Motorola's 1995 combined sales to China and Hong Kong reached \$3.2 billion, or nearly twelve percent of the company's total worldwide revenues. Motorola's investment of more than \$1 billion makes it the largest U.S. investor in China today.

Motorola's exports to China from the United States totaled roughly \$1.2 billion in 1995, supporting jobs in many states, including Arizona, Florida, Illinois, and Texas.

Cornerstones

Motorola's operations in China rest on the same two key beliefs that guide all of Motorola's operations worldwide -- respect for the dignity of the individual and uncompromising integrity in everything we do. These beliefs help create an environment of empowerment for all in a culture of participation. The commitment to teamwork and continual learning also are key elements in developing the company's operations in China and its partnership with the Chinese people.

Motorola has a business code of conduct that all employees worldwide are expected to uphold. Motorola has translated its code into Chinese, and this document is used to brief all new hires in China.

In 1994, Motorola University began the Chinese Accelerated Management Program (CAMP), an intensive management training program for high potential Chinese employees. CAMP's 14-month program includes classroom and on-the-job training, as well as a two month overseas posting.

In 1995, Motorola University provided more than 600 training days for customers and government officials, and more than 15,000 training days for employees in China. MU trained more than 500 of Motorola's China-based employees in English, and also conducted customer satisfaction and Six Sigma Quality training courses for employees from 40 Chinese supplier companies.

Motorola brought more than 600 Chinese to its U.S. facilities during each of the last three years for meetings on Motorola technologies, design meetings with engineers and technical training. The company's business units also provided more than 25,000 training days to employees at the Tianjin facility through on-the-job training and machine operator training.

In addition to in-house training, Motorola actively supports higher education in China. The company provided an estimated 2,000 scholarships over the last four years for Chinese students at technical universities, including Qinghua University, Beijing University, Beijing Posts and Telecommunications University, Tianjin University, Nankai University and Fudan University.

Motorola established three microprocessor/microcontroller labs and five communications labs at universities in China, and will expand this program to 20 universities over the next five years. The company supplied electronics kits and technical manuals to about 30 universities throughout China in the past three years.

Motorola also is contributing to environmental and community efforts in China today. Motorola is the largest donor to the Hope Project in China, having given more than \$820,000 to this program that supports elementary schools in rural China.

In November 1995, Motorola became the first foreign company in China to co-sponsor -- with the Tianjin Environmental Protection Bureau -- an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners from throughout the country.

Motorola has begun an employee home ownership program in an effort to attract and retain the best employees in China by providing a high quality living environment. This program, which is encouraged by the Chinese Government, covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability. The first two buildings covered under this pioneering program will be ready for occupancy by the end of 1996.

Chairman CRANE. Thank you, Mr. Singer.

Now, if I have been properly informed, the Governor is here.

Governor, would you mind coming up, because I know your constraints are tight. We'll have you proceed at this point.

Mr. Singer, I know that you have a flight to catch. So keep an eye on the clock, and if your constraints are such, we understand.

STATEMENT OF HON. JIM EDGAR, GOVERNOR, STATE OF ILLINOIS

Governor EDGAR. Thank you, Mr. Chairman. I appreciate this. Sorry to make you go out of order here. I have got to go back and meet with the legislative leaders in Springfield, trying to close our session. I would rather stay here with you.

I appreciate very much the opportunity to be with you today to talk about a very important issue, and that's trade. In today's business environment the world economy is undergoing a fundamental transformation as the result of globalization.

This movement is so extensive that investment and patterns of trade are being decisively shaped by companies operating on a global scale and with a global vision. The world and U.S. economies are being globalized. There no longer are borders as far as trade is concerned. Changes in remote areas of the world, therefore, have an economic impact in both large and small markets thousands of miles away.

To enhance our competitiveness and preserve our economic power and living standards, the United States depends more and more on access to foreign markets for our products, services and investments. A strong international trading system and open markets are essential to maintaining American prosperity. For many companies, trade is no longer an option, it is a necessity.

Trade is an increasingly important engine of economic growth. In simplest terms, exporting means concrete opportunities for businesses. New customers, new sources of revenue, decreased business cycle vulnerability, improved production, economies of scale and extended product life, among others, are all central to the health of U.S. firms, and all are provided by growing trade opportunities.

Trade, however, is not just a growth strategy. It is a strategy for survival. The harsh fact of business life today is that while some American firms may choose to avoid exporting, most cannot choose to avoid international competition. It is almost impossible to identify a product or service produced in the United States that does not face new competition from international markets.

As a result, many of our businesses already have learned we can no longer rely on our home markets for growth because our home markets are now an export market for competing firms from every corner of the world.

There is another reason for the United States to increase its exports, a reason even more important to our future than short term business and job growth. Being actively engaged in trade makes our businesses, and therefore the United States as a whole, more competitive.

Companies that trade are exposed to new technologies critical to their survival and growth. Also, companies that are engaged in trade can form alliances with new overseas partners with whom

they can pool product lines and generate entirely new products for new customers. Whether they export directly, form joint ventures, contact overseas distributors, or simply sell to overseas subsidiaries of their current domestic customers, international business development make firms stronger global competitors.

Illinois has reaped many benefits from actively participating in the global economy. For example, approximately one out of eight jobs is dependent on exports. One out of four Illinois manufacturing jobs is a direct result of exports. Every dollar of Illinois exports generates 4 cents in State tax revenue.

The U.S. Department of Commerce estimates that 28,000 jobs in Illinois were created by trade with Mexico and Canada alone between 1993 and 1995, over a 23-percent increase during that 2-year period. Equally impressive, exports and foreign investment accounted for over 625,000 Illinois jobs in 1995. Illinois continues to be a front runner in exports. In 1995, Illinois moved to fifth place in direct exports, marking the second consecutive year the state's ranking has improved.

We saw aggressive exporting show healthy growth in every area of the world. For example, exports to Canada grew almost 10 percent, over a 38-percent increase to Japan, over 24-percent increase to the United Kingdom, over 21 percent to Germany, 28 percent to China and an amazing 80-percent increase to South Korea. Total exports between 1994 and 1995 increased more than 23 percent, nearly doubling the national export growth rate of 13 percent.

During my tenure as Governor, I have made exporting assistance a cornerstone of our economic development efforts in Illinois. Illinois exports worldwide have grown dramatically during the last decade, increasing to \$32 billion in 1995, as compared to \$13 billion in 1985.

At this time, I would like to share with the Subcommittee several companies in Illinois that have enjoyed export-oriented success. Recently, the State of Illinois was instrumental in arranging appointments with proper government officials to successfully help Ameritech Corp. secure a 25-year contract and a 30-percent stake in Hungary's telephone company. This joint venture created the largest privatization arrangement in Central and Eastern Europe. This cooperative project is expected to result in the installation of over 1.5 million phone lines by the year 2000 in Hungary. In addition, Ameritech is currently examining privatization in Belgium, Ireland, and Portugal involving investments between \$500 million and \$2 billion. Ameritech is taking steps toward truly becoming a global telecommunications supplier.

With the assistance of the State of Illinois, the Wrigley Co., a long-time corporation rooted in Chicago, established Wrigley Poland in 1992. Wrigley Poland is the leader in chewing gum products in Poland, with a 57 percent market share. Wrigley plans to construct a plant in Poland that will make Wrigley one of the top 10 Illinois facilities in the country.

But, large multinational corporations are not the only ones in Illinois that are thinking global, and this is a very important point. They are not the only ones succeeding.

Treatment Products, Ltd., makers of car cleaners and waxes, had been attempting to expand its small presence in Mexico since 1990.

Stiff Mexican tariffs that ran as high as 20 percent made achieving that goal impossible for the \$6 million Chicago-based company with 25 employees. Six months after NAFTA went into effect, tariffs started dropping gradually, and the company landed contracts with almost every major retail chain in Mexico. As a result the company has hired four new employees, and sales to Mexico have tripled. That's a small company, but it underscores the importance of international trade for small businesses as well as the large companies.

International trade has a direct benefit not only to the companies actively engaged in trade, but to the communities in which they are located, and we are learning that trade works both ways. Recently, Sparta, a community of 5,000 residents in Southern Illinois, an area of our State where unemployment runs the highest, experienced the closure of a major employer, Spartan Printing. More than 850 residents of Sparta and Randolph County worked at that facility and found themselves out of work.

Because of NAFTA and the barriers which it has removed, a major printing and paper distribution company in Mexico is once again providing and economic security to that small community. It was able to secure the assets of the company and is planning to modernize the printing facility and rehire many of the original employees.

In conclusion, I would like to stress that Illinois is one of the great world-class trading hubs in the international marketplace. John Deere, Abbott Labs, Motorola, Caterpillar, U.S. Robotics and many other global giants call Illinois their home because Illinois is working to maintain a business climate that fosters growth, expansion and trade.

Diversity is our strength, and Illinois products and services are in demand across the world. We export everything from chemicals to cosmetics, machinery to metals, and agriculture to architecture. Today, more than ever, it is the time to compete and not retreat.

Let me in conclusion just echo what the gentleman from Motorola has said in so many words, that it is crucial, if we are going to continue to see growth in economic trade, that we do not allow our trade policy to be held captive by political differences we might experience. A few years ago in Illinois, in the rural parts of our state, the farmers were very upset when there was a grain embargo because of a disagreement with the Soviet Union. The same is true today when we might have disagreements with nations like China. We have to be very careful that our disagreements do not result in our people being penalized because of trade barriers. The most-favorable-nation status for China is something that we provide for almost every country on this globe. It is misnamed. It just means normal trade. But it would have a very negative impact, on Illinois, as many other states, if we do get into a situation where we are not able to carry out trade with the world's largest country. And that's true for many other countries around the globe. So again, I just want to stress that international trade is the key to I believe our economic well being. It is an area where growth is occurring and it is something that we need to continue to work to expand, and I would hope that we'll continue to see the Federal Government, the policies we have seen in the last few years has helped improve that opportunity and not see barriers put in the

way of allowing our private sector to do what they do so well and that's create economic opportunity for our people, which means jobs, which means hope for a much brighter future.

So thank you again for allowing me to share my thoughts with you.

[The prepared statement follows:]

**United States Committee on Ways and Means
Subcommittee on Trade**

**Testimony of Governor Jim Edgar
State of Illinois**

Thank you.

I appreciate very much the opportunity to be with the members of this committee today to talk about the importance of trade.

In today's business environment ... the world economy is undergoing a fundamental transformation as the result of globalization.

This movement is so extensive that investment and patterns of trade are being decisively shaped by companies operating on a global scale and with a global vision.

The world and U.S. economies are becoming globalized.

There no longer are borders ... as far as trade is concerned.

Changes in remote areas of the world therefore have an economic impact in both large and small markets thousands and thousands of miles away.

To enhance our competitiveness and preserve our economic power and living standards ... the United States depends more and more on access to foreign markets for our products ... services ... and investments.

A strong international trading system and open markets are essential to maintaining American prosperity.

For many companies ... trade is no longer an option.

It is a necessity.

Trade is an increasingly important engine of economic growth.

In simplest terms ... exporting means concrete opportunities for businesses.

New customers ... new sources of revenue ... decreased business cycle vulnerability ... improved production ... economies of scale and extended product life -- among others -- are all central to the health of U.S. firms

... and all are provided by growing trade opportunities.

Trade ... however ... is not just a growth strategy.

It is a strategy for survival.

The harsh fact of business life today is that while some American firms may choose to avoid exporting ... most cannot choose to avoid international competition.

It is almost impossible to identify a product or service produced in the United States that does not face new competition from international markets.

As a result ... as many of our businesses already have learned ... we can no longer rely on our home markets for growth

... because our home markets are now an export market for competing firms from every corner of the world.

There is another reason for the United States to increase its exports ... a reason even more important to our future than short-term business and job growth.

Being actively engaged in trade makes our businesses - and therefore United States as a whole - more competitive.

Companies that trade are exposed to new technologies critical to their survival and growth.

Also, companies that are engaged in trade can form alliances with new overseas partners with whom they can pool product lines and generate entirely new products for new customers.

Whether they export directly ... form joint ventures ... contact with overseas distributors or simply sell to overseas subsidiaries of their current domestic customers, international business development makes firms stronger global competitors.

Illinois has reaped many benefits from actively participating in the global economy.

For example ...

- Approximately one out of eight jobs in Illinois is dependent on exports.
- One out of four Illinois manufacturing jobs is a direct result of exports.
- Every dollar of Illinois exports generates four cents in state tax revenue.

The U.S. Department of Commerce estimates that 28,800 jobs in Illinois were created by trade with Mexico and Canada alone between 1993 and 1995, a 23.4 percent increase over that two-year period.

Equally impressive, exports ... and foreign investment accounted for 625,300 Illinois jobs in 1995.

Illinois continues to be a front runner in exports.

In 1995 ... Illinois moved to fifth place in direct exports ... marking the second consecutive year the state's ranking has improved.

We saw aggressive exporting show healthy growth in every area of the world.

For example ... exports to Canada grew 9.8 percent ... 38.4 percent to Japan ... 24.3 percent to the United Kingdom ... 21.5 percent to Germany ... 28.1 percent to China ... and an amazing 80.7 percent to South Korea.

Total exports between 1994 and 1995 increased more than 23 percent ... nearly doubling the national export growth rate of 13 percent.

During my tenure as Governor ... I have made exporting assistance a cornerstone of our economic development efforts in Illinois.

Illinois exports worldwide have grown dramatically ... increasing to \$32 billion in 1995 from \$13 billion in 1985 ... an impressive increase of approximately 150 percent.

At this time, I would like to share with the committee several companies in Illinois that have enjoyed export-oriented success.

Recently ... the State of Illinois was instrumental in arranging appointments with proper government officials to successfully help Ameritech Corporation secure a 25-year contract and 30 percent stake in Hungary's state telephone company.

This joint venture created the largest privatization deal in Central and Eastern Europe.

This cooperative project is expected to result in the installation of 1.5 million phone lines by the year 2000 in Hungary.

In addition, Ameritech is currently examining privatization in Belgium, Ireland, Portugal and Poland involving investments between \$500 million and \$2 billion.

Ameritech is taking steps toward truly becoming a global telecommunications supplier.

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International trade has a direct benefit not only to the companies actively engaged in trade ... but to the communities in which they are located.

And we are learning that trade works both ways.

Recently, Sparta ... a community of 5,000 residents in Southern Illinois ... experienced the closure of a major employer ... Spartan Printing.

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We export everything from chemicals to cosmetics ... machinery to metals ... and agriculture to architecture.

Today more than ever, it is time to compete and not retreat.

Thank you very much.

Chairman CRANE. Thank you, Governor. Let me ask you a quick question before I defer to Congressman Rangel.

The implementing legislation of NAFTA and GATT and the World Trade Organization do not permit preemption of State and local laws, and I just wondered if you have seen any conflicts in the international agreements thus far negotiated with our State laws here in Illinois. How has this affected the lawmaking process in Springfield, since we have formed these international trade relationships?

Governor EDGAR. I have not seen any major problems. One thing that has been helpful throughout, both in the Bush and Clinton administrations, is that there had been consultation with state Governors throughout the negotiations of NAFTA and the implementation to make sure that we had input. Any concerns that we thought were legitimate would be raised early enough in the process so that they could be dealt with. That does not mean that there are not times when I know there are bills introduced in the Illinois General Assembly, buy the United States or buy Illinois products that we think could cause some problems, but for the most part, there is a growing understanding on the part of legislators, as well as those in the executive branch, that we have to think more global, that it is a two-way street and if we start trying to put restrictions, we are going to have it done to us. Again, we are fortunate in Illinois that most of the people involved in policymaking understand that we are part of the global marketplace. We are fortunate that we have trade delegations come through Illinois on a regular basis and the countries are very astute. They do not just come and visit the Governor, they also spend time with state legislators and local officials. So again, I have not seen any major problems, but I also will commend the Federal Government that they have been willing to include us in discussions along the way so we can maybe predict or eliminate any of those possible bottlenecks.

Chairman CRANE. That's encouraging and you enumerated some of our major exporting corporations here. I mentioned in my opening remarks, before you arrived, that 97 percent, according to the latest figures, of our exports out of Illinois are coming from companies employing 500 or less. So, it has a vast sweeping range of benefits to our state to an extreme.

Governor EDGAR. If I might comment. One of the things we have recognized as far as the state in trying to help promote that, with limited resources, that there is not really a whole lot we can do for the Motorola's; they can teach us some things. But, as for the small and medium size businesses, we think we can provide assistance and a scenario where government, both at the Federal and State levels, can provide some technical assistance. It is very important that we both do our part to help open some doors or assist in the large corporations, as I mentioned, with Ameritech, and some other major companies. But particularly back home, to work with those small and medium size companies and providing them some of the technical assistance and wherewithal to encourage them to get into the market. That's where the real growth is going to be and that's where we know the new jobs in Illinois are going to be created, with the small and medium size businesses. Trade is such an im-

portant part of whether they are going to be successful and growing in the years ahead.

Chairman CRANE. Thank you so much, Governor. This is Congressman Rangel who is our Ranking Minority Member on the Trade Subcommittee.

Mr. RANGEL. Governor, let me thank you for taking time out, of your busy schedule, to share your views with us. They are very important views, and I am convinced that the more Governors can do to share the importance of trade, which is not always easily understood by voters, the more difficult it is for, not only local, but Federal officials to demagog the issue because an informed community can recognize what's going on.

I agree with you, it is so easy to make a political issue out of trade, when you're dealing with foreigners as opposed to our flag-waving Americans, whom we all love and want to protect. It is so easy to make a foreign country the scapegoat of all our troubles. I assume that, since you talked about our trade with China, your view would be similar in relating to our lack of trade with Cuba, which is being motivated by politics more than by trade issues.

Governor EDGAR. I do not think there is any doubt that that is a major factor. Also, looking at the dependability of your trading partner, that is a factor that has to be taken into consideration, can you rely on them, if you reach an agreement. I do not claim to be an expert on Cuba. I understand some of the emotions as some Cuban-Americans might feel for the current government in Cuba. But again, overall we need to be very cautious when we allow purely political reasons to determine our trade policy. I am not as familiar as maybe some would be on the potential of what that can mean for jobs and economic opportunity for people in the United States if we had better trade relations with Cuba.

Mr. RANGEL. Well, it is not so much how much we would benefit, even though we would and our national integrity is more important than just monetary benefit. But, when we start imposing sanctions and secondary boycotts against trading partners after we are already into these complicated and sensitive trade agreements, then you can see that it is the politics of the election rather than where we stand with all of the nations, not just Cuba, but CBI, Carriibbean Basin Initiative countries, Central America, Mexico, South America, and Europe.

Governor EDGAR. There is no doubt. As you said that, I was thinking there is other regions in the world where we have done that and our trading partners have gone away and I am not sure how effective we have been. So, we have to be realistic when determining our trade policies, too. To achieve the political end we want to achieve, may not be obtainable if everybody else is still trading.

Mr. RANGEL. Unless what we want to achieve is electoral votes, and then that's a different question.

Governor EDGAR. I could assure you, as I know in my state and I am sure it is in your state, the best thing you can do politically is show your help and get jobs.

Mr. RANGEL. That's my next point. Since you have to be a player and be sensitive to our international trading partners in order to have your constituents get jobs, have you been able to get a feel as relates to the labor force who the winners and losers have been.

What are the problems resulting from trade and what solutions have you directed toward alleviating some of the problems of the losers?

Governor EDGAR. The area in particular that raised the most concern was NAFTA. I was a very strong supporter of NAFTA. In fact, it had very strong bipartisan support here in Illinois. We did have some losers, there is not doubt. In fact, we had a small very successful business that for years was prospering, but it was going to find itself in dire straits competing with Mexican firms. There is no doubt we have had some fall off in jobs, but we also know of other cases where we have seen an increase in job production because of the result of NAFTA.

What we as a state, and the Federal Government, need to do is to monitor that and to recognize that you're going to have some winners and losers and for those who are losers, try to provide some technical assistance so they can either find other avenues for economic opportunity or to assist them in trying to move their product line where they can be competitive.

I do not think we can ever expect any of these trade agreements to leave the status quo, and all be positive. There are going to be pluses and minuses. We have seen in Illinois, particularly from NAFTA and most of all the other trade agreements, it has been a positive for the State. Now, the industries in this State or the businesses are such that, we knew going in, that NAFTA made a lot of sense. We do not compete with their agricultural goods, we produce things they cannot compete with. The same is true, for the most part, in manufacturing. There are a few, as I mentioned, like the broom manufacturer, who are going to get hurt. But overall our electronics, our manufactured goods, found themselves with more of a market. So, Illinois may not be the best example of a State that had to deal with a lot of adversity because of some of these trade agreements, we have seen a lot more pluses. But where we have seen adversity, we tried to assist those companies in training dollars and whatever else is necessary so that they could retool or direct their interests to another area.

Mr. RANGEL. Are you satisfied that the state educational system, with local and Federal support where possible, is able to keep up with the great demands of high technology that the future will bring us?

Governor EDGAR. We are going to have to continue, in fact, that is one of the pluses of being part of the global marketplace. It forces us to do a better job at home. One of the areas we are going to have to continue to improve on is in the training of our young people so that they can be competitive in the work place with the people of other nations. One of the major impetus behind reforms in our schools is coming from the private sector because they recognize if they are competing in a global marketplace, they have to get better results. So, I will not tell you that I am satisfied with the status quo. I feel good that we recognize the need for improvement, and there seems to be much more of a community support for improvement than perhaps a decade or so ago. I think everyone recognizes that we need to continue to improve.

Now, I cannot tell you that I have got all answers on how we are going to achieve that. In fact, one of the debates we are in right

now in Springfield is dealing with accountability in our schools and how we can get better results. It is an issue that all the States are looking at and trying to deal with. I would say, sir, that States probably are in a better position, State and local authorities, in trying to deal with that than any rules and regulations coming out of the Federal Government in trying to improve our schools.

Mr. RANGEL. That was going to be my next question. I know you agree that the private sector has to and is getting more involved in the question of education, but my next and last question would have been, do you see the Federal Government and/or the Congress playing any role at all in being of assistance to the private sector and the state and local government in reaching the standards that our Nation will have to raise in order to continue our leadership in exports?

Governor EDGAR. I really believe it should be primarily and I would say even more than primarily, exclusively the responsibility of state and local government, who traditionally have been charged for particularly elementary and secondary education. The Federal Government traditionally has been more involved in higher education through scientific research and that area. But, it would be better to leave it that way so we do not have to spend a lot of time trying to sort out just what would be the Federal Government's responsibility and also deal with a lot of background noise that has developed as a result of some of the Federal policies, which are well intended, but unfortunately it stirred up some controversy in the hinterlands that we spend an awful lot of time trying to deal with. We could spend our time better if we were able just to concentrate on making sure we are seeing meaningful reforms in our schools.

So private sector involvement is critical. Maybe they could give you some thoughts on if there are any Federal actions that could be taken to encourage or even allow them to do more as far as being involved with schools at the state or local level. But overall, my sense is that this is an area that state and local should be left with. Not that we are perfect, but I think we have been in that business and it is easier than trying to divide responsibility between three layers of government.

Mr. RANGEL. Well, please ask your education person to send something to me to more broadly support the train of thought which exists now with the majority in Congress. I am the beneficiary of the GI bill, and it is going to take a lot of talking for me to be convinced that my Governor or mayor could have done for me what the GI bill had done. By the same token, I really did not think that Kennedy's proclamation that we were going to put a man on the moon was that important until I really saw what it did to increase the exposure of young people to math and science and the other benefits that came from the moon walk efforts. So those are the things that I think of, and I hear more and more people agreeing with you. And I truly believe that education, increased education, is going to help us, not only with jobs, but with family values and with wanted and loved children and with the refusal of drugs, crime, violence, and the expenditure of jails, for which in New York we pay \$60,000 a year per prisoner. We have one-and-a-half million people in jail in this country. And I may be wrong, but I truly believe that education is the key to not only train us

but to relieve us of some of the financial and social pressures we are under.

Governor EDGAR. We are in total agreement on the importance of education, Congressman. In regard to the GI bill and other things you mentioned, as I said, in higher education, there has been a tradition of the Federal Government involvement. It has been a positive involvement, and I would not suggest that we end that. The comment about elementary and secondary schools is a different debate, not necessarily on the dollars and cents and limited resources which I recognize you have got to deal with as we do at the state level. But, the fact that historically elementary and secondary schools have been left pretty much to the state and local governments, and I would urge them to continue. Higher education, as I said, you historically have had more involvement.

Mr. RANGEL. We are out of that, too. We are out of education. The hallways are filled with college and university professors. The trustees kind of agree with the majority. Just let government stay out of it. The Presidents really think differently.

Governor EDGAR. We will send some information to you, or at least our viewpoint.

Mr. RANGEL. Because I want to keep this thing bipartisan.

Governor EDGAR. We appreciate you being in Illinois today.

Mr. RANGEL. Thank you. It is my first visit to Illinois. I want to thank you for giving me this opportunity.

Chairman CRANE. It is God's country. Let me reassure you, though, Governor, that he learned how to spell, add and subtract and got all those skills long before the feds were putting any money into even the GI bill.

Mr. RANGEL. I learned how to run in Korea long before I got the GI bill.

Governor EDGAR. He does not remember, but we have something else in common. Both our daughters were Cherry Blossom princesses the same year, a couple years ago.

Mr. RANGEL. That's right. Under the Democratic administration.

Governor EDGAR. I did not realize that.

Chairman CRANE. I would like to yield now to Congressman Manzullo, my neighbor to the west.

Mr. MANZULLO. Governor, I want to thank you for coming here. I do not have any questions. You said everything and you have done everything in your administration that anybody could possibly do toward encouraging companies to settle here in the State of Illinois and to get involved in exports. I want to take this opportunity to thank you for being here. I want to thank you for the leadership and a very unique project at the old Savannah depot. The Fish and Wildlife Service reached an accord with the State of Illinois and local development groups so that the 11,000 to 13,000 acres of an abandoned Army ammunitions depot will be turned into a partnership with conservation and with businesses and hopefully some of those businesses will be used for exporting.

I just want to share something with you, one of the NAFTA success stories that most of you have no idea happened. We have a Clausen Pickles in Woodstock. Kraft has three factories in my congressional district, the original J.L. Kraft cheese factory in Stockton, which is the largest manufacturer of bulk swiss cheese in the

State; Kraft has bought the Del Monte pudding factory in Rochelle; and Clausen Pickles. Clausen, because of NAFTA, was able to buy cucumbers cheaper in Mexico. It is just one of the great victory stories of NAFTA. They produce 100 million pounds of pickles each year. Clausen has, it is a 70 or 80 percent market share of refrigerated pickles. But, that's another success story because of NAFTA and one that's really growing in Rochelle. Rochelle is where Hormel Foods came in. Hormel is now shipping 60,000 pounds of boned pork to Japan each week, in addition to producing 1.1 million pounds of bacon each week. That's a result of GATT, with the lowering of the trade barriers.

So, I want to publicly thank you for your leadership in promoting NAFTA and promoting GATT because those two treaties have done absolute total miracles in the 16th Congressional District for our exports.

Governor EDGAR. Thank you, Congressman. I like to comment. My support has not been alone as far as Governors. One of the areas that we have strong bipartisan support among the 50 Governors is in the area of trade, whether it was for NAFTA or more recently talking about most favorable nation status for China and other areas. I think you'll find that both Republican and Democratic Governors all recognize the importance of trade to their states and economic growth and that there is that sense that you try not to succumb to the temptation of demagoguing which is something no one here has ever done, but others have been known to do.

Mr. RANGEL. No, we do not get involved in politics.

Governor EDGAR. But, it is an area where I truthfully say that there is very strong bipartisan support among all the Governors on that, and something that we very much appreciate the action of the Federal Government, both administrations, and from Congress in the last few years. We are moving in the right direction, so we look forward to continuing working with you in the months and the years ahead as we open up more markets. I am convinced that the work force in Illinois can compete with anyone on the globe, and I am sure Congressman Rangel feels the same about the people of New York. I really believe the American people are up to the task if we give them the opportunity and hopefully we will.

Chairman CRANE. Governor, I agree wholeheartedly with what you said, and I wanted to express profound appreciation to you for making this meeting this morning. And we will let you make your graceful exit at this point since I know you have got to go down and straighten things out in Springfield this afternoon.

Governor EDGAR. No, no. As Members of the Legislative Branch, not straighten out, just work together.

Chairman CRANE. On a bipartisan basis.

Mr. RANGEL. Let me join with the Chairman in thanking you once again, and if we can ever be of any help, feel free to share with us where Congress is giving you more help than you need.

Governor EDGAR. OK.

Chairman CRANE. Thank you, Governor. All right. We will now proceed with the panel. Ron Bullock, I know you have time constraints. If you would give us your testimony next and then if you

have to run, we understand. The others hopefully can stay here for a little while.

STATEMENT OF RONALD D. BULLOCK, PRESIDENT, BISON GEAR AND ENGINEERING CORP., ST. CHARLES, IL; CHAIRMAN, SMALL MANUFACTURERS FORUM; AND ON BEHALF OF NATIONAL ASSOCIATION OF MANUFACTURERS

Thank you. My name is Ron Bullock. I am president and owner of Bison Gear and Engineering Corp. We are headquartered in St. Charles, Illinois. We manufacture electric motors and gear motors. We have got three facilities in Illinois, and 205 employees located in Elgin and Downers Grove, as well as St. Charles. I brought along a catalog. I point out that they are in multiple languages, they are fully metric, and they highlight the address of a new assemble-to-order operation that we just started up in Zeewolde, of the Netherlands.

I am here today to testify on behalf of the National Association of Manufacturers, and as chairman of the Small Manufacturers Forum, representing over 10,000 NAM members with fewer than 500 employees. Also, as an exporter, I am in a very good position to give a perspective on international trade policy from a small company's standpoint.

Generally speaking, it is the NAM's position that international trade is essential to maximizing benefits arising from world productive output and thereby contributing to U.S. economic growth, as well as enhancing the economic welfare of individuals throughout the world. The NAM believes that the most effective basis upon which to conduct trading relations is a system that enhances the role of free market forces while minimizing government intervention in trade.

To this end, the NAM strongly supported and still supports the implementation of the NAFTA and GATT World Trade Organization agreements. It is only through transparency, harmonization and the elimination of unfair trade practices through these and other multilateral arrangements, that we will truly produce a strong and effective worldwide marketplace.

While many espouse the importance of international trade and exporting for the United States, many fail to pinpoint exactly what it is that the United States has at stake in the multilateral trading system. Through work done by the Institute for International Economics in conjunction with the educational and research affiliate of the NAM, the Manufacturing Institute, two important reports have been released which provide new insights into the importance of trade to the U.S. economy. Specifically, these reports examine the performance of exporting versus nonexporting companies, and document that exporting matters to the average American worker and American company far more than most people realize. Conclusive data demonstrates that there are distinct differences between exporters and nonexporters in terms of pay, productivity and performance.

Pay in export plants on the average is 15 percent better. Benefit levels are 37 percent higher. Productivity is 40 percent greater. Exporting improves companies' survival rates by 10 percent, and job growth is 17 to 18 percent greater.

The data on job growth was perhaps the most surprising. Virtually all the decline in average employment was attributable to nonexporting plants. In contrast, the work force at exporting plants grew by 17 to 18 percent. Second, the role of small business in this employment growth was even more surprising. Small exporters had growth levels 1 to 2 percent higher than average.

Another interesting discovery is that better wages, job growth, and productivity seem to appear in exporting companies once a company makes a commitment to exporting, not just after a company has reached a certain level of exporting. These benefits show up across the board, demonstrating that the benefits do not just apply to big multinational firms. For example, our own company, Bison, has doubled productivity over the past 8 years, introduced a profit-sharing 401-k program and greatly improved its training and education outreach program, with 36 employees, or 20 percent of our direct work force enrolled in college courses since this program was launched 18 months ago. This is a record we are very proud of. We have also been involved, to respond to Congressman Rangel, in the local school districts. We have had teachers in on 3-week internships, and as a result, we have come up with a multi-disciplinary program that we have helped launch in the Downers Grove school system whereby freshman and sophomore students have an opportunity to focus on math, science and technology. It is something that will reap benefits down the road. We see it as a necessary element in interfacing with our community in order to be successful in the global marketplace. While all of these improvements cannot be entirely attributed to our exporting, I can tell you that competing on a global basis certainly sharpens our focus in both how we are investing in capital equipment and our people. We now have established a human resources balance sheet to accompany our financial balance sheets.

The U.S. key leadership in the international marketplace must be maintained. We need to be involved in as many dialogs and negotiations as possible and appropriate to ensure positive progress and direction. That is why, for example, passage of fast track procedures for trade agreements is critical. The NAM supports a clean and unfettered fast track proposal and urges Congress, in conjunction with the administration, to work expeditiously toward that end. Without fast track, the United States looks uncommitted and risks losing its credibility as the leader of the international community.

With regard to China, the NAM supports the extension of MFN status for another year, and is encouraging Congress and administration to look further ahead toward normalization of this commercial relationship. I might point out that Bison has gear motors on cellular telephone assembly lines in Tianjin, China, at the Motorola facility and other Motorola locations around the world. So we see plenty of opportunities that exist in China for us. Nonetheless, NAM feels that, and I agree, China must be ready and able to commit to the WTO regime before being accepted as a member.

From a small manufacturer's standpoint, many U.S. manufacturers are content to pursue the North American Free Trade area for sales opportunities as it represents over one third of the world's economic activity. Bison was encouraged to increase its export ac-

tivities by the original Canadian Free Trade Agreement and would encourage the addition of Chile to NAFTA, as well as other Central and South American countries as they qualify. Generally, we need to find a way to encourage other small to medium size firms to export through enhancing banking regulations and providing low cost financing of export receivables. For small companies, the bank lines of credit often will exclude export receivables from your borrowing base. So some help could be provided there through Congressional legislation.

As far as internal policies, we would recommend progrowth legislation that encourages savings and investment through reduction of taxes and a commitment to a balanced budget. Our global competitors benefit by Tax Codes that promote job creating investment and low interest rates resulting from a balanced budget. Examples are the resurgence of Italian competitors as a result of the Sabatini and Tremonti laws making capital investment extremely attractive, and of course, the Japanese who benefit by accelerated depreciation and extremely low interest rates. Congress is applauded for finally passing a product liability bill and the President is roundly condemned for vetoing it. Europe passed a much better version of our bill in the EC in 1992 and our unpredictable tort system has chased major industries off shore, small aircraft and medical equipment being two examples. Quite frankly, this was one of the reasons we got serious about exporting. We should also be aware of nontechnical trade barriers. The European Community has enacted regulations requiring CE registration, a safety requirement very close to UL, and EMC, electromagnetic compatibility relating to radio frequency interference. These technical requirements effectively raise trade barriers to U.S. firms endeavoring to export to the EC. We should encourage agencies like the National Institute of Standards and Technology and ANSI, the American National Standards Institute to be pro-active in representing U.S. interests within the International Standards Organization. Believe me, you're no less safe using a UL listed product than using one that's CE listed and electromagnetic compatibility has limited applicability. The United States is renowned for its volunteer support of safety and standards development and we should make sure that we take care to utilize this resource in the ISO process.

In sum, continued pursuit of free trade, fair trade, increased transparency and upward harmonization of international trading rules is critical to the well being of the United States. We encourage Chairman Crane, Congressman Rangel and the rest of the House Ways and Means Trade Subcommittee to keep up the good work in furthering this effort, and stand willing to contribute to our economy and our workers by reaping the fruits of this Committee's labors in advancing the goals of a strong international marketplace.

[The prepared statement follows:]

Testimony of
Ronald Bullock, President
Bison Gear and Engineering Corporation
on Behalf of the
National Association of Manufacturers
on U.S. Trade Policy
Before the Subcommittee on Trade
May 20, 1996

My name is Ronald Bullock, President and owner of Bison Gear and Engineering Corp., Headquartered in St. Charles, IL, and I 'm here today to testify on behalf of The National Association of Manufacturers. As Chairman of the Small Manufacturers Forum representing over 10,000 NAM members with fewer than 500 employees, and also an exporter, I will try to give a perspective on international trade policy from a small company's viewpoint.

Generally speaking, it is the NAM's position that international trade is essential to maximizing benefits arising from world productive output and thereby contributing to US economic growth, as well as enhancing the economic welfare of individuals throughout the world. The NAM believes that the most effective and efficient basis upon which to conduct trading relations is a system that enhances the role of free market forces while minimizing government intervention in trade.

To this end, the NAM strongly supported, and still supports, the implementation of the NAFTA and GATT/WTO agreements. It is only through transparency, harmonization, and the elimination of unfair trade practices through these, and other multilateral arrangements, that we will truly produce a strong and effective worldwide marketplace.

While many espouse the importance of international trade and exporting for the US, many fail to pinpoint exactly what it is that the US has at stake in the multilateral trading system. Through work done by the Institute for International Economics in conjunction with the educational and research affiliate of the NAM (the Manufacturing Institute), two important reports have been released which provide new insights into the importance of trade to the US economy. Specifically, these reports examine the performance of exporting vs. non-exporting companies, and document that exporting matters to the average American worker and American company far more than most people realize. Conclusive data demonstrates that there are distinct differences between exporters and non-exporters in terms of pay, productivity and performance:

- pay in export plants is, on average 15 percent better;
- benefit levels are 37 percent higher;
- productivity is 40 percent greater;
- exporting improves company survival rates by 10 percent; and
- job growth is 17-18 percent greater.

The data on job growth was perhaps the most surprising. Virtually all the decline in average employment was attributable to non-exporting plants. In contrast, the workforce at exporting plants grew by 17-18 percent. Second, the role of small business in this employment growth was even more surprising. Small exporters had growth levels 1-2 percent higher than average.

Another interesting discovery is that better wages, job growth, productivity, etc. seem to appear in exporting companies once a company makes a commitment to exporting, not after it reaches a certain level of exporting. These benefits show up across the board, demonstrating that the benefits don't just apply to big multinational firms. As an example, our own company Bison, has doubled productivity over the past eight years, introduced a profit-sharing 401-K program and has greatly improved its training and education outreach program, with 36 employees (20%) enrolled in college level courses since its launch 18 months ago. While this cannot entirely be attributed to our involvement in export activities, I can tell you that competing on a global scale has brought our investments in both capital equipment and our people into sharp focus. We now have a human resources balance sheet to accompany our financial balance sheets.

In addition to a strong commitment to the multilateral trading system, the NAM also believes that bilateral trade agreements in certain instances can help enhance the role of free market forces while minimizing governmental intervention in trade. Bilateral agreements by their very nature can better raise the level and detail of mutually acceptable trade parameters, which can establish strong precedents for future multilateral negotiations.

The United States' key leadership role in the international marketplace must be maintained. We must be involved in as many dialogues and negotiations as possible and appropriate to ensure positive progress and direction. That is why, for example, passage of fast track procedures for trade agreement is critical. The NAM supports the passage of a clean and unfettered fast track proposal and urges the Congress, in conjunction with the Administration, to work expeditiously toward that end. Without fast track, the United States looks uncommitted and risks losing its credibility as the leader of the international community.

With regard to China, the NAM supports the extension of most favored nation status (MFN) for yet another year, and is encouraging the Congress and Administration to look further ahead towards normalization of this commercial relationship. Certainly the US/China relationship is not without its problems, and the business community has been frustrated by the slow pace China has set in living up to its bilateral agreements. However, the opportunities that trade with China presents are enormous and virtually dictate that we work arduously to settle our differences without upsetting the apple cart. China is the United States' fastest growing export market already, and we have not begun to tap its potentials. Nonetheless, China must be ready and able to commit to the WTO regime before being accepted as a member.

From a small manufacturer's standpoint, many U.S. manufacturers are content to pursue the North American Free Trade area for sales opportunities as it represents over one third of the world's economic activity. Bison was encouraged to increase its export activities by the original Canadian-U.S. trade agreement and would encourage addition of Chile to NAFTA, as well as other Central and South American countries as they qualify. We need to find a way to encourage other small to medium sized firms to export through enhancing banking regulations and providing low cost financing of export receivables.

As far as internal policies, we would recommend pro-growth legislation that encourages savings and investment through reduction of taxes and a commitment to a balanced budget. Our global competitors benefit by tax codes that promote job creating investment and low interest rates resulting from a balanced budget. Examples are the resurgence of Italian competitors as a result of the Sabatini and Tremonti laws making capital investment extremely attractive and, of course, the Japanese who benefit by accelerated depreciation and extremely low interest rates. Congress is applauded for finally passing a Product Liability Bill and the President is roundly condemned for vetoing it! Europe passed a much better version of our bill in the EC in 1992 and our unpredictable tort system has chased major industries off-shore, small aircraft and medical equipment being two examples. Quite frankly, this was one of the reasons we got serious about exporting. We should also be aware of non-tariff technical trade barriers. The European Community has enacted regulations requiring CE registration (a safety requirement very close to UL) and EMC, electro-magnetic compatibility relating to radio frequency interference. These technical requirements effectively raise trade barriers to United States firms endeavoring to export to the EC. We should encourage agencies like NIST and ANSI to be proactive in representing US interests within the International Standards Organization. Believe me, you are no less safe using a UL listed product than using one CE listed and electro magnetic compatibility has limited applicability. The U.S. is renowned for it's volunteer support of safety and standards development and we should make sure that we take care to utilize this resource in the ISO process.

In sum, continued pursuit of free, fair trade, and increased transparency and upward harmonization of international trading rules is critical to the well being of the United States. We encourage Chairman Crane and the House Ways and Means Trade Subcommittee to keep up the good work in furthering this effort, and stand willing to contribute to our economy and our workers by reaping the fruits of this Committee's labors in advancing the goals of a strong international marketplace.

Chairman CRANE. Thank you, Ron. Are you on a tight time constraint right now? Because I have just one question I wanted to direct, and Congressman Rangel may have one and then we could let you depart And we'll go to our other witnesses, if that's agreeable.

Mr. BULLOCK. Thank you.

Chairman CRANE. I was more impressed with that 17 to 18 percent higher growth rate in employment by those firms that were into exports than those that are simply selling domestically. I was wondering, though, is there any study or indication of job security, whether those jobs are more stable, if you're into the export market or are they more stable if you're just producing for the domestic market?

Mr. BULLOCK. I believe that tenure and turnover are both improved with exporting companies. I would have to get you a copy of that particular report.

Also there is kind of a symbiotic relationship between the large multi-nationals and the smaller companies in exporting. As I mentioned, we provide components and equipment that are used by our larger customers. As those companies rationalize their work forces, we also provide sourcing services in the way of engineering. We have 10 percent of our employees who have engineering degrees, and we provide other services that our larger customers may no longer have capabilities for keeping in-house. So, there are some good working relationships that go on between the larger companies and the smaller companies as well.

Chairman CRANE. That's encouraging. Congressman Rangel.

Mr. RANGEL. Thank you, Mr. Bullock. I assume that the exporting manufacturing company, would have no problem with an increase in the minimum wage.

Mr. BULLOCK. As a matter of fact, the manufacturing sector, in general, does not pay the minimum wage. We pay much better than minimum wage.

Mr. RANGEL. I mean politically speaking, could we depend on your support for it?

Mr. BULLOCK. Personally speaking, I have no problem with it. There has to be some give and take, and our typical starting wage is probably two and a half to three times the minimum wage. However, I do feel very strongly, we do need to do some things to improve education and training. Manufacturing, in general, spends more on education and training than the public education sector. That is both an encouraging sign, and a sign that the manufacturing community has had to provide this education out of necessity, because of the poor preparation that we see from the public school system.

Mr. RANGEL. The private sector is doing more, and without that, we would not have been able to have the successes we are having now.

With the losers in the work force, especially in the manufacturing area, have there been any studies or any ideas that you would have as to how we could soften the pain of unemployment?

Mr. BULLOCK. Let's go back to the minimum wage. We do get a lot of young people that get their first job working for minimum wage. I know I worked for minimum wage myself, \$1.25 an hour.

Mr. BULLOCK. In our own company, and many of my peers have similar programs, we have a two-tiered wage structure that we have implemented. For the first 21 months of employment we have a structured program where we are basically taking people into our work force, providing they can do three things; they are able to demonstrate literacy, they can pass a fairly simple shop math test, indicating what used to be about an 8th grade level of mathematics when I was in school, and third, they can pass a drug screening test. We take those people in and we have a 21 month training program. The new hires also have an opportunity to continue their education as part of our tuition letter of credit program.

Mr. RANGEL. I am saying, the NAM, are you satisfied that there are sufficient cushions for those people who are the losers in the expansion of world trade, that they are taken care of by outfits like Bison?

Mr. BULLOCK. If we can encourage greater exporting activity, it will create opportunities for the people that may be displaced from other jobs. In addition, exporting increases our total productive output and our productivity. So if we can keep that going, yes, we are satisfied that we will all be able to provide a number of good training and educational programs for employees.

Mr. RANGEL. Well, I will have to get in touch with the NAM and see what you have done on that because we find that those people that were working, that newer Americans have taken lower skilled jobs and they find it very difficult, especially those that have worked ten or 15 years, to be retrained or to start all over. So, that the NAM is on the right track, but maybe I can get in touch or you can have someone get in touch with me to see.

Mr. BULLOCK. I will do that. We also have another program that is called the high performance work place, where we are using supplier networks to increase skill and training requirements over a wider base. We'll send that material to you.

Mr. RANGEL. And knowing how you support keeping politics out of trade policy, you would not support our present policy that relates to Cuba, would you, from a trade point of view?

Mr. BULLOCK. From a trade standpoint? The administration's policy?

Mr. RANGEL. It would be everyone's policy now since he has adopted most of the Republican policies. I think you can go with a bipartisan, Miami policy, whatever you want to call it.

Mr. BULLOCK. Not an area of my expertise. I really cannot comment on that.

Chairman CRANE. Mr. Bullock, I thank you for your testimony and sorry you have got to run. But now, we'll yield to Mr. Kelley. And if you could switch seats with Mr. Bullock for the mikes.

STATEMENT OF ROBERT F. KELLEY, MANAGING PARTNER, INTERNATIONAL AFFAIRS, ANDERSEN WORLDWIDE

My name is Robert Kelley. I am managing partner for international affairs for Andersen Worldwide. I must admit that after hearing about cellular phones and brooms, pickles and gears, it is a real pleasure to talk about the other 70 percent of our GDP, services.

In fact, my message here today is to raise the salience of the importance of services in the global economy. If I leave one impression with you, I hope it is that innovation in services is the key to competing in the 21st century. My comments will be organized, in terms of context, first, telling you who I am and why we are very interested in global trade. And then I will tell the story of our company which exemplifies my main message, which is that innovation in services is the key to competing in the 21st century. And then I will offer some very specific recommendations of how we can improve our public policy in international trade.

In terms of my perspective, I sit on the Business and Industry Advisory Committee to the OECD Trade Committee, and the International Chamber of Commerce's Investment and Trade Commission, and I am also a member of the U.S. Trade Representative's Investment and Services Policy Advisory Committee. My job at Andersen is threefold. It is to remove barriers to us operating as a global company. Second, to prevent the erection of any new barriers; and third, to identify issues that affect our operations globally and begin to shape their outcome.

Andersen is a product of Chicago. It is the fruits of the labor of 6 people who started the company in 1913 on LaSalle Street. Today we are serving businesses around the world in 76 countries. Those 6 people have grown to 82,000 people worldwide. It is a partnership so my perspective is from that of an equity owner. We have 2,600 partners worldwide. In Illinois we have 5,600 employees. Many of those are associated with our world headquarters. Also, on the roads that lead from O'Hare to St. Charles, there are about 50,000 people from around the world that travel to our education center in St. Charles, Illinois, which is a facility of 135 acres, accommodating 1,700 people at one time. We bring people from all over the world to train in our center at St. Charles. It is kind of a reverse export; they bring money here to spend, which is not normally the way we look at exports.

The reason I am here is to express our concern about the status of international trade affairs around the world and the fact that we seem to have a disproportionate amount of attention and resources devoted to manufacturing pickles, bacon, gears and motors, and brooms. We overlook the biggest part of our national economy and the fastest growing part of our economy's worldwide services.

To give two examples of my promise, just take the commonly referred to deficit in trade, which about 1 year ago was around \$170 billion. Well, that's three times the amount of the imbalance in services trade. The differences are in the arithmetic; the services imbalance was a surplus and the manufacturing imbalance was a deficit. In 1958, when I joined the work force, I joined the services component, which numbered 30 million employees at that time out of a total of 65 million. In 1992, that 65 million had grown to 120 million American workers, and the number of those in the service economy numbered 75 million.

Today we recognize that the GATT and all the other trade agreements have really advanced American interests abroad and brought about many improvements to facilitate world trade. What is often overlooked is GATT also has another part. It is called GATS, the General Agreement on Trade and Services. Within

GATS we have managed to set up a working party on professional services which is an investment for all professional service providers around the world. This, in itself, is a major development because it has great long term benefits. One of the major efforts of this working party is to promote the use of international accounting standards around the world. This may sound rather moot or arcane or boring, but the truth of the matter is that investors, capital providers, pension fund members would all benefit from having the same set of financial statements that they could compare companies around the world.

Now, in terms of specific recommendations, I have broken them down into two categories. The first category contains tactical recommendations and they are priorities for action. First, this Subcommittee, all of American business should really work earnestly to ensure the effective implementation of the Uruguay round which includes the GATS rules on services. In particular, in the GATS area we need to complete the sectoral negotiations in telecommunications, financial services and other service areas.

Second, it would be a big impetus if this Subcommittee encouraged the administration to demonstrate real interest in the working party on professional services. It is really the forerunner to breaking into global trade in services for professional services firms by setting up rules that people can play by around the world.

Third, it is important to monitor the other negotiations and actions that are happening around the world outside of GATS. They include the multilateral agreement on investment, the Asia-Pacific Economic Cooperation initiatives, and the free trade area of the Americas. And, we need to prod the negotiators when their efforts flag and ensure that their talks do not go off course. Fast track should be reauthorized as soon as possible.

Strategically for the future, the single most important issue for this Nation is to begin correlating national policy with global trends. Three salient, global trends that affects everyone are one; the convergence of telecommunications and computers; two, discontinuities in governments and other institutions; and three, globalization of markets and people.

My second strategic recommendation is; we need to develop ways to measure and account for trading, trading the new form of capital which is knowledge; the intangibles; the invisibles. We have outmoded ways of trying to control and protect intellectual property rights. We need to concentrate on developing new ways to measure and account for these invisibles.

And third; it is a very obvious fact that the next trade agenda will be heavily influenced by the issues of competition and investment. What is not obvious is the fact that if the United States does not develop the potential of its people, competitive advantages will be gained by countries that capitalize on the power of technology to leapfrog competitors. In a word, that spells retraining our American work force.

Last, I would hope that the Congress stay the course of supporting world trade because it is key to us. Andersen Worldwide would not be 82,000 people today. It would be 600 people, practicing in downtown Chicago. But, now we are an \$8 billion business that's doubled in the last 5 years. And, in no small part, we owe that to international trade.

My last comment is a philosophical statement. I would hope that the Congress continues to make political decisions for economic purposes as opposed to making economic decisions for political purposes. Thank you.

[The prepared statement follows:]

TESTIMONY OF ROBERT F. KELLEY
SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS
MAY 20, 1996
EXECUTIVE SUMMARY

- Andersen Worldwide (AW) is the world's largest professional services firm with over 82,000 employees in 360 offices in 76 countries. Last year, AW revenue topped the \$8.0 billion mark, a doubling in the last five years. This success is in no small part attributable to the recent global trend toward liberalization of trade and investment.
- Services constitute 60-70% of most advanced economies, demonstrating the importance of services in our economy and the enormous potential in foreign markets for US service providers. World trade in services exceeds global trade in computers, telecommunications and office equipment, motor vehicles and parts, and textiles and apparel combined. Services are "enablers" of other industries, inextricably linking services with sectors such as manufacturing. US trade policy must be crafted with these relationships in mind.
- The World Trade Organization (WTO) represents the greatest opportunity for liberalization in services. The General Agreement on Trade in Services (GATS) is the single greatest achievement of the Uruguay Round, bringing the fastest growing -- and, arguably, the most important -- sector of the world economy into the multilateral trading system.
- The GATS establishes important trading rules including the principle that regulation of domestic activity has international consequences, laying the groundwork for regulatory convergence, which will benefit service industries, consumers, investors and regulators. The GATS also has broadened the definition of "trade" to include movement of capital and people -- critical issues for services firms.
- Liberalization in services will continue in the WTO. In the short term, there are sectoral negotiations in maritime, financial services, telecommunications and professional services. In the longer term, a new round of services talks will begin in the year 2000.
- The professional services talks are ongoing in a Working Party on Professional Services (WPPS). The WPPS has begun its work with the accountancy sector with a three part agenda: developing disciplines on domestic regulation, promoting international standards and, establishing guidelines for the recognition of qualifications. The success of the WPPS is important not just for professional services, but for the credibility of the WTO as a whole.
- While implementation and expansion of the GATS will remain the focus of services trade liberalization, we also must take advantage of possibilities that lie in other international negotiations including the Multilateral Agreement on Investment (MAI), the Free Trade Area of the Americas (FTAA), and the Asia Pacific Economic Cooperation (APEC) forum. Some negotiations will require fast track, which should be reauthorized as soon as possible.
- The US must lead the movement to further liberalize trade and investment -- not as a favor to anyone else, but because it is in our own interests. The tremendous significance of services to the US economy and to other sectors such as manufacturing must not be underestimated. Trade policy must be made with careful consideration given the implications of that policy for the service sector.

Recommendations:

- The Subcommittee should work to ensure effective implementation of the Uruguay Round agreements including: implementation of new GATS rules, completion of sectoral negotiations in services, and interpretation of WTO materials and their effective dissemination.
- In particular, the Subcommittee should express to the Administration its interest in and support for the efforts of the WTO's Working Party on Professional Services, especially with the approach of December's WTO ministerial meeting in Singapore.
- The Subcommittee should carefully monitor progress on negotiations such as on the Multilateral Agreement on Investment, the Asia Pacific Economic Cooperation initiative and the Free Trade Area of the Americas, prodding negotiators when they flag and ensuring that the talks do not go off course. Fast track should be reauthorized as soon as possible.

Introduction

Mr. Chairman and distinguished members of the Subcommittee:

My name is Robert F. Kelley. I am Managing Partner--International Affairs for Andersen Worldwide, which is the coordinating entity for Arthur Andersen and Andersen Consulting member firms around the globe. I appreciate the opportunity to share my views and suggestions on:

- the importance of trade and investment in services to the US economy,
- the place of the service sector in future US trade policy, and
- the international agreements and negotiations which will have an impact on services.

But first, I want to commend you for holding this hearing on the future of US trade policy. You remain a stalwart supporter of free trade, and the companies, workers, and consumers of Illinois are direct beneficiaries of your efforts. I also would like to thank your staff, not only for their work in organizing this hearing, but also for their continued diligence and willingness to work with the private sector.

Andersen Worldwide

Andersen Worldwide is the world's largest professional services firm, operating from more than 360 offices in 76 countries. The Arthur Andersen business unit provides accounting, audit, tax, business advisory, and specialty consulting services to clients. The Andersen Consulting business unit provides global management and technology consulting services.

Our clients range from the largest of multinationals to medium-size and small enterprises to individuals. To best serve any of these clients, of course, we must be able to operate in the world markets in which they operate.

Forty-seven thousand of our over 82,000 people are employed by our member firms outside the US, while 35,000 work in the US. Closer to home, Andersen Worldwide has roughly 5,600 employees in Illinois -- the great majority in the Chicago area -- in our headquarters, our practice offices, our research and development facilities, and our extensive professional education campus in St. Charles. For this audience I need not belabor the point that these are high skill, high paying jobs. I might add that our Firm is the top recruiter of graduates from US colleges and universities.

Last year our revenue topped the \$8.0 billion mark, and a look at where these earnings come from also helps demonstrate how international a firm we are. Of our \$8.1 billion in revenue, \$4.3 billion was earned abroad, while \$3.8 billion was earned in the US.

We are quite proud of the fact that our revenue has doubled in the last five years. We believe such growth is unique for a professional services firm of our size, and we expect similar strong results in the next five years. Our success is in no small part attributable to our increased involvement in markets overseas. While revenues for Andersen Worldwide in the Americas grew an enviable 17% last year, our Europe/Middle East/India/Africa practice grew 25% in US dollar terms and our Asia/Pacific practice grew 28% in US dollar terms.

We have benefited tremendously from the worldwide trend toward liberalization of trade and investment. Such liberalization helps economies grow and helps our clients grow. When our clients grow, we grow. An additional benefit from this trend has been an improvement in our ability to serve these growing clients. We see continued liberalization as vitally important to our continued success.

The Importance of Services

As a professional services firm, Andersen Worldwide is part of the overall service sector. As you know, this widely diverse part of the economy also includes telecommunications, financial services, transportation, audio-visual services, and others. Broadly speaking Mr. Chairman, you and all other public servants also are a part of the service sector.

The importance of the service sector would seem to be self-evident, but far too many policy makers -- and, to be fair, businesspersons, academics and others -- continue to think of a nation's trade and economy in terms of cars built, wheat exported, and VCRs imported.

In most industrialized economies, services constitute 60-70% of gross domestic product. These figures give a clear indication of the importance of services in our economy, and these numbers also give some indication of the enormous potential in foreign markets for US service providers, who are among the most competitive in the world.

Between 1958 and 1992, employment in the US doubled from 66 million to 121 million. This growth was fueled almost entirely by the services sector, which saw its employment grow from 31 million to 74 million.

It is important to emphasize that these services jobs are not low wage and low skill, despite the misinformed characterizations being made about them. Since 1970, services job creation has been particularly robust in relatively high paying sectors such as healthcare, business services and engineering services. Average wages in these sectors have grown at a faster rate than average manufacturing wages during that time period. Furthermore, recent studies have indicated that employment levels in some lower wage service sectors such as restaurants have shown a decline. In short, it is the service sector that is creating the jobs, and most of them are high skill, high paying jobs.

It is true that trade in goods still significantly outpaces trade in services. But allow me to provide important perspective on this subject. World trade in services exceeds global trade in computers, telecommunications and office equipment, motor vehicles and parts, and textiles and apparel combined. However, the attention of Congress, the coverage in the media, and the resources of US Trade Representative and the Commerce Department devoted to services trade does not match the attention, coverage, and resources devoted to computers, cars, and textile trade. With you, Mr. Chairman, I know I am preaching to the converted. It is just frustrating at times to see so many tails wagging the dog.

And let me be clear, I do not mean to cast US trade policy as a situation of "Services" vs. "Manufacturing." Nothing could be farther from the truth. Services and manufacturing are inextricably linked, and I believe trade policy should be made with that in mind.

Services are "enablers" of other industries:

- corn must be transported to market -- a service;
- a new machine tool plant must be financed -- a service;
- new cars must be advertised -- a service;
- a sale of coal must have a contract -- a service;
- an oil company contemplating a foreign investment must have a feasibility study done -- a service;
- a heavy equipment company must stay in constant contact with its foreign subsidiaries -- a service;
- a computer maker hires someone to reengineer its entire operation in order to compete -- a service;
- a shipment of textiles must be insured -- a service; and
- last, but not least, financial statements must be audited -- a service.

Of course, examples such as these are endless. US trade policy -- and economic policy for that matter -- must be crafted with these interrelationships in mind. A holistic approach, if you will, is what is called for.

As I mentioned before, US services firms are among the most competitive in the world, and they also help make other US companies more competitive. Thus, US services firms contribute positively to overall US competitiveness, to overall US job creation, to overall US productivity, and to overall US growth.

For those who are concerned with the trade deficit, let me point out that services consistently run a trade surplus. Last year, for example, the services trade surplus was \$63 billion, while the manufacturing trade deficit was \$174 billion.

World Trade Organization (WTO)

I believe that one of the primary reasons services trade has lagged behind goods trade is that the global trend toward liberalization only recently has begun to encompass trade and investment in services. The watershed year for services was 1986, with the launch of the General Agreement on Tariffs and Trade (GATT) Uruguay Round.

Clearly, for the large majority of service firms, the WTO – GATT's successor organization and product of the Uruguay Round – represents the greatest opportunity for liberalization. In fact, I would argue that the Uruguay Round's General Agreement on Trade in Services (GATS) is the single greatest achievement of the Round. The fastest growing – and, arguably, the most important – sector of the world economy has been brought into the multilateral trading regime.

At last, there is a framework of rules established for trade and investment in services. Among the most important of these GATS rules concern:

- most-favored nation treatment (MFN),
- transparency of laws and regulation,
- national treatment,
- international payments and transfers,
- market access,
- effective dispute settlement, and
- fairness of the regulatory process.

The effective implementation of the new GATS rules should be an important goal for future US trade policy, Mr. Chairman. The multilateral system has been dealing with goods trade for decades, yet still there are numerous disputes over the rules and their application. Services trade is a new issue and, I might add, a more complex one than goods trade. Vigilance and good faith will be required on all sides in order to secure successful implementation of the GATS system.

Of particular significance among the new GATS rules is the last I mentioned, regulatory fairness. Not only does the GATS recognize that governments often use regulation of a foreign company's cross-border activity as a trade barrier, but the GATS also establishes the principle that regulation of domestic activity has international consequences as well. The GATS lays the groundwork for regulatory convergence, which will benefit service industries, improve the quality of regulation, and help consumers and investors.

Perhaps an even more important point about the new framework of services rules is that the GATS has broadened the definition of "trade" to include movement of capital and people – critical issues for services firms. For many service sectors, there is no effective way to enter a new market without investing capital there. In addition, for many service sectors, including my own, intellectual capital – people – is our primary resource. In some cases, if we can not get our people across borders, we can not get the job done.

But while the GATS is a tremendous first step toward the liberalization of trade and investment in services, it is just that – a first step. As you well know, some GATS rules cover only service sectors specifically included in the agreement by each country. And some service sectors are not covered at all.

But the deficiencies of the GATS are well known and probably draw more than their share of the spotlight. Suffice it to say the GATS is a firm foundation, but much more needs to be built. In fact, further liberalization in services was contemplated by the Uruguay Round agreements.

In the short term, there are sectoral follow-on negotiations arising from the Uruguay Round. For example, the maritime talks face a June 30, 1996 deadline, while, after initial discussions proved fruitless, the telecommunications negotiations and financial services talks have been extended into next year. In professional services, a working party was established to develop disciplines applying GATS rules to the professions.

Work in each of these sectors will require commitment by the US private sector, by the Administration, and by Congress in order to achieve success.

Professional Services

Of these sectoral negotiations, of course, we at Andersen Worldwide are particularly concerned with the professional services talks. A separate ministerial decision created a Working Party on Professional Services (WPPS) under the WTO's Council on Trade in Services. The WPPS will be a "laboratory" for determining whether the GATS rules on domestic regulation can be given practical meaning. It has been said – with a bit of tongue in cheek – that the GATS rules are like a mandate for a fair and equitable tax code, and the WPPS's efforts will be like drawing up an actual tax code that fits the mandate.

The WPPS has begun its work with the accountancy sector. Progress in accountancy will pave the way for work on the other professions, and progress on the professions will pave the way for work on other industries in the Council on Trade in Services.

The WPPS has the following three part agenda set out in the ministerial decision. "[T]he Working Party shall concentrate on:

- (a) developing multilateral disciplines relating to market access so as to ensure that domestic regulatory requirements are: (i) based on objective and transparent criteria, such as competence and the ability to supply the service; (ii) not more burdensome than necessary to ensure the quality of the service, thereby facilitating the effective liberalization of accountancy services;
- (b) the use of international standards and, in doing so, it shall encourage the cooperation with the relevant international organizations as defined under paragraph 5(b) of Article VI, so as to give full effect to paragraph 5 of Article VII;
- (c) facilitating the effective application of paragraph 6 of Article VI of the Agreement by establishing guidelines for the recognition of qualifications."

If the WPPS succeeds in developing proper regulatory disciplines, the benefits are manifold. These disciplines will stimulate reform in domestic regulation, not solely in measures enforced "at the border." In addition, any liberalization achieved is much less likely to be reversed. Having made international obligations, governments will be reluctant to respond to domestic pressures by reversing those decisions.

Finally, these disciplines will move national regulators to common approaches and, in time, perhaps to harmonization. Since businesses now face widely different regulatory structures from market to market, such disciplines from the WTO would encourage increased investment and trade.

The chair of the Working Party is Ambassador Leonora Saurel of El Salvador, a dynamic and highly respected figure in Geneva. The WPPS has met four times. While the United States and some other parties have been active in pursuing the WPPS's goals, the participation of other nations has lagged. It is crucial to the credibility and effectiveness of the Working Party that its efforts on accountancy succeed.

In addition, I believe that success of the WPPS is important not just for the accountancy sector, not just for professional services, but for the WTO as a whole. Will the rules in the GATS remain just high sounding words, or will governments take the steps necessary to give those words positive practical effects of tangible commercial value?

Furthermore, after the unsatisfactory progress over the past few years for all concerned in the telecommunications, financial services, and maritime sectoral negotiations, the WPPS offers a wonderful opportunity to demonstrate that the WTO can advance liberalization in services. Commitment by the US government to the success of the Working Party also demonstrates the commitment of the US to the multilateral system, a commitment that is being questioned in some quarters.

The Way Forward

In addition to sectoral negotiations, the Uruguay Round agreements also call for a new round of talks on overall commitments in the service sector. Slated to begin in the year 2000, these negotiations will focus on improvements in existing commitments and the addition of sectors not already scheduled by countries. Remember, some GATS rules only come into force on sectors a country includes in its schedules.

During the Uruguay Round, many countries were reluctant to schedule certain sectors, or go beyond *status quo* or "standstill" commitments in the sectors they did schedule, due to uncertainty over how the addition of this "new" service sector to the multilateral system would fare. Effective, credible implementation of the GATS will be critical to making the case to these countries for the expansion of their schedules.

Of course, there are other areas within the GATS that need additional attention in order for the full commercial value of the agreement to be realized. For example, in the area of movement of personnel, more work must be done to give precise definitions to categories of professionals such as "technical personnel" and "executives." In order for companies to take advantage of such provisions, governments and companies must have a common understanding of which professionals fall into which categories.

In addition, much of the good work of the Uruguay Round and the WTO remains inaccessible to many businesses – particularly to small and medium-size companies that lack the resources of most multinationals. Countries such as the US should lead an effort to provide interpretation of agreements, schedules of services commitments, and tariff schedules, and improve dissemination of useful materials. Opportunities for US companies are being lost solely due to a lack of information.

While implementation and expansion of the GATS will remain the focus of services trade liberalization, we also must take advantage of possibilities that lie in other international negotiations. For example, now that the GATS has established the “legitimacy” of investment and movement of personnel as issues for the trading system, we must move to make such rules apply across all economic activities.

The Multilateral Agreement on Investment (MAI), being negotiated among the countries of the Organization for Economic Cooperation and Development (OECD), is a good place to start. I understand substantial progress is being made in this ambitious endeavor to broaden investment rules.

There appears though to be a tension arising between those who seek an agreement with high quality rules, negotiated among OECD countries, then offered to other nations for membership; and those who seek an agreement with somewhat lower quality rules, but negotiated among and covering a wider array of countries.

Both sides make good points that need not be irreconcilable. We all agree on the need for the highest quality rules achievable. At the same time, we must keep in mind that it is not among the OECD nations that US companies find most of their investment problems. An MAI not joined by the developing world would not offer much additional value. Helping to find the proper balance between the quality of rules and the geographic reach of the MAI is another challenge for this subcommittee.

Other opportunities for progress lie in the multitude of regional agreements proliferating around the world. As I have said before, our commitment to the multilateral process is firm, but we see no conflict in pursuing liberalization in regional or bilateral fora. In fact, arrangements such as the North American Free Trade Agreement (NAFTA) can be laboratories for services agreements, the lessons of which can be applied in the WTO.

It is disappointing that agreement could not be reached on new fast track authority, even for the rather narrow purpose of adding Chile to NAFTA. I would urge that this issue be revisited as soon as possible after the presidential elections.

Fortunately, NAFTA is not the only free trade initiative in this hemisphere. Work on a Free Trade Area of the Americas (FTAA) has been gaining momentum since the Summit of the Americas in Miami in 1994. In March, trade ministers meeting in Cartagena, Colombia, launched four new working groups, including one on services. This working group will begin with necessary spade work, such as cataloging existing agreements that impact services, before moving on to developing recommendations for reaching an FTAA in services.

As I said, work on the FTAA is in the early stages. The subcommittee should carefully monitor these proceedings, prodding negotiators when they flag and ensuring that the talks do not go off course.

At a similar stage of development is the Asia Pacific Economic Cooperation (APEC) free trade initiative. Work on services and most issues has just begun. Still, reaching a free trade area within APEC is an ambitious undertaking with commensurate potential benefits if it is successful. I am certain that Andersen Worldwide is not the only service firm that views the Asia/Pacific region as a priority area for growth. As with the FTAA, the subcommittee should keep a watchful eye on these negotiations.

Conclusion

In conclusion, let me express a worry about the political climate in the US. On Capitol Hill, on the presidential campaign trail, and in other quarters around the country, the voices of protectionism are getting louder. Legitimate domestic economic concerns are being miscast by some as the result of America's free trade policies. It will require leadership from Congress, the Administration, business, and others to meet this challenge and win the intellectual argument.

Every day, the US economy becomes more inextricably linked to global markets. So much of the growth we have enjoyed has been the result of trade. This is no time to retreat. The US must lead the movement to further liberalize trade and investment -- not as a favor to anyone else, but because it is in our own interests. Mr. Chairman, I know you and other members of this subcommittee already are fighting the good fight. I offer you any assistance we can provide.

In the area of professional services, I would like to ask for additional help. I believe it would be valuable for this subcommittee to express to the Administration its interest in and support for the efforts of the WTO's Working Party on Professional Services, especially with the approach of December's WTO ministerial meeting in Singapore. As I have said, the Working Party is in danger of faltering, and I believe that its success or failure will have an impact felt far beyond the offices of firms like mine. I look forward to working with you, other members of the subcommittee and your staffs to ensure that the WPPS is successful.

Finally, the tremendous significance of services to the US economy and to other sectors such as manufacturing must not be underestimated. When you are developing trade policy, whether it be vis-à-vis the WTO, APEC, the FTAA, the MAI, or another issue, I hope you will consider the implications of that policy for the service sector.

Thank you Mr. Chairman, and I would be happy to answer any questions you might have.

Chairman CRANE. Thank you, Mr. Kelley. Mr. Smith. You might just switch seats there. In fact, if the two of you could sit fairly close, just for questions, so you can rotate that mike back and forth.

STATEMENT OF MARSHALL I. SMITH, SENIOR VICE PRESIDENT, AND GENERAL COUNSEL, IMC GLOBAL, INC, NORTHBROOK, IL

Thank you, Mr. Chairman, Congressman Rangel. I am Marshall Smith, of IMC Global in Northbrook. IMC Global is the U.S. and probably the world's largest producer of agricultural crop nutrients. IMC would like to focus very narrowly this afternoon on U.S. trade with China.

China is the United States largest and also the fastest growing consumer of agricultural crop nutrients. Over \$1 billion of our primary product and of billions of dollars more in Chinese imports took place last year and we expect greater imports in the coming years.

In order to maintain American leadership in the crop nutrient industry in China, IMC and the other members of our industry have entered into long term supply agreements with the Chinese suppliers. The advantage of these long term contracts is job security for American workers today and showing the Chinese that the United States can be a dependable long term supplier of what is for China a vital import. Frankly, the stability of the long term relationship that is developing is jeopardized by our practice of renewing MFN status with China on an annual basis. IMC supports permanent extension of MFN to China, coupled with China's membership in the World Trade Organization on commercially reasonable terms. We feel that the establishment of those long term secure relationships with the Chinese will enable the U.S. to focus then on achieving the sort of trade reform and the sort of reform in the Chinese practices that we have been advocating and put aside the procedural wrangling on an annual of renewal or nonrenewal of MFN. That's our position.

I hope the brevity of my remarks won't be taken as a lack of concern. We think it is terribly important to establish sustained relationship with China and doing away with annual renewal of MFN will be the important first step.

[The prepared statement follows:]

TESTIMONY OF MARSCHALL I. SMITH
IMC GLOBAL INC.

Good [morning] [afternoon], Mr. Chairman and Members of the Trade Subcommittee. My name is Marschall Smith and I am Senior Vice President and General Counsel of IMC Global Inc., a corporation headquartered nearby in Northbrook, Illinois.

As our name suggests, IMC Global and its several subsidiaries and joint venture operations comprise one of the world's leading producers of crop nutrients for the international agricultural community. We are a leading producer of potash, with one facility in New Mexico, and also a producer of nitrogen for crop nutrients. IMC's joint venture with Freeport McMoRan Resource Partners, IMC-Agrico, is the nation's largest producer, marketer and distributor of phosphate crop nutrients.

IMC-Agrico employs about 4500 workers to operate three phosphate plants in central Florida that export product through the Port of Tampa, and three phosphate plants in Louisiana that export product through the Port of New Orleans. Far and away our leading phosphate crop nutrient product is diammonium phosphate, or DAP. From ten mines in Florida and Louisiana with over 360 million tons of high quality phosphate rock reserves, we mine the rock and then process it. In our beneficiation plants, we wash, clean, size and grade the mined material. Next we react the material with sulfuric and phosphoric acids, and then granulate it with ammonia to produce DAP.

We mine about 27 million tons of phosphate rock a year, and have established a capacity to produce 8 million tons of dry phosphates, including 6-1/2 million tons of DAP. I share these facts with you, Mr. Chairman and Members, to underscore how important DAP is to our phosphate business. Without the People's Republic of China as a customer, we would be largely out of the DAP business.

China has five times as many people to feed as the U.S., but only about half our acreage of arable land on which to grow crops. In other words, China needs to feed 20 percent of the world's population, but has only 7 to 9 percent of the world's arable land. China therefore needs crop nutrients to make the most productive use of that land. China imports about 5 million tons of DAP annually, with a market value of over 1 billion dollars, to support its agricultural production. Of these 5 million tons, China buys nearly all its product from the U.S. and of that amount about 40 percent from IMC-Agrico, or about 2 million metric tons. Over the last three years, U.S. exports of DAP to China have accounted for between 55 and 60 percent of total U.S. DAP exports.

China is not only our largest DAP market, but also our fastest growing market. While the global crop nutrient market fluctuates, China has substantially increased imports of DAP since 1993. Moreover, prices have risen as well as sales volumes.

To capitalize on these favorable developments, we have entered into new, longer term supply contracts with our customers

in China for our phosphate products. We have opened an office in Hong Kong and are monitoring investment opportunities in port facilities and bulk blending plants in China. None of these investments would detract from our operations and employment in Florida and Louisiana; to the contrary, they would facilitate our sales to China of product made at home in the U.S.A.

Against this background, Mr. Chairman and Members, you can appreciate the reasons why IMC Global supports most-favored-nation treatment for China. At IMC, our workers, joint venture partners, subsidiaries, suppliers, communities and the ports from which we export all benefit from trade with China. If the United States refused to allow China to export to our country on MFN terms, realistically we would have to expect that China could reciprocate this treatment. Instead of buying DAP and other crop nutrients mined and processed in and transported from the U.S. by American workers, the Chinese could buy instead from our competitors around the world.

Indeed, IMC Global supports the renewal of MFN for China not only this year, Mr. Chairman and Members, but every year. We believe the time has come to provide for permanent MFN treatment, without going through an annual exercise that has become nonproductive or even counterproductive. The provisions of U.S. law under which the MFN review is conducted annually actually pertain only to conditions regarding Chinese emigration, not to the larger human rights and other issues on which the debate generally focuses.

While the U.S. has many problems with China, our company believes that the annual MFN debate destabilizes trade with China, without providing leverage to resolve any of those problems. The U.S. would be better positioned to make real progress toward satisfactory resolutions of various problems with China if it had a stronger, less uncertain relationship with China based in permanent reciprocal MFN treatment.

For the same reasons, IMC Global supports what we understand to be the U.S. position on China's accession to the World Trade Organization. IMC believes the U.S. should welcome China's membership in the WTO on commercially acceptable terms. As an economic powerhouse, China cannot expect and is not entitled to membership without regard to the obligations and responsibilities it agrees to undertake. As a still developing nation, China may merit reasonable transition periods in which to come into compliance with some obligations and responsibilities.

However, the objective should be clear: the U.S. should support Chinese membership in the WTO at the earliest date that China offers commercially acceptable terms. The goal is to integrate China into the world trading system and thereby to promote its compliance with the rule of law and its use of markets. When this goal is achieved, the U.S. will be able to use the dispute settlement procedures of the WTO, and will have to rely less on unilateral U.S. actions or threats of action. Multilateral actions are more likely to be productive and less likely to be controversial, resulting in relatively more stability and less disruption to trade for the benefit of all, including the United States.

Rather, the benefit of a firmer, more predictable relationship between the United States and China based on permanent, reciprocal MFN would be its resilience. With our trading partners who are sure of our reciprocal commitment, we enjoy mutual confidence that the relationship will withstand even the most contentious disputes. For example, our relationship with our largest trading partner, Canada, has withstood repeated frictions over softwood lumber, broadcasting and print, dairy and yogurt, wheat and fish. Likewise the U.S.-Japan relationship has endured successive trade frictions over, for example, semiconductors, film, insurance, glass, beef, citrus, apples, copyright and patent issues, civil aviation, government procurement and public works, leather goods, and structural impediments -- a long, long list. Yet our trade, investment and geopolitical relationship with Japan remains strong and vibrant in part because it is grounded, structurally, in permanent MFN.

We believe that revocation of MFN from China would limit the positive influence of the United States in China. If we extend permanent MFN, on the other hand, we believe that the United States and individual Americans will have the maximum opportunity to influence the Chinese people about not only our market economics, but also our values and beliefs.

In conclusion, Mr. Chairman and Members, IMC supports permanent MFN for China, and China's WTO membership on acceptable commercial terms, because we think these developments would increase positive American influence in China to our mutual best interest. If we were to condition or revoke MFN for China, or oppose its entry into the WTO even if it offered satisfactory commercial terms, we would not only hurt our own economic interests and workers, but also reduce our opportunity to promote and influence positive changes within Chinese society.

Mr. Chairman and Members, thank you for permitting me to share the views of my company with you today.

Chairman CRANE. I thank you very much for your testimony, and I agree with your position on going through this drill every year with China. It is important, as some have already mentioned today, to recognize that it is not most-favored-nation trade treatment; it is normal trade treatment. That creates a distortion that confuses, a lot of people's understanding of it.

Let me ask you, if MFN for China was terminated this year, would your company be worried about retaliation by the Chinese in the fertilizer sector?

Mr. SMITH. We'd be terrifically worried about competition from other countries. There is Morocco and a number of other suppliers, who are very competitive, and frankly, the MFN status is vital to maintain American competitiveness. It is over \$1 billion in just one product, diammonium phosphate. Conceivably that those sales could be jeopardized, and there are other suppliers around the world that would love to get into that market.

Chairman CRANE. If China were to become a member of the World Trade Organization, what sort of market access commitments do you think the USTR should seek on behalf of your sector?

Mr. SMITH. We are really not experts on WTO and I probably should not comment. Obviously we support Chinese membership only on terms that the government would find commercially reasonable. We think that the Chinese, in order to obtain WTO membership, would probably be willing to make some reasonable concessions. But again, we see it as a uniform package. The United States coming forward with MFN extension on a more sustained basis we think would be a first step for Chinese WTO negotiations.

Chairman CRANE. For you, Mr. Kelley, what are your expectations for the Singapore Ministerial Meeting that's scheduled December 18, with the World Trade Ministers? What do you think might be achievable for the professional services sector by our USTR at that meeting?

Mr. KELLEY. It is a very good question. It is one that we have taken an active role in to make sure that through the International Chamber of Commerce and other world institutions, that the ministers are given a definite commitment to complete the working party work program by 1997. And pardon me for being rather assertive, but we have taken the position that we are not going to leave it up to governments or business or anyone else to do this, because it is something that needs to be done, and we are committed to having that ministerial decision, and there are papers being prepared as we speak.

Chairman CRANE. Very good. Mr. Rangel.

Mr. RANGEL. Thank you. Do both of you support the President's sanctions against China for violation of intellectual property rights and agreements?

Mr. SMITH. We certainly support action against China. The piracy of U.S. trade secrets cannot and should not go on.

Mr. RANGEL. How about Libya and Iraq?

Mr. SMITH. The difficulty with all of that is we need to take action, but we also need to show these countries the United States can be an assured supplier of products. The balance between those is very difficult. I frankly spent the weekend reviewing the sanc-

tions on China, and I am not sure I understand them enough to comment.

Mr. RANGEL. Iraq and Libya are not intellectual property rights, they are more political. How about Cuba?

Mr. SMITH. IMC does not currently have a policy on Cuba, Congressman Rangel.

Mr. RANGEL. What policy are we talking about?

Mr. SMITH. Well, we would support free trade and we support fair trade. To the extent that the U.S. Government would open up free trade, we'd obviously be very delighted with that.

Mr. RANGEL. And does IMC pay a tariff on the phosphate that goes to China?

Mr. SMITH. It varies from country to country. My understanding is that on phosphates into China, there is no tariff.

Mr. RANGEL. Mr. Kelley, what is it that you would have your country to do to encourage professionals to support the 70 percent of professional services that are being exported?

Mr. KELLEY. Well, 70 percent of our GDP, it is not all exports, of course. Public policy needs to be tuned to the importance of the service economy in the U.S.

Mr. RANGEL. How would that be shown?

Mr. KELLEY. Well, in one perspective, there is a point that you raised earlier about education. We are really negligent in the area of education, and we need to shift and build the infrastructure for services in this economy and part of that would be through education, which is a service in itself, and to retrain the people.

Mr. RANGEL. Do you think it is possible that industry could include that as a part of their trade policy as something that's going to be important if we are going to continue the leadership?

Mr. KELLEY. Yes, sir.

Mr. RANGEL. I have never heard anyone testify as you have. It is always on the agenda. But if we can have it up front, because you are talking about the skills that would have to be higher in terms of education and the jobs that we are losing, many similar jobs in agriculture.

Mr. KELLEY. The big threat as it relates to China and other countries that have low wage rates, is the fact that if they discover the use of—and I should direct this to all of you—if they discover the use of the power of information and technology, they can actually leap frog us, because they do not have the encumbrance of all the existing investment and infrastructure, like telecommunications. They can go straight to wireless, and they can go straight to computers and help their people realize their potential. We, at this point, have the advantage but we will lose the advantage if we do not answer the challenge in education. It is very frustrating. We are very committed to education. We have a school of the future project, and we work with a small software company and this is all pro bono, all pro bono.

Mr. RANGEL. Could you direct me to any literature that has shown any studies in this area?

Mr. KELLEY. I have already made the note.

Mr. RANGEL. Would you send it to me? Thank you.

[The information was not available at the time of printing.]

Mr. Smith, I do hope that your organization studies our political problems in Congress in responding to the political needs of our constituents with the sanctions because the three that are mentioned are very political in nature, but you never can tell where your importing country is, for very, very political reasons. So, it is people able to play on the fears of our constituents and a lot of people will not let anything stand between them getting reelected. It may be a little too late to say well, they were not bothering you at that time, therefore, you did not study it. But if we are going to be respected throughout the world, we should have a coherent foreign policy that every country and every manufacturer can depend on. We work hard to be bipartisan because we want to make certain that our work product would be presumed to have been created in the bipartisan way. We get the benefit of the doubt when we enjoy that reputation, and as we try desperately hard to do it in legislation, our country should do the same thing as relates to policy. But I want to thank both of you for very informative testimony. Thank you.

Chairman CRANE. Thank you very much, everyone. With that, we will stand in recess for approximately 15 to 20 minutes, and reconvene at that time with our panel of Sally Jackson, Robert Berman and Richard Paullin.

[Recess.]

Chairman CRANE. We might reconvene, and is James Faust here? Mr. Faust, we will have you testify with this next panel, with Sally Jackson, Robert Berman and Richard Paullin, unless anybody else has a tight time constraint as far as a plane.

We will let you go first, Mr. Faust. And as I mentioned before, if you can kind of summarize your comments to keep them within the 5 minute constraint, all of your printed statement will be a matter of permanent record, and we will let you proceed.

STATEMENT OF JAMES L. FAUST, EXECUTIVE VICE PRESIDENT, ANTEC CORP.; AND PRESIDENT, ANTEC INTERNATIONAL DIVISION, ROLLING MEADOWS, IL; ON BEHALF OF ELECTRONICS INDUSTRY ASSOCIATION, AND TELECOMMUNICATIONS INDUSTRY ASSOCIATION

Thank you, Mr. Chairman. My name is Jim Faust, and I am the executive vice president of ANTEC Corp. We are a Rolling Meadows-based company which specializes in the design, engineering and manufacturing of products for the broadband video, voice and data networks and distribution of products for those industries. For example, we manufacture and distribute products used in the cable television networks, such as laser transmitters and receivers, network interface devices on the sides of homes and the powering and transmission equipment utilized to transmit video, audio and data information. ANTEC is an international company with about 2,000 employees, located in 34 locations, with 1995 sales in excess of \$650 million.

I also serve as president of ANTEC's International Division which leads the company's efforts in international markets. My testimony today is on behalf of ANTEC, my company, as well as on behalf of the EIA, the Electronics Industry Association and the

TIA, Telecommunications Industry Association, two Washington, DC trade associations to which ANTEC belongs.

In reviewing our industry's perspective on global trade and its role in America's economic future, it is important to set the general framework of our industry's economic philosophy. In a sentence, it can be summarized as this: ANTEC, EIA and TIA all have a deep belief in free and open global markets. The success of capitalism is revealed daily across the world and across industry such as ours that are seeking to provide better products and services that risk their companies' capital or their shareholders' capital in bringing new ideas and products to the market.

Free and open markets benefit not only large multinational corporations, but also small to medium size companies such as ANTEC. We believe that for a company to be successful, we must work toward a leadership position in the worldwide video and telecommunications marketplace. It is no longer enough to strive to be a leader only in domestic markets, because the products ANTEC makes and distributes are used throughout the world, as the MTV, CNN and possibly even CSPAN video revolution spreads. Our company's mission is to be a world leader in fiberoptic coaxial based information transport technologies and services.

As a growing company, we have realized significant growth from export sales. We have operations in countries including China, Hong Kong, Singapore, Australia, Mexico, Brazil, Argentina, the United Kingdom, Spain and Canada. We believe our international growth will continue as long as there is a level trade playingfield. In 1993 our international sales represented only about 4 percent of our business. In 2 years the percentage of international sales has grown to 17 percent of our company's total sales. From 1994 to 1995, ANTEC's international sales have increased approximately 120 percent and continue at this rate in 1996.

We recognize that trade barriers in the future will likely not take the form of tariffs, but more likely will be embodied in technical barriers and differential product standards across borders. The EIA and the TIA firmly support the development and application of international standards that are voluntarily agreed to by industries.

ANTEC and its manufacturing divisions have voluntarily agreed to comply with the ISO, International Standards Organization, 9001 certification efforts, the standards for products and services established by the ISO, are widely used throughout Europe and other parts of the world. We recognize that established standards add to the quality and value of our products and have added to our success. We endorse and support government efforts to promote the voluntary standards process on both domestic and international levels. We do not support government efforts to set these standards, as these are likely to stifle the development of new and competitive technologies. ANTEC, we believe, is well-positioned to continue its growth in the international market, where we believe growth is encouraged by the liberal regulatory markets of many, but not all, countries. We expect to see continuous strong growth for our company in the Asia-Pacific region, in Latin America, and to a somewhat lesser extent in Europe.

The global video, voice and data communications revolution has and will continue to provide us with opportunities to compete in offering access to the information superhighway, which believe also, Congressman Rangel, will help with the educational infrastructure, certainly here and abroad. Please help; rather than hinder us, in our efforts by making sure that the U.S. Government supports policies aimed at fostering the continuation of free and open global markets. Thank you.

[The prepared statement follows:]

COMMENTS OF JAMES L. FAUST

EXECUTIVE VICE PRESIDENT, ANTEC CORPORATION &
PRESIDENT, ANTEC INTERNATIONAL

BEFORE THE SUBCOMMITTEE ON TRADE

COMMITTEE ON WAYS & MEANS
U.S. HOUSE OF REPRESENTATIVES

May 20, 1996
Schaumburg, Illinois

Thank you, Mr. Chairman. My name is Jim Faust and I am the Executive Vice President of ANTEC Corporation, a Rolling Meadows-based company which specializes in the design and engineering of hybrid fiber-coaxial (HFC) broadband networks and the engineering, manufacturing, materials management and distribution of products for these networks. For example, we manufacture and distribute products for cable TV and telephone company networks such as laser transmitters, network interface devices for the sides of homes, powering and transmission equipment. ANTEC is an international company of about 2,000 employees in 34 locations with 1995 sales of over \$658 million.

I also serve as the President of ANTEC's International Division which leads the company's efforts in international markets. My testimony today is on behalf of my own company as well as on behalf of the Electronic Industries Association (EIA) and the Telecommunications Industry Association (TIA), two Washington, D.C. area trade associations to which ANTEC belongs.

EIA is a 72 year old national trade organization representing U.S. electronics manufacturers. Committed to the competitiveness of the American electronics producer, EIA represents the entire spectrum of companies involved in the design and manufacturer of electronic components, parts, systems and equipment for communications, industrial, government and consumer use.

TIA is a full-service national trade organization with a membership of 600 large and small companies which provide communications and information technology products, materials, systems, distribution services and professional services in the U.S. and other countries. TIA's member companies manufacture virtually all of the products used in the modern communications network.

In reviewing our industry's perspective on global trade and its role in America's economic future, it is important to set a general framework of our industry's economic philosophy. In a sentence, it can be summarized as this: ANTEC, EIA and TIA all have a deep belief in free and open global markets. The genius of capitalism is revealed daily across the world and across our industry as those seeking to provide better products and services risk their (or their shareholder's) capital in bringing new ideas to the market.

Free and open markets benefit not only large, multinational companies, but also small-to-medium sized companies such as ANTEC, a company looking beyond its U.S. offices to foreign markets. We believe that for our company to be

successful, we much work toward a leadership position in the worldwide cable television market. It is no longer enough to strive to be a leader in the domestic market because the products ANTEC makes and distributes are used throughout the world. Our mission is to lead the world in fiber-coaxial based information transport technologies and services.

As a growing company, ANTEC had realized significant profits from export sales, and set up manufacturing operations in foreign countries. Since ANTEC became a public company in 1993, its international sales have skyrocketed.

ANTEC International has operations in several countries including China; Hong Kong; Singapore; Australia; Mexico; Brazil; England; Spain; and Canada, and we believe our international growth will continue. ANTEC's goals include diversifying its domestic customer base and growing its international business, and we have been quite successful at doing that. In 1993, international sales represented just about four percent of ANTEC's business. In two years, the percentage of international sales grew to 17 percent of the company's total sales. From 1994 to 1995, ANTEC's international sales increased approximately 120 percent.

The role of trade as a percentage of America's gross domestic product has increased from about seven percent in 1950 to about 16 percent in 1980. Today, trade accounts for more than 26 percent of the U.S. Gross Domestic Product (GDP).

U.S. trade policy must include a commitment to enhance U.S. exports to continue to provide opportunities for young, growing companies like ANTEC to compete. We believe U.S. trade policy should have a three-pronged approach focusing on: removing unilateral disincentives to exports and easing regulatory burdens (i.e. current U.S. control policies); aggressively promoting U.S. exports through sophisticated and well-coordinated government export promotion programs, and strengthening efforts to ensure the fair treatment of U.S. products and services overseas.

Electronics has led the way in bringing our nation's economy into the global marketplace. A number of leading electronics and communications companies derive more than 50% of their total revenues from export sales. Our industry has been making strong progress in addressing the challenges of globalization and international trade. The U.S. electronics industry exported \$124 billion in 1995, a 23% increase over its imports in 1994.

Exports today are a major source of profits for American companies and help provide good-paying jobs for U.S. workers, as well as develop jobs abroad for people in other countries. In fact, Commerce Department data points out that every \$1 billion of exports result in 22,000 jobs in this country. ANTEC's international division includes over 100 people and is growing daily. Our international growth has created new jobs not only for U.S. workers, but also for people who live in the different countries where we are located.

To help ANTEC and other companies continue growing in the international market, U.S. foreign policy must change many of its nearly half-century old

assumptions and should not unduly interfere with efforts to keep markets open. Keeping markets open abroad is key policy objective for both the EIA and TIA and we believe it should also be a top goal for U.S. foreign policy. For this reason, for example, EIA supports the continued granting of unconditional Most Favored Nation (MFN) trading status to China, along with the disassociation of trade policy from labor and human rights concerns. ANTEC has sales offices in Shanghai and Beijing and contracts with manufacturers in Shanghai. Our company believes there is much opportunity to expand our growth in China and would like the U.S. government to help, rather than hinder us in our expansion efforts.

EIA and TIA endorsed and supported passage of the North American Free Trade Agreement, NAFTA, and the Uruguay Round of the General Agreement on Tariffs and Trade, GATT, which established the World Trade Organization, or WTO. EIA/TIA continue to believe that these agreements are in the best interests of the U.S. electronics industry as well as the nation. Efforts like these that reduce the barriers to free and fair trade are essential to the development of our industry worldwide. ANTEC has expanded its Latin American and Canadian division and believes NAFTA is a key to helping companies get into or expand in North American markets.

We recognize that trade barriers in the future will likely not take the form of tariffs, but more likely be embodied in technical barriers and differential product standards across borders. EIT/TIA firmly supports the development and application of international standard voluntarily agreed to by industry.

For example, ANTEC and its manufacturing division have voluntarily agreed to comply with ISO 9001 certification efforts, a standard for products and services established by the International Standards Organization and widely used throughout Europe. We recognize that established standards add to the quality and value of our products and have added to ANTEC's profit margin. We endorse and support government efforts to promote the voluntary standards process on both the domestic and international levels. We do not support government efforts to set standards, as these are likely to stifle the development of new and competitive technologies.

Trade has also become a great stimulus to technological innovation, as competition in global markets spurs U.S. manufacturers to even higher levels of performance. For example, ANTEC has been a key player in the development of the world's first combined voice, video and interactive network by Optus Vision, a consortium in Australia. This advanced broadband network, which can be looked at a model for what U.S. cable TV companies have been working on for the past few years, is touted as the first hybrid fiber-coaxial network built to provide voice, video and data services. ANTEC has been awarded \$90 million in contracts with Optus Vision to provide several products for the new network, which is expected to be operational late this year.

ANTEC is well-positioned to continue its growth in the international market where, we believe, growth is encouraged by the more liberal regulatory markets of other countries. We expect to see continued growth in the Asia-Pacific area, in Latin America and in the industrialized European nations. ANTEC believes we can continue our profitable growth in the international market without necessarily

becoming a much larger company.

Our continued expansion into foreign markets is however dependent on the U.S. government's efforts to either encourage or discourage foreign trade. We believe, along with our trade associations, EIA and TIA, that the U.S. government must work toward encouraging free and open global markets. We want to be able to continue to bring our new ideas, products and services to the world market in a regulatory environment that does not jeopardize our ability to realize profits from our salesmanship opportunities. It is important to our industry and our company that we have the ability to compete with companies in the U.S. and other countries in a free and open global marketplace.

The global communications revolution has and will continue to provide us with opportunities to compete in offering access to the information superhighway. Please help rather than hinder us in our efforts by making sure that the U.S. government supports policies aimed at fostering free and open global markets.

Chairman CRANE. Thank you very much, Mr. Faust. Let me just ask a quick question. How can governments best facilitate harmonious standards between Europe and the United States?

Mr. FAUST. Europe, in particular, is tough for a company like ours, because they have had standard-setting bodies that work at somewhat cross-purposes with ours. Of late, we are seeing with the need to interconnect the world, the ability to meet on a more open playingfield. So, I would say just to continue the efforts as they are going on now. We are seeing improvement, but we are not there yet.

Mr. CHAIRMAN. Progress, but not as fast as you would like. Congressman Rangel.

Mr. RANGEL. Mr. Faust, have you had a chance to review and reach any conclusions on our trade policies with Cuba?

Mr. FAUST. No. I would say for a company like ours, which builds infrastructure for telecommunications, if Cuba is open for us to sell into, we'd be happy to sell into it.

Mr. RANGEL. Are you familiar with the Helms-Burton Act?

Mr. FAUST. No, I am not.

Mr. RANGEL. Thank you.

Chairman CRANE. Thank you very much, and have a safe flight. Now, we will proceed to you, Sally.

**STATEMENT OF SALLY A. JACKSON, PRESIDENT AND CEO,
ILLINOIS STATE CHAMBER OF COMMERCE**

Ms. JACKSON. Thank you.

Mr. Chairman and Congressman Rangel, I represent the Illinois Chamber of Commerce, where I am the president and chief executive officer. Our 5,000 members are a very large segment of the Illinois economy. We employ about 23 percent of the total work force, over 1 million people. They represent all sectors of the economy; manufacturing, service, wholesale and retail trade, literally all factors of our economy, and they are predominately small businesses. Over two-thirds of our members have fewer than 100 employees. So while many of the large corporations, whom you have heard from already today, represent that segment of multi-national interest and capability, we also work closely with those companies that rely on outside expertise to help them get access to these new markets. And they are very interested in international trade and very engaged in the process of developing their own strategies in order to benefit from international trade.

Illinois has a long tradition of being a part of the international marketplace, as you heard from Governor Edgar and others. We were the first State 25 years ago to recognize that important factor in our economy and opened an international office, the first of any state, in Brussels, Belgium. And that has given us an opportunity to use state government, business associations and the private sector to support the various changes in trade policy in order to access opportunities for Illinois businesses.

NAFTA recently was a very important change in those laws for Illinois, with Canada being our number one trading partner, Mexico number five now. We have monitored the implementation of NAFTA very carefully. We have overwhelming support in the Illinois Chamber for NAFTA, and we find, after 2 years of imple-

mentation, that we have net an increase of 28,800 jobs in Illinois in that 2-year period, directly tied to NAFTA. And how does that compare to total job creation here in Illinois during that period? Well, on average, over the last 5 years, we have seen about 60,000 jobs every year. So, nearly 30,000 in a 2-year period is about 25 percent of our average job growth in total in the State of Illinois. So it has had an overwhelmingly positive impact. That is even with the devaluation of the peso and significant falloff in Mexico in the second year. So we are enthused about the success of NAFTA. The net impact is significant, and we do have programs and opportunities for those workers who are dislocated as a result of jobs lost to trade.

The Federal Government has supported those programs for years, through initiatives like the Trade Readjustment Act, the Trade Assistance Act, and now NAFTA dislocation has been brought into that realm of assistance. We find here in Illinois, with increases in international trade, we also see reductions in the levels of unemployment in Illinois. We have been on a downturn the last 5 years. Forty-five percent of our businesses in the entire State of Illinois now pay the minimum level of unemployment insurance, which means they have had virtually no unemployment experience in the last 4 years. So there is a relationship that's having a very positive impact.

I thought you might be interested in some specific examples of small businesses attempting to get into this market, and I would like to quickly tell you a couple of those stories.

One of our members in Southern Illinois is in the packaging and distribution of candy and other products for consumer checkout counter purchase. They have been very successful expanding in the United States. Recently they found an opportunity to sell their products in Japan. They were able to obtain enough orders to fill an entire shipping crate for sale to Japan and in the process of finalizing the paperwork, they found that all the original research and consultation they had been involved with related to a category of confectionery goods, which is their primary segment, but the product that was most popular and successful in orders in Japan was microwave popcorn, which unfortunately is an agricultural product. So with assistance and advice, they still ended up preparing all of their documentation inappropriately, created long delays in their capability to be able to fulfill orders that were real.

So we see small businesses, in this case a business that employs slightly over 100 employees, struggling to get access. They have the ability to sell. They have the capability to reach the market, but they get confused about some of the technical features of our laws, and that's the message for small business that I would like to leave you with; the need for small businesses to access accurate information easily in order to support and implement the policies that are increasingly fairer and fairer for free market open competition. The Federal Government can and should reduce the paperwork and make information and support more accessible.

[The prepared statement and attachments follow:]

**TESTIMONY PRESENTED TO THE SUBCOMMITTEE ON
TRADE OF THE HOUSE COMMITTEE OF WAY AND MEANS
ON MAY 20, 1996 AT SCHAUMBURG, ILLINOIS
BY SALLY A JACKSON, PRESIDENT AND CEO
ILLINOIS STATE CHAMBER OF COMMERCE**

Congressman Crane and members of the Subcommittee on Trade of the House Committee on Ways and Means, thank you for inviting the Illinois State Chamber of Commerce to testify before you in this important field hearing on the status and future direction of U.S. Trade Policy. The Illinois Chamber is the largest broad-based business association in the State of Illinois with more than 5,000 members representing all sizes and industry sectors in the Illinois economy. These companies employ well over 1 million workers, or one out of every five employees in the State of Illinois. Manufacturing, business services, and wholesale and retail trade are the largest sectors in our membership. Three quarters of our members are small businesses employing fewer than 100 employees.

Illinois has long been a participant in the international economy. More than 20 years ago, Illinois was the first state to establish a foreign trade office, which is still operational in Brussels, Belgium. With our long tradition of agricultural exports, complemented by industrial exports and expanded increasingly in recent years by business services, that long-term trend in our economy continues to grow. For several years our annual increases in exports have been running at nearly double the rate of increase for the nation as a whole. In 1995, Illinois' exports increased 23.6% to a record high \$32.6 billion. This compares to an overall national increase in exports of 13.8%. Greater than 1 out of every 8 jobs in our total workforce are now dependent on international trade. In the manufacturing sector it's greater than 1 out of every 4 jobs, and increasing each quarter. Our top export continues to be industrial machinery and computer equipment at \$8.3 billion. Exports of electronic and electrical equipment totaling 7.2 billion experienced a 41.7% increase this past year. Other major sectors include chemicals and allied products at \$4.4 billion, up 19.1%, agricultural products up 41.2% to \$2.3 billion and transportation equipment up 14.3% to \$2.2 billion.

The Illinois Chamber and businesses we represent support the free enterprise system and open competitive markets. We encourage continued efforts to broaden the successful base of existing trade agreements including the NAFTA. Our members of all sizes and sectors are involved with trade: both import and export; both product and service, in all geographical areas of the global economy. The approaches vary from self-sustained family businesses which explore international partners for supply or sales, to our large multi-national corporations that have a long history of full production and business engagements in numerous countries in the world.

Consider a family-owned business in Bridgeport, Illinois which packages and distributes a variety of candy and checkout counter consumer goods. They recently established a contact to represent them in the Japanese market to sell Illinois produced popcorn packaged for retail sale. Their representative was able to secure adequate orders to fill the first full shipping container, and as they prepared to conclude the final details of the transaction they discovered that their product was governed by agricultural export laws as opposed to consumer good laws, and several revisions in their strategy had to be implemented. The innovation and energy of small business to identify means of expanding their markets internationally is there. Nonetheless, the variations in specific requirements of existing trade law and policy are confusing for small companies to learn on their own. Therefore, we see increases in self-help trade associations developing here in Illinois on a regional basis so that people can learn and share experiences and respond more appropriately in their first efforts.

Another family-owned small business in Lawrenceville, Illinois, has developed a niche market specialty telephone product. For more than 10 years they have imported the basic molded plastic telephone from a supplier in Korea and have prepared the circuitry in their plant here in Illinois. They found this to be a cost effective and reliable supply source for the last decade. Even the smallest of businesses are successfully engaging in the identification and sustained use of international partners to grow their businesses here in Illinois, and provide employment for Illinois workers.

Another family-owned business which produces precision telescoping surveyor's rods and equipment in Mound City, Illinois, has demonstrated success by competing head-to-head with its top Japanese competitor to now garner marketshare worldwide for this niche specialty equipment. This second generation family business has demonstrated that the existing trade policy of the United States allows entrepreneurs to create successful markets worldwide even with the toughest competition.

Let's reflect on the results of two years under the North American Free Trade Agreement for Illinois business. The NAFTA provides Illinois' strong manufacturing and agricultural economy with a competitive advantage in dealing with its first and fifth largest trading partners, Canada and Mexico. Since the agreement became effective on January 1, 1994, Illinois has experienced an increase of 33,600 manufacturing jobs with 93% of the increase (31,400) occurring in Illinois' top ten export industries. In addition to growth in Illinois' job base, wages have substantially improved since the emergence of NAFTA. The average manufacturing wage in the top ten industries (industries with substantial exports to Mexico and Canada) has been consistently higher than the average for all manufacturing. Furthermore, a number of Illinois top export industries (transportation, industrial machinery, primary metals, and chemicals) already maintain an average manufacturing wage that is substantially higher than the norm.

A year after NAFTA's inception, Illinois experienced a 34% increase in exports to Mexico and a 17% increase in exports to Canada. Although Mexico faced serious economic adversity in 1995, NAFTA continued to promote trade, increase economic competitiveness and foster productive investment within the region. Even with the recent devaluation in Mexico, unlike the 1982 peso devaluation, Mexico remains fully committed to continuing their economic integration through trade and investment liberalization as agreed upon under the NAFTA. Between 1993 and 1995, according to Illinois data generated by the U. S. Department of Commerce 28,800 Illinois jobs were sustained through trade with Canada and Mexico. This is a 23.4% change over a two year period and demonstrates that NAFTA created prosperity in Illinois despite the severe devaluation of the peso in Mexico.

NAFTA opens markets for American products that were previously closed in Mexico and Canada. Over the next 15 years, NAFTA will eliminate tariffs completely and remove many of the non-tariff barriers that have hindered trade among the three countries. This approach will continue to be successful and we encourage the expansion of the treaty and the approach used to negotiate this treaty with Chile and others in South America

The Illinois Chamber also wishes to support continuation of "Most Favored Nation Status" for China. We support a U.S. trade policy that opens markets for U.S. exports, generates more jobs for American workers, and helps lead toward a more open China. Renewal of Most Favored Nation Status is fundamental to that goal. The ability of U.S. companies to compete and prosper in China and the creation and maintenance of U.S. jobs will be undermined if our relationship with China continues to spiral downward. Last year U.S. companies exported roughly \$12 billion in goods and services to China. These exports supported approximately 200,000 high wage jobs. Imports and investments sustained many thousands more. All of this investment and trade will be at stake without More Favored Nation Status. We support the U.S. Chamber's detailed position of unconditional renewal of China's Most Favored Nation Status, which is found as an attachment to my printed testimony and incorporated therein.

China is vital to America's economic future and American companies and workers have a huge stake in future expansion of U.S. trade with China. U.S. economic sanctions on China would seriously harm U.S. workers, consumers and high growth industries including chemical, electronics, agriculture, telecommunications, power generation, petroleum and aerospace. Trade provides a positive basis for U.S.-China dialogue by building cross-cultural ties and awareness of American culture and political values. The United States needs to maintain bi-partisan support for a clear, credible and consistent long-term China policy. The long-term goal of American trade policy should be a stable U.S.-China commercial framework that opens markets for U.S. exports, generates more jobs for American workers, and supports positive steps toward a more open China.

As we approach the 21st century global economies are taking center stage and nations all over the world are scrambling to establish economic partnerships. By maintaining a partnership with our neighbors we will remain competitive in the global markets and ensure economic growth and prosperity for all Illinoisans. My expanding that partnership even further, we will be even more successful.

I wish to thank the Subcommittee Chairman Congressman Crane for holding this hearing and demonstrating the significance of international trade to the Illinois economy which is truly a microcosm of our nation. Thank you.

March 12, 1996

**BASIC NAFTA DATA
With Final 1995 MISER Data**

This table shows Illinois exports in 1993, 1994 (the first year of NAFTA), and 1995. MISER reports worldwide Illinois exports grew 20.2% in 1994 and 23.6% in 1995 compared to U.S. growth rates of 10.2% and 13.8%. After increasing 37.7% in 1994, Illinois exports to Mexico, as estimated by MISER, were down 25.4% in 1995, and Mexico dropped from our third largest customer to fifth. The year-to-year rate of change of Illinois exports to Mexico bottomed out in the second quarter of 1995 (-32.2%) and improved in the third and fourth quarters (-24.2% and -23.1% respectively). ADM today reported a similar pattern of recovering sales to Mexico. MISER estimated Illinois exports to Canada grew 17.6% in 1994 and 9.8% in 1995.

The direct export data used here are the MISER Series II data which are tabulated by zip code of exporter. Both MISER Series I and Series II undercount Illinois' agricultural exports. A correction for the agricultural export undercount was made based on U.S.D.A. export statistics for Illinois. Services exports for states are not included in either MISER series nor in any other known, published data. Illinois' total exports were used to trigger the REMI econometrics model for the state to determine the total employment due to these direct exports. The estimates are the direct and the indirect jobs (including services involved in producing goods for export) resulting from total exports.

Agricultural exports represent approximately 7% of the Illinois shipments to Canada and 23% of the Illinois exports to Mexico

**Illinois' Exports and Jobs Sustained
(Dollars in Billions)**

	1993	1994	1995	93-95	Change	Percent
Total Exports	\$22 871	\$27 007	\$33.390		\$10.519	46.0%
Jobs Sustained by Tot. Exports	464,600	548,400	625,300		160,700	34.6%
Exports to NAFTA	\$6 952	\$8 434	\$8.566		\$1.614	23.2%
Jobs Sustained by NAFTA	123,200	155,500	152,000		28,800	23.4%
Exports to Canada	\$5.368	\$6.305	\$6.926		\$1.558	29.0%
Jobs Sustained by CN Exports	91,900	109,700	116,600		24,700	26.9%
Exports to Mexico	\$1.584	\$2.129	\$1.640		\$.056	3.5%
Jobs Sustained By MX Exports	31,300	45,800	35,400		4,100	13.1%

ILLINOIS JOB AND SALARY GROWTH

Jobs (in thousands)

Industry Sector	1993	1994	1995	Numeric Growth		
				1993-94	1994-95	1993-95
Industrial Machinery	137.8	137.7	139.2	-0.1	1.6	1.4
Electronic Equipment	106.6	113.8	120.0	7.0	6.4	13.4
Chemical Products	63.7	62.8	62.2	-1.1	-0.4	-1.5
Ag. Products (*)	N/A	N/A	N/A	N/A	N/A	N/A
Transportation Equipment	43.9	48.0	50.3	4.1	2.3	6.4
Food Products	95.2	94.9	95.0	-0.3	0.1	-0.2
Instruments	36.4	35.3	34.0	-1.1	-1.3	-2.4
Fabricated Metals	99.2	104.5	110.9	5.3	6.4	11.7
Primary Metals	49.4	48.8	46.5	-0.6	-2.3	-2.9
Rubber & Plastics	58.0	59.6	61.2	1.6	1.6	3.2
Paper & Allied	33.5	34.5	35.8	1.0	1.3	2.3
Total Top 10 Exporters	723.7	739.5	755.1	15.8	15.6	31.4
Total Manufacturing	933.1	952.1	966.7	19.0	14.6	33.6
Total Jobs	5330.5	5482.9	5598.6	132.4	135.7	268.1

Average Hourly Earnings (in dollars)

Industry Sector	1993	1994	1995
Industrial Machinery	13.84	14.05	14.29
Electronic Equipment	9.97	10.10	10.47
Chemical Products	13.32	13.73	14.21
Ag. Products (*)	N/A	N/A	N/A
Transportation Equipment	14.39	14.89	15.79
Food Products	11.49	11.55	11.89
Instruments	10.92	11.38	11.91
Fabricated Metals	12.41	12.57	13.00
Primary Metals	13.88	14.03	14.28
Rubber & Plastics	10.74	10.86	11.32
Paper & Allied	11.43	11.57	12.10
Total Top 10 Exporters	12.5	12.44	12.81
Total Manufacturing	12.04	12.25	12.83

(*) Jobs data for Agricultural Production (crops) are not available from the CES.

Data Source: Current Employment Statistics Program, monthly payroll survey of approximately 11,000 Illinois businesses

Prepared by: Economic Information and Analysis, Illinois Department of Employment Security 04/17/96

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WHY COMPREHENSIVE ENGAGEMENT IS THE ONLY CHINA POLICY THAT MAKES SENSE

The U.S. Chamber strongly supports unconditional renewal of China's MFN status and comprehensive engagement with China. The United States should not use China's MFN status as a means to "send a message" on human rights, intellectual property rights, arms proliferation or other issues.

The policy of comprehensive engagement recognizes our vital interest in maintaining regional stability, preventing weapons proliferation, fostering democratic ideas and working towards fair and free trade.

- China's MFN status helps the United States achieve its human rights and other interests.

Trade provides a positive basis for U.S.-China dialogue. Trade builds cross-cultural ties and awareness of American cultural and political values. If China's MFN status were revoked, we would erode our economic relationship, harm those forces in China which are most sympathetic to political reform, and put more power into the hands of hard-liners who favor stronger government control.

The best way for the United States to see a prosperous, free China is for U.S. firms to stay commercially engaged.

- Trade with China is in America's economic interests.

America's exports to China continue to grow.

In 1995, U.S. exports to China totaled approximately \$12 billion, up more than 26% from 1994. As China continues to develop, it will spend billions of dollars in areas where U.S. firms are very competitive.

America's investment in China continues to grow.

U.S. direct business investment in China for 1994 was \$1.7 billion dollars, up 82% from 1993. Total U.S. investment in China is well over \$9 billion.

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"MFN STATUS FOR CHINA"**IMPORTANT FACTS AND FIGURES**

- In 1995, U.S. trade with China supported over 200,000 high-wage jobs in the United States, plus tens of thousands more jobs in ports, retail establishments, and consumer goods companies.
- Without MFN, tariffs on about 95 percent of U.S. imports from China would increase dramatically. American consumers would bear the brunt, with price increases of 30-50% or higher on many common consumer goods.
- China is among the world's fastest growing economies, with real growth of more than 10 percent last year, and an average growth rates over 7% for each of the past fourteen years.
- Bilateral trade has grown from \$2 billion in 1978 to nearly \$60 billion in 1995.
- U.S. exports of goods to China have been growing at more than 20 percent per year since 1990; total exports of goods and services to China were approximately \$12 billion in 1995, up more than 26% from 1994.
- China must invest over \$745 billion in infrastructure development, according to the World Bank. Loss of MFN will cost U.S. firms dealing in high-technology equipment, aerospace, telecommunications, petroleum technology, computers and power generation.
- Cultural links between the United States and China have been growing dramatically. In 1994, U.S. travellers to China numbered more than 470,000 and nearly 40,000 Chinese students were enrolled in American Universities.
- U.S. business invested in China \$1.7 billion dollars during 1994, up 82% from 1993. Total U.S. business investment in China amounts to \$9 billion.

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"WHY MFN STATUS FOR CHINA"

1. **The United States must stick to its policy of engagement.**

The annual struggles over MFN and numerous threats of sanctions have undermined efforts to implement a long-term U.S. strategy toward China, and set back progress on trade and human rights. The United States has pursued a policy of "engagement" with China since 1973, when President Nixon's visit led to the resumption of diplomatic relations. This policy has been followed by Presidents Nixon, Ford, Carter, Reagan, Bush, and Clinton with bipartisan Congressional support. Under engagement, the United States and China have recognized that both nations have an interest in overall cooperation, even though we may differ on certain issues.

2. **China's human rights abuses, particularly imprisonment of prominent political dissidents, are troubling to all Americans.**

But massive sanctions would hurt the cause of human rights: sanctions would cut off U.S. influence, isolate pro-American Chinese officials, and strengthen the political standing of Chinese government hard-liners. It is important to take a long-term perspective of progress on human rights in China.

3. **American companies have been and will continue to be forces for positive change in China.**

On the human rights front, the opening of China's economy to the rest of the world has been a strong catalyst for local political reform. Through their presence American companies promote human welfare and the principles of democracy and free enterprise. To promote further progress on human rights in China, the United States must remain commercially engaged.

The Chinese people have experienced vast and on-going improvements in economic freedom, living standards, access to information, and political expression during the 15 years since relations were normalized. Individual Chinese are now free to choose their place of work, seek out new entrepreneurial opportunities, watch foreign television programs, read Western magazines and newspapers, and express political views in private.

4. **Unilateral sanctions do not succeed in changing the behavior of foreign countries, particularly when the target country is an important economic and military power.**

In the case of China, the U.S. would be acting alone; the target has a large and healthy economy; and the economic costs to the U.S. would be high. Based on these criteria, the prospects for success with China appear minimal at best, and punitive U.S. sanctions have a high risk of backfiring.

5. **Linkage of China's trade status to emigration, child labor and human rights has no support among our major competitors.**

Europe and Japan are ready and willing to step in and meet China's infrastructure and technology needs if we invoke economic sanctions.

6. **Revoking MFN is likely to increase, not decrease, the U.S. trade deficit.**

China is the fastest-growing market in the world for U.S. exports. Our exports have doubled in the last five years to over \$12 billion. Imports of low-cost consumer goods, such as textiles, shoes, and toys account for China's trade surplus. If MFN were revoked, assembly of these goods would not return to the United States, but instead would likely go to other developing country suppliers in Asia, such as India, Thailand, Indonesia or Pakistan. In other words, these consumer goods would still be imported, but at a higher price, so there would be a net deterioration in the U.S. trade balance, and loss of about \$12 billion in American exports to China.

7. **The IPR issue is important to American companies, but it should not be linked to China's MFN status.**

While China has made some progress in meeting its obligations on under the 1995 bilateral accord on IPR protection and market access, we recognize that much more remains to be done. The U.S. Chamber has and will continue to support the efforts of our government to improve IPR protection and market access. China's compliance with the IPR Accord should be a priority in bilateral negotiations, but loss of MFN will make sanctions meaningless.

Chairman CRANE. Very good. Next, Bob Berman.

STATEMENT OF ROBERT S. BERMAN, CHAIRMAN, INTERNATIONAL POLICY SUBCOMMITTEE, CHICAGOLAND CHAMBER OF COMMERCE

Good afternoon, ladies and gentlemen. My name is Robert Berman and I practice corporate law at Rudnick & Wolfe in Chicago. I am here today on behalf of the Chicagoland Chamber of Commerce, where I serve as the chairman of the Chamber's International Policy Committee.

The Chamber represents over 2,000 businesses in the greater metropolitan Chicago area. Our membership employs over 1 million individuals in the Chicago region. We have a great interest in the issues you are discussing today and we appreciate this opportunity to share our views with you.

When we found out that we would be participating in this hearing, we simply contacted our members and posed some questions to them. We asked our members are you emphasizing international expansion in upcoming years, and if so, in which regions? And moreover, we asked our members to convey to us any messages they had about problems, obstacles, issues which they have encountered in doing business overseas.

In a nutshell, the two regions our members focused on in their responses to us are the regions covered by NAFTA and APEC. The North American and Asian-Pacific regions show great promise for our members. As for issues that we would like to convey to you, I will just go through a few of them very briefly.

The first one is corrupt business practices. Many of our members are small to mid-size companies that cannot afford, even if so inclined, to participate in some of the corrupt practices undertaken by many foreign competitors. Foreign multinational corporations may not only be able to afford illicit payments, but also may receive favorable tax treatment in their home countries for such reprehensible conduct. We support stringent efforts to oppose extortion and bribery and to persuade foreign nations to disallow tax deductions for bribes which companies pay to foreign officials in obtaining export contracts. By granting a tax deduction for such expenses, foreign nations encourage corruption and place our members at a competitive disadvantage in the global marketplace. The U.S. Government should pressure foreign nations to establish transparent procedures relating to the acts of public officials in commercial transactions. Proper enforcement involves the adoption and implementation of strict laws, regular surveillance and investigation, and severe penalties for those who violate the law.

The second issue pertains to government procurement policies. We would like to see more fair and open government procurement policies adopted in a number of countries, particularly in those countries which are modernizing their infrastructures. In such nations, the public sector presents tremendous opportunity for Chicagoland businesses which excel in areas such as telecommunications, energy and construction. We strongly oppose the practice of governments in certain countries to discriminate against foreign bidders, and we support both multilateral and bilateral efforts to

pressure foreign countries to adopt and implement more transparent and fair procurement policies.

Third, we would like to mention agriculture promotion. Given that we represent the breadbasket of the United States, naturally we would like to see greater promotion of our agricultural industries overseas. High growth in the population and national income of developing and newly industrialized countries provides significant opportunities for increased exports of food products as well as the tools, machinery and equipment necessary to develop local agricultural industries. Once such industries are established, additional opportunities will develop for U.S. companies in connection with the packaging, distributing, marketing and advertising of food products. Midwestern businesses are leaders in these sectors and should play an active role in this chain of development abroad.

Another sensitive issue which our members have expressed to us pertains to intellectual property protection. Piracy and counterfeiting of intellectual property in certain foreign countries has been a tremendous problem for our members. Without a guarantee of intellectual property protection, we are discouraged from investing or transferring technology abroad. We support bilateral and multilateral initiatives to pressure our trading partners, not only to adopt necessary laws and regulations, but also to vigorously enforce the principles set forth in various multilateral initiatives.

One more issue pertains to trade and customs infrastructures. As Governor Edgar mentioned this morning, exports play a tremendous role in our State's economy. Consequently, we have a great interest in supporting efficient customs procedures in foreign markets. Obstacles such as complicated tariff systems, unpredictable customs valuation procedures and complex rules of origin raise the cost of international trade for our members. Harmonized tariff schedules and rules of origin, proper training of foreign customers officials and the implementation of carnet systems to facilitate the sampling of U.S. goods abroad are a few examples of steps which we would encourage.

In conclusion, I hope that the views which I have expressed have provided you with an insightful understanding of the concerns of our members, whom I feel are representative of Chicago's business community. I have touched upon only a few of our areas of interest, but we would like you to know that we fully support all initiatives and efforts undertaken by the U.S. Government to create new and enhance existing opportunities for U.S. businesses overseas. We would be happy to help out in any way possible.

[The prepared statement follows:]



THE CHICAGOLAND CHAMBER OF COMMERCE

THE UNIFIED BUSINESS VOICE OF GREATER CHICAGO

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CHICAGOLAND CHAMBER OF COMMERCE INTERNATIONAL POLICY COMMITTEE

VIEWS ON FUTURE TRADE LIBERALIZATION AND CURRENT INTERNATIONAL POLICY ISSUES

HEARING OF THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE

MONDAY, MAY 20, 1996
SCHAUMBURG, ILLINOIS

Good morning Ladies and Gentlemen. My name is Robert Berman, and I am an attorney at Rudnick & Wolfe in Chicago. I am a member of the Chicagoland Chamber of Commerce, and the Chair of the Chamber's International Policy Subcommittee. The Chamber represents more than 2,000 companies that collectively employ over 1,000,000 individuals in the metropolitan Chicago area. Our membership has a vital interest in the issues which you are discussing, and we thank you for the opportunity to share our views with you.

I will spend the next few minutes describing our support for continued progress of trade liberalization within the regions covered by the North American Free Trade Agreement ("NAFTA") and the Asia-Pacific Economic Cooperation ("APEC") forum. While our members are interested in seeing greater developments in trade and investment relations in other regions, including South America, Africa, and the European Union, the North American and Asia-Pacific markets present particularly valuable opportunities for members of the Chicagoland business community who emphasize future growth through international expansion. After commenting briefly on NAFTA and APEC, I will highlight certain issues which we consider to be high priority matters of international policy.

REGIONAL INITIATIVES

North American Free Trade Agreement

Strong economic ties within the region covered by NAFTA is undoubtedly in our best interest. Since NAFTA went into effect, employment in the U.S. manufacturing sector has increased by 225,000 jobs. Both in the U.S. and in Illinois, Canadian and Mexican markets are the first and second largest destinations of our exports. The province of Ontario alone buys more U.S. goods than Japan. As for Illinois, between 1993 and 1994, Illinois exports to Canada increased by over 17%. In 1994, exports to Canada accounted for 24% of the State's total exports. In 1995, Illinois companies exported approximately \$7 billion of goods to Canada, a large portion of which included automobiles, telecommunications equipment, various chemicals, metals and plastics, aircraft, electric generators, and engines.

In 1995, Illinois ranked fifth among U.S. states in terms of exports to Mexico, with sales totaling \$1 billion. Illinois industry sectors whose exports to Mexico experienced large percentage increases in 1995 include: metal mining (72% increase); lumber and wood products (55% increase); petroleum and coal products (8% increase); and forestry (4% increase). Such impressive trends exist notwithstanding Mexico's recent currency crisis. Although total U.S. exports to Mexico may have decreased in 1995 following the peso devaluation, they were still higher than pre-NAFTA. Furthermore, without NAFTA, U.S. exports to Mexico could have

fallen by as much as \$25 billion. Thus, NAFTA provides a degree of certainty to often unpredictable international trading conditions.

Asia-Pacific Economic Cooperation

Market reforms, economic liberalization, and rising standards of living throughout the Asia-Pacific region present tremendous opportunities for U.S. and Illinois companies. As a forum for the declaration of national commitments to create a regional free trade regime through trade and investment incentives, APEC is an extremely important initiative. Although it began as an informal discussion group, APEC has evolved into a promising body to strengthen commercial ties in an area which is home to the world's fastest growing economies. Illinois companies in industries ranging from aviation to telecommunications to food and consumer goods can benefit significantly from efforts undertaken by APEC's members to promote and facilitate commercial relations. However, we emphasize the importance of adhering to the time frame which APEC's members have set forth for the implementation of the forum's principles. A rapid pace of reform will keep the momentum going strong and will benefit nationals of all countries involved.

HIGH PRIORITY ISSUES

Corrupt Business Practices

Many of our members are small to mid-size companies that simply cannot afford to participate in some of the corrupt practices undertaken by many foreign competitors. Foreign multinational corporations may not only be able to afford illicit payments, but also may receive favorable tax treatment in their home countries for such reprehensible conduct. This is unfair and inappropriate in the emerging global trading infrastructure. We support stringent efforts to oppose extortion and bribery, and to persuade foreign nations to disallow tax deductions for bribes which companies competing for export contracts pay to foreign officials. By granting a tax deduction for such expenses, foreign nations encourage corruption and place U.S. companies at a competitive disadvantage in the global marketplace. The U.S. government should pressure foreign nations to establish and enforce transparent procedures relating to the acts of public officials in commercial transactions. Proper enforcement involves the adoption and implementation of strict laws, regular surveillance and investigation, and severe penalties for those who violate the law.

Government Procurement Policies

We would like to see more fair and open government procurement policies adopted in a number of countries, particularly in those countries which are modernizing their infrastructures. In such countries, the public sector presents tremendous opportunity for Chicagoland businesses which excel in areas such as telecommunications, energy, and construction. We strongly oppose the practice of governments in certain countries to discriminate against foreign bidders, and we support multilateral efforts such as the WTO Agreement on Government Procurement as well as bilateral initiatives to pressure foreign countries to adopt and implement more transparent and fair procurement policies.

Agriculture Promotion

Given that we represent the "breadbasket" of the U.S., naturally we would like to see greater promotion of our agricultural industries overseas. High growth in the population and national income of developing and newly industrialized countries provides significant opportunities for increased exports -- of food products as well as the tools, equipment, and machinery necessary to develop strong local agricultural industries. Once such industries are established, additional opportunities will develop for U.S. companies in connection with the packaging, distributing, marketing, and advertising of food products. Midwestern businesses are leaders in these sectors and should play an active role in this chain of development abroad.

Intellectual Property Protection

Piracy and counterfeiting of intellectual property in certain foreign countries is a vexing problem for Chicagoland businesses. Violations of intellectual property rights place our members at a costly disadvantage in attempting to expand sales to foreign markets. Without a guarantee of intellectual property protection, we are discouraged from investing or transferring technology abroad. Accordingly, such practices must end. We support both bilateral and multilateral initiatives to pressure our trading partners not only to adopt necessary laws and regulations, but also to vigorously enforce the principles set forth in initiatives such as the Uruguay Round TRIPS Agreement — and to do so without delay.

Trade and Customs Infrastructures

One out of every four jobs in Illinois' manufacturing sector is a result of exporting our goods, and one out of every eight jobs in Illinois depends on exports. Given the importance of exports to our State's economy, we have a great interest in supporting efficient customs infrastructures in foreign markets. Obstacles such as complicated tariff systems, unpredictable customs valuation procedures, and complex rules of origin raise the cost of international trade. This is especially true in the case of small to mid-size businesses that lack the resources of major multinational corporations to deal with such issues efficiently. Harmonized tariff schedules and rules of origin, proper training of foreign customs officials, and the implementation of carnet systems to facilitate the sampling of U.S. goods in foreign markets are a few examples of steps which would further our interests abroad.

Environment

We support the adoption of effective environmental laws and regulations in the world's developing and newly industrialized nations. Sustainable development is threatened and the quality of the world's natural surroundings will diminish unless sound environmental policies accompany market reforms and industrialization. Regional initiatives to define environmental goals and articulate uniform standards would be an efficient and productive way to achieve desired results, and to help U.S. companies comply with local laws. Environmental objectives should not, however, be linked to trade and investment goals. A healthy environment is conducive to increased commerce, but trade sanctions are inappropriate tools to enforce environmental policy.

CONCLUSION

I hope that the views which I have expressed have provided you with an insightful understanding of the concerns felt by our members, whom I feel are representative of Chicago's business community. I have touched upon only a few of our areas of interest relating to trade liberalization and international policy. However, we fully support all initiatives and efforts undertaken by the U.S. government to create new and enhance existing opportunities for U.S. companies in all foreign markets, and would be pleased to assist you in any possible way. Thank you.

Chairman CRANE. Thank you, Mr. Berman.
Mr. Paullin.

**STATEMENT OF RICHARD PAULLIN, EXECUTIVE DIRECTOR,
INTERNATIONAL TRADE ASSOCIATION OF GREATER CHICAGO**

Mr. PAULLIN. Good afternoon. My name is Richard Paullin. I am the executive director of the International Trade Association of Greater Chicago. We are an Illinois not-for-profit voluntary business association, the largest such association in Illinois, and one of the largest in the Midwest. Our 520 members represent a range of materials, merchandise and service providers with interests in import, export, licensing, joint ventures and investments abroad.

As an association, we are dedicated to furthering international trade by providing a forum for the exchange of practical information within the international business community. For over 18 years, Mr. Chairman, we have held regular meetings on the third Wednesday of each month, practically in this neighborhood, almost always in a suburban Chicago location near O'Hare.

Over the years, we have counted some of America's largest corporations as members, but today I am really representing the majority of our membership, those small and medium size enterprises struggling to compete in today's rapidly changing global environment. In general, these are firms which do not have a 3 or 5 year strategic plan for international. For them, survival in international markets usually means closing the deal within the next 3 to 5 months. For them, U.S. trade policy needs to have a single unified objective and that is to support in a consistent and a sustained manner, the exports of U.S. growers, manufacturers and service firms.

To do so, we think the policy must be grounded in the harsh realities of the present and what we foresee into the 21st century. Three trends in particular kept coming up over and over again as we talked to our members.

First, greater China will soon eclipse the United States as the world's largest economy, profound repercussions not only for the geopolitics, but for trade and investment as well.

Second, although our Nation's exports of agricultural products, manufactured goods and services will continue to grow, our share of global trade will continue to decline, as will our ability to influence other nations' trade policies. We have said earlier this morning and today, the United States is the world's largest exporter, and indeed we used to account for something like 30 or 40 percent of all world trade, but that was 40 years ago. Today, we account for roughly 15 percent and it is going to go down as world trade expands.

The third trend that our members note is that regional trade alliances will continue to burgeon and solidify, creating opportunities for countries who are members of the alliances and providing disincentives to nonmembers. These alliances including the European Union, include NAFTA, South America, and whatever is going to happen out in Asia. We think they are important. We think the United States needs to engage in more alliance building. We think that we are dragging our feet, frankly, with respect to Chile and NAFTA.

To insure our economic security in the 21st century, we believe that U.S. trade advocacy, promotion and policy functions currently performed by 19 Federal agencies and coordinated by a committee, we think these functions need to be consolidated, streamlined and managed by one agency that speaks to our trading partners with one consistent voice. We think that one agency's priorities should be to promote strategic commercial alliances worldwide, because these provide American exports with greater market access and transparent rules for trade and investment.

Second, we think the objective should be approve and enhance the quality, the scope and the delivery of commercial market intelligence. Three, to develop a comprehensive program for promoting U.S. service exports and protecting intellectual property rights. Four, to form strategic alliance with our trading partners to combat violations of international trade practices and intellectual property rights. Right now it seems when we have an intellectual property dispute, for example, with China, that we are the only one out there pointing at China and saying you have got to change your ways. Why cannot some of our other western allies get involved in it? We should be building coalitions.

We should address domestic policies and programs to make U.S. firms more competitive exporters. For example, port charges, infrastructure, we have poor roads and highways, the educational infrastructure that you spoke of so eloquently earlier, Mr. Rangel.

We should negotiate aggressively to remove foreign market barriers for U.S. exporters. We should not be backing down on that. And we think that the People's Republic of China, in no particular order, the European Union and Japan should be key targets for those negotiations.

Finally, we think that a single agency needs to seek ways to involve U.S. firms in international markets. There have been some studies out over the last 5 or 6 years that suggest that something like 10,000 U.S. firms that could export, do not. Well, if they do not get started, they are not going to get with the program and it is going to be too late. So thank you very much for your time.

[The prepared statement follows:]



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THE FUTURE OF U.S. TRADE POLICY

Statement by

Richard Paullin

Executive Director

The International Trade Association of Greater Chicago

Before the

U.S. House of Representatives Ways and Means Committee
 Subcommittee on Trade

The Honorable Philip M. Crane, Chairman

May 20, 1996

Schaumburg, Illinois

The International Trade Association of Greater Chicago (ITA/GC) is an Illinois not-for-profit, voluntary business association and the largest such association in Illinois. Our 520 members represent a range of materials, merchandise and service providers with interests in import, export, licensing, joint ventures and investments abroad.

As an association, we are dedicated to furthering international trade and commerce by providing a forum for the exchange of practical information within the international business community. For over 18 years we have held regular monthly meetings, on the third Wednesday of each month, at a suburban Chicago location. These meetings feature a technical presentation as well as a significant opportunity for the exchange of information among attendees.

The ITA/GC has become a recognized leader in promoting international commerce. In May 1994, the Association was honored by Illinois Governor Jim Edgar with the first *Governor's Award for Export Awareness and Development*. In 1990, the ITA/GC received one of the country's highest international trade awards, the *President's "E" Award for Export Service*. According to then U.S. Secretary of Commerce Robert Mosbacher, the ITA/GC received this prestigious award *in recognition of outstanding contributions to the increase of U.S. trade abroad*.

Over the years, we have counted some of America's largest corporations as members, but today I am representing the majority of our membership: those small and medium-sized enterprises struggling to compete in today's rapidly changing global marketplace. In general, these are firms which do not have a three-year or five-year strategic plan. For them, survival in international markets means making the sale within the next three-to-five months.

International trade is vital to our economic security. Exports accounted for almost 25% of U.S. Gross Domestic Product (GDP) in 1995 and for 30% of real GDP growth in the U.S. over the last ten years. In Illinois, the nation's fifth largest exporting state last year, exports of \$32.6 billion in 1995 were up 23.6% over 1994, supporting approximately 650,000 jobs. One in four Illinois manufacturing jobs is export related.

Moreover, from a January 1996 study by the Institute for International Economics and The Manufacturing Institute, we know that: export-related jobs pay 10-15% more than the average wage; worker productivity in exporting firms is 20% above the average; exporting firms expand their employment almost 20% faster than non-exporters; and that small and medium-sized exporters account for 70% of these results.

U.S. trade policy should be designed with one objective: to support, in a consistent and sustained manner, the exports of U.S. growers, manufacturers and service firms. To do so, the policy must be grounded in the harsh competitive realities of the present and those foreseen for the 21st century, including:

- Greater China will soon eclipse the U.S. as the world's largest economy.
- Although our nation's exports of agricultural products, manufactured goods and services will continue to grow, our share of global trade will continue to decline, as will our ability to influence other nations' trade policies.
- Regional trade alliances will burgeon and solidify, creating opportunities for members to the detriment of non-members.

To ensure our economic security into the 21st century, we believe that the U.S. trade advocacy, promotion and policy functions, currently performed by 19 federal agencies and "coordinated" by a committee, must be consolidated, streamlined and managed by one agency that speaks to our trading partners with one consistent voice. That agency's priorities should be to:

- promote strategic commercial alliances worldwide to provide American exporters with greater market access and transparent rules for trade and investment;
- improve and enhance the quality, scope and delivery of commercial market intelligence;
- develop a comprehensive program for promoting U.S. service exports and protecting intellectual property rights;
- form strategic alliances with our trading partners to combat violations of international trade practices and intellectual property rights;
- address domestic policies and programs to make U.S. firms more competitive exporters;
- negotiate aggressively to remove foreign market barriers for U.S. exporters, particularly with respect to barriers in the People's Republic of China, the European Union and Japan; and
- seek ways to involve more U.S. firms in international markets.

Thank you for this opportunity to present our views.

Chairman CRANE. Thank you, sir. Let me ask you a question first, Ms. Jackson. You said two-thirds of your members employ 100 or less. What percentage of that membership is in the foreign export market?

Ms. JACKSON. Right now, about 10 percent of the small companies have begun to export.

Chairman CRANE. Are there, in your estimation, significant opportunities for expansion to those small companies?

Ms. JACKSON. Dramatic. Even with the participation in expansion we have seen so far, there is dramatic opportunity for them.

Chairman CRANE. But, a part of the problem is knowing what all the procedures are for entering foreign markets. I have heard from a number of small companies that they are totally perplexed and consider the procedure too complicated, so they abandon the whole idea.

Ms. JACKSON. And it also relates to the comment that was made about the 19 Federal agencies with different roles in the process, the need to be able to go one place to get information, to take you from start to finish. It is impossible to do that now. Different interpretations of the same regulations over time are a major problem.

Chairman CRANE. Let me ask the staff. Do you know the 19 different agencies involved?

Staff. I know some of them.

Chairman CRANE. If not, could you get us a list of the 19 different agencies?

Ms. JACKSON. I bet together we could.

[The information was not available at the time of printing.]

Chairman CRANE. Frankly, while I favor the dismantlement of the Department of Commerce, the trade functions of the Commerce Department should be preserved, and consolidated under, in effect, one roof where you could simplify that procedure. It is something Congressman Rangel would support also.

Mr. RANGEL. Talk with me next year.

Chairman CRANE. OK. Now, Mr. Berman, you were talking about bribery and corruption. Is that confined to a region in the trading community? In other words, trade with the EU, is there any significant evidence of bribery or corruption involved there?

Mr. BERMAN. Our comments regarding bribery and extortion really was not region specific. Our members have voiced concerns about bribery in various countries. Just off the top of my head, we have not had many issues arise pertaining to bribery in Western Europe, more in the Asian region.

Chairman CRANE. Is it the least developed countries? Is there a differential in bribery and corruption in some of the most advanced countries versus some of the least?

Mr. BERMAN. Not necessarily. We have had some issues arise with bribery—I should not exclude actually Western Europe—in some European countries. So more comments have arisen in connection with Asian countries, many of which have arisen in developing Asian countries, more so than the developed countries. I cannot really generalize because comments and concerns have been made in various countries.

Chairman CRANE. Now, procedurally, what do you do, or a company, what does it do when it finds it is contending with bribery

or corruption in trying to get into a market? Do you protest to the USTR or to the Commerce Department?

Mr. BERMAN. I imagine that it would depend on the size and nature of the company involved. Many of our small and mid-size companies that have raised this issue really have not done anything in terms of conveying the message to the government. Some of them had to back away from various lucrative markets, just because they cannot afford the costs, the risks of getting involved in this kind of practice.

Chairman CRANE. I wish you would encourage them to communicate that, because it gives us a little bit more negotiating leverage. We are trying to expand the concept of free markets. That is market access here, as well as ours over there. And so if you could encourage your members to try and give us as much input as they can.

I will yield to my distinguished Minority Leader.

Mr. RANGEL. I will accept that.

Chairman CRANE. That's because he was in that majority position all that while, it goes to his head.

Mr. RANGEL. I have become used to it. Tell me, how would a small business cut a deal to export? Where would they go? What services do you provide to afford opportunity for small businesses to get access to export deals?

Mr. PAULLIN. None directly. As a voluntary trade association, what we do is try to bring parties together. So usually that means, and some of our most successful programs in fact are, we get trade missions from abroad to meet with our membership and then we move on and let the businesspeople talk.

Mr. RANGEL. Has the U.S. Department of Commerce set up those type of trade missions for you here?

Mr. PAULLIN. Probably. It seems in the last 5 years, there are more and more trade missions that are just here, because this is the market, and in fact, our Chinese friends would tell us there is a group in town from some province this week and there was a group in town last week and there is another group from another province.

Mr. RANGEL. Would not your associations be the best really to get a better understanding of the law and things that have to be done, so that we could hear from you in terms of finding out what is working and what is not working and foreign missions could get in touch with you to bring together your membership who have an interest in that.

Ms. JACKSON. All of us do a great deal of that, and we do it cooperatively, too, in many cases. That is one response that has been necessary because information has not been readily available from other sources, not only about individual contacts for business, but also in terms of how to do business. We do support more of the "How To Do Business" activities, in terms of training and education, perhaps than we do identifying specific partners. But this is a very active area in Illinois, particularly the Chicago region, for trade delegations. There are reciprocal delegations regularly. We help them organize trade missions from Illinois to all regions of the world.

Mr. RANGEL. The more you get a reputation for providing that service, the more foreign missions will rely on you and the more city, state and Federal officials who may be causing problems would attempt to make it easier. It seems to me that your groups are the hub, we should rely on you to organize the trade delegations.

Mr. PAULLIN. If I may, in response, we have become the hub by default because at the Federal and the state levels, at least here in this area, there is less money and resources. They have left a vacuum and the marketplace has said to us, there is a vacuum, move into it.

Mr. RANGEL. This is exactly where I thought you would want government to stay out of it. Your association would use the memberships dues, to do this. It is my understanding that those who have these trade sessions have to pay to participate. But our embassies are doing a fantastic job abroad, in the host countries, to convert them with groups in the United States that they can visit. If there is anything more that we can do in bringing you into contact with what resources we have in different countries, our embassies have converted to become chambers of commerce for the United States businesspeople. It is an exciting thing to see.

Mr. PAULLIN. And they do a fantastic job with what they have got to work with. If I could just point out, we called on, on my little paper here, for better market intelligence, better commercial intelligence. Worldwide the United States, as I understand it, as of a couple years ago, we had about 150 commercial officers around the world. Japan has 150 commercial officers in the United States alone. If we want to really be serious about promoting our exports, let's get more people out there promoting them. I know guys in the embassies, and with what they have got, they do a fantastic job. They do not have a lot.

Mr. RANGEL. The missions that we do have surprised me. Until Ron Brown became Secretary, I did not realize how many anchors we do have in various countries. I thought becoming an ambassador was something, but really we have so many—I do not know. What do they call those posts?

Chairman CRANE. Foreign commercial officers.

Mr. PAULLIN. Those are the people I am talking about.

Mr. RANGEL. Well, we may need more. But your agencies can push us to see, in oversight, what more they could be doing and what additional resources they would want. Do you believe dismantling the Department of Commerce would be of any assistance at all to small businesses?

Mr. PAULLIN. I do not have a problem with it. All of those 19 agencies need to be stirred into some new kind of a mix and streamlined and move most of them out of the United States and into our embassies, because that's where the market intelligence is.

Mr. RANGEL. That's happening. We have to watch very carefully when Democrats or Republicans, ahead of time, decide what they are going to do and then find reasons as to why they are going to do it, but you have a vested interest in all of this and we depend on you, who work in the trenches with those people that are really generating the trade, to be hard on us in terms of how we can make it easy, either by getting involved or withdrawing.

I assume that the Cuban question is so political that your organizations would rather not even dignify it as a trade issue.

Mr. BERMAN. Actually this might be something we can follow up on. A couple of our members got into the issue of the Helms-Burton legislation and we are in the process of drafting a paper of our position on the legislation. We have not obtained the proper clearance, but I would be happy to forward a copy to you as soon as we do.

Chairman CRANE. If you would yield for a second, Congressman Rangel. In that same context, there will be that bill coming before us very soon. That is the International Relations Committee bill?

Staff. The Iran-Libya sanctions.

Chairman CRANE. Take a long hard look at that one, too.

Mr. RANGEL. You have to get involved in these things because if you do not, we will have a political field day for any constituents that have a problem with anybody. As for China, anything could change politically. And then it will be too late to develop a solid force.

Do you identify with any national groups that you represent?

Ms. JACKSON. The U.S. Chamber of Commerce. We work with the U.S. Chamber of Commerce very closely on international issues.

Mr. RANGEL. I do not see them as involved with small businesses. Do you go to a national meeting with the U.S. Chamber?

Ms. JACKSON. They have representatives here in Illinois that cover this region as well.

Mr. RANGEL. And you find at your National meetings that small businesses are on the agenda?

Ms. JACKSON. Yes, very much so. And a number of their publications are directed specifically to assist small business.

Mr. RANGEL. Well, my community has small business and they have a problem getting information. They know something big is going on and they want to be a part of it. We just do not have the time in the Washington, DC U.S. Chamber Office, and so your chambers are going to be one of the fastest growing organizations, at least I hope so, that we have in this country. You have got the little man to show smaller businesses that they cannot afford to hire high profile attorneys, how they can get involved and to let us provide an easier way to share with you information rather than the complex Tax Code and all those things that scare people off. There has to be an easier way to provide this information, and I hope that when you meet with your memberships, you try to get their ideas, because so many people are just afraid to speak up. If you could be their spokespeople, we certainly will be responding to you. This Subcommittee would like to assist the export dealmakers in getting together. Thank you so much.

Chairman CRANE. Thank you all for your participation and patience.

Finally, let me ask Jeff Napier and Lyric Hughes to come down here before us. We are going to wrap up today's hearing.

All right. We will go with Mr. Napier first and then Ms. Hughes.

STATEMENT OF JEFF W. NAPIER, PRESIDENT, NATIONAL MARINE MANUFACTURERS ASSOCIATION, CHICAGO, IL

Mr. NAPIER. Thank you, Mr. Chairman. It is my pleasure to be here, Congressman Rangel. For the record, my name is Jeff Napier, and I am president of the National Marine Manufacturers Association, which is a manufacturing trade group representing over 1,500 manufacturers of primarily recreational, but in some cases, commercial marine products of all types. We have several dozen companies headquartered here in Illinois. While our industry is generally characterized as comprised of small businesses, at both the manufacturing and retail level, we do have a few large companies in the billion dollar range led by Brunswick Corp. of Lake Forest, Illinois and Outboard Marine Corp. of Waukegan, Illinois, and our association itself is headquartered in downtown Chicago.

Over 70 percent of our 1,500 member manufacturers are involved in the international marketplace, with the typical member selling at least 15 percent of its output internationally, in many cases up to 25 percent. This results in about 15,000 to 20,000 jobs because of the international marketplace. The trade association that I represent is itself internationally involved in many international standards making bodies; international government relations; the production of boat shows, which is a primary marketing tool for our industry, both throughout the U.S., with about 8,000 foreign trade distributors in attendance, and production of boat shows in other countries like Canada and Mexico, to sell our members' products there. Last, but not least, organizing U.S. pavilions in boat shows all over the world. We work regularly with the U.S. Commerce Department on some of our international trade issues, also with the USTR's office, U.S. embassies and consulates around the world, and the Ex/Im Bank. In a good year, we will typically export more than a billion dollars. And while our industry is cyclical, it is one of the few U.S. manufacturing industries with a favorable balance of trade, as high as \$600 million within the last few years. So, that's the size and shape of our industry and its international trade involvement.

I would like to, Mr. Chairman, if I could, address a few of the questions that the Committee posed. I cannot address them all in the limited time. Let me just say briefly that we actively favored the passage of NAFTA. We did not benefit as much as we would like. We made several representations to the USTR for accelerated phase out of the Canadian and Mexican tariffs and we have what we consider a fairly slow phase out. Nonetheless, we think that we will, over time, enjoy significant benefits from both of those markets.

Regarding Chilean membership in the North American Free Trade Agreement, we think it is very important for the U.S. to negotiate Chile's membership in NAFTA at a very early date. In fact, it is overdue. If the United States is the chief exponent of reciprocal free trade, we must actively encourage those who seek to join reciprocal free trade group. Chile's economic resurgence, following adoption of free market economics, on the first count, deserves to be applauded and rewarded and that would send a strong message to the rest of the hemisphere. Second, Chile's membership in NAFTA would permit the comparative advantage economics to

work more strongly for all countries in the group, increasing economic efficiencies on the one hand, and lowering economic cost to U.S. business and consumers in all countries, and it is clearly a win-win situation.

At the very parochial level, if I may, we note a fairly strong demand for our products, boating industry products, in Chile, but there is a big problem which is a tariff in excess of 50 percent. Extending NAFTA to Chile would reduce that tariff and we would expect almost immediately several million dollars worth of sales, and the creation of several hundred new American jobs within a few months.

Regarding the Chinese situation, we think Congress could do a great service to itself and to the country if we changed the name of MFN to something else. It would stop it from being such a political football, and I am really quite serious about that. It is unfortunate that this has happened, but that would be a step in the right direction. Beyond that, we would recommend a couple other measures.

First of all, the widest commercial contacts with China that are possible will better integrate China into the world's economic marketplace, and basically making it harder for China to return to past relations. So we think that's quite important. Second, we have to be a more reliable trading partner. It seems to me that every time there is an election in the United States, we change the conditions on which the countries can do business with us internationally, and that makes it difficult to try to sustain a trade relationship. China now has the advantage working what amounts to bilateral trading agreements against each other. That is to say, we and China seem to be constantly at swords' points when, in fact, what should happen is that the western world trading norms, and the developed country trading norms should, as a group, be pressed with China, so that it is not just the United States against China. What we are really after here, it seems to me, and what our trading partners in other areas of the world should be after, is getting China to adopt the world trading norms.

Let me say that some of the problems that we have in dealing with some of the agencies involved in trade in the United States is that we are frequently given a sympathetic hearing but then told in a polite way, we would like to help you but you are really too small. We would like to help you reach, but you're not tall enough. So quite often we are very low on the priorities. Well, half of the U.S. economy is, in fact, small business. It seems to me that some of these agencies might do well if they had a congressional mandate to have what amounts to a small business division or department within that, to deal with industries like ours. We are an industry of hustlers internationally but in fact, we could use a little help in clearing out some of the barriers to trade.

In developed countries, most of the barriers to trade we face are nontariff. That is to say, complex standards and procedures have been deliberately used to slow down imports. In the case of the nondeveloped countries, most of the problems are tariffs. We find that the Commerce Department has been our biggest ally. The late Secretary Brown has intervened personally on our behalf with good results in all cases. Some of the people in Commerce have helped

us work with the Embassies and Consulates around the world with good results. So we think that Commerce especially does a good job for us. But in general, a small business has a tough time getting very much help out of some of the agencies.

In the interest of time, I will conclude my remarks and be happy to answer any questions.

[The prepared statement follows:]

TESTIMONY OF
JEFF W. NAPIER, PRESIDENT
NATIONAL MARINE MANUFACTURERS ASSOCIATION
BEFORE THE SUBCOMMITTEE ON TRADE
U.S. HOUSE COMMITTEE ON WAYS & MEANS
MAY 20, 1996
SCHAUMBURG VILLAGE HALL, SCHAUMBURG, IL

Mr. Chairman and members of the subcommittee, my name is Jeff W. Napier and I am president of the National Marine Manufacturers Association, a trade group representing over 1,500 manufacturers of recreational boating products of all types including several dozen companies headquartered here in Illinois. While our industry generally may be characterized as comprised of small businesses at both the manufacturing and retail level, we do have a few large companies led by Brunswick Corp. of Lake Forest, Illinois and Outboard Marine Corp. of Waukegan, Illinois. The National Marine Manufacturers Association is itself headquartered in Chicago, Illinois.

Over 70 percent of our 1,500 members are involved in the international marketplace with the typical member selling at least 15 percent of its output internationally and in many cases up to 25 percent. This is true across virtually all product lines from boats to engines to equipment and services. The trade association I represent is itself internationally involved in many international standards making bodies; international government relations; the production of boat shows throughout the U.S. with many foreign buyers in attendance; production of boat shows in Canada and Mexico to sell the products of our members as well as organizing pavilions in boat shows from Singapore and Tokyo to Rio; Amsterdam; Genoa, Italy and Dubai. We work regularly with the U.S. Commerce Department on some of our international trade issues and also with the U.S. Trade Representatives on occasion as well as U.S. Embassies and Consulates around the world.

The U.S. recreational boating industry typically exports \$1 billion in an average year and, while cyclical, is one of the few U.S. manufacturing industries with a favorable balance of trade -- as high as \$600 million favorable within the last few years. Not bad for an industry of small company entrepreneurs.

The role of our association in the international marketplace is:

- (1) To help our companies achieve distribution by offering exhibitors turnkey marketing efforts through boat shows. Internationally and domestically shows are a major marketing tool for the industry;
- (2) Working to reduce or eliminate tariffs and non-tariff barriers to trade both by working through our government and through international boating industry organizations; and
- (3) Working to harmonize international product standards so that our products are more universally acceptable in international marketplaces and we can enjoy the economies of scale which come from long production runs.

It should be noted that the U.S. is well situated to enjoy the economies of scale in the making and selling of boating products for the international marketplace because half the world's market for boating products is right here in the U.S. Another 35 percent of the marketplace lies in the countries of Western Europe with the rest scattered in Japan and the developing countries of southeast Asia plus a few small markets in Australia, the Middle East and Africa.

We cannot offer detailed intelligent commentary on all of the questions which are the focus of this hearing, but can address some of them and hope that our comments will be of assistance to the Committee.

What is the role of international trade in creating economic growth for the United States workers and firms?

International trade has a large role in creating economic growth for U.S. workers and firms -- and that role will grow larger in the future. Just on the face of it, the macro economic considerations of having the world's largest economy, the world's most productive economy and the highest levels of products and services development in so many different fields gives the U.S. an immense comparative advantage -- which is what international trade is all about. Not to exploit that tremendous comparative advantage with policies of reciprocal free trade would be a tremendous disservice to the American people and their economic well being. Those deceitful demagogues who suggest that high tariffs are necessary to keep out foreign competition and who would otherwise have us look inward are destructive forces of our economic well being, in my opinion. A good part of the growth of the recreational boating industry is due to international trade and, moreover, our international markets tend to be counter-cyclical to the U.S. markets helping us sustain a higher level of employment when the U.S. economy is in recession.

For companies with business strategies emphasizing future growth through international expansion, which foreign markets present the most opportunity? How do Illinois firms incorporate international markets in their planning?

In the case of the recreational boating industry, the sale of our products depends on the consumer's level of discretionary income. Our products are purchased after the necessities of life are provided for. Thus, our customers are primarily to be found in the economically developed countries of North America and Western Europe and among the higher income levels in developing countries. We plan our business strategies accordingly with major emphasis on developed countries where distribution for our industry is also fairly well developed now. Notwithstanding, we are making investments in developing economies such as our new boat show in Mexico -- the first such marketing event of its type in that country. We try to blaze the trail for our member companies, sometimes quite literally. We try to encourage the development of needed industry infrastructure in those countries by providing information, seminars, forums and general advice to our international colleagues.

How can the United States insure that it maintains its historic leadership role in the fast changing world economy?

We can start by maintaining reciprocal free trade as the bedrock of our international economic policies and vigorously pursue it. The fact is, people the world around are pretty much the same and all want to increase their standard of living and enjoy peace and see a better life for their children. Marketplace economics -- whether characterized as pure capitalism or modified capitalism free market economics -- deliver economic prosperity more surely and more widely to more people than any system the world has seen -- and reciprocal free trade is a major underpinning.

More than that, reciprocal free trade with that greatest market in the world -- the United States -- gives our international friends and would-be friends a closer view of our freedoms and values which, in my discovery, there are not only curious about, but eagerly embraces once informed. Thus, they tend to become more like us -- and isn't that what we should prefer? Nothing will export our human rights values as a nation better or faster than exporting our goods and services. How do we explain, for example, that English has become the *de facto* second language around the world -- destined within a decade or two to become the first language of the world as more millions of Chinese learn it? And with the language comes the culture and with the culture the values. But trade is the engine pulling the train of our values abroad.

Which key trade initiatives and institutions such as the Asia Pacific Cooperation Group, the Free Trade Agreement of the Americas, and the Trans Atlantic Marketplace hold the most promise for expanding United States exports over the long term?

We cannot answer that questions with intelligence since our familiarity is limited to the North America Free Trade Agreement. That agreement has been beneficial in reducing both the Canadian and Mexican tariffs which were higher than U.S. tariffs for Canadian and Mexican marine industry products. Tariffs and similar taxes are a major burden on the sale of our products since our products are price-sensitive and purchased with the consumer's discretionary income.

How important is it for the U.S. to negotiate Chile's membership in the North America Free Trade Agreement?

We think it is very important for the United States to negotiate Chile's membership in the North America Free Trade Agreement at a very early date.

First of all, as the chief exponent of reciprocal free trade, the U.S. must actively encourage those who seek to join a reciprocal free trade group. Chile's economic resurgence following adoption of free market economics on the first count deserves to be applauded and rewarded with joining the club -- a recognition which is already overdue. A strong message would be sent to the rest of the hemisphere.

Secondly, Chile's membership in the North America Free Trade Agreement would permit the comparative advantage economics to work more strongly for all countries in the group increasing economic efficiencies, on the one hand, and lowering economic costs to U.S. businesses and to consumers in all countries. It is, quite literally, a win/win situation.

At the parochial level, Chile's membership in the North America Free Trade Agreement would reduce high Chilean tariffs on U.S. boating products going into that country. There is a significant demand for our products there, but tariffs in excess of 50 percent make the price of our products in the marketplace virtually prohibitive. So, the U.S. boating industry would be an immediate and direct beneficiary of a new market opening with Chile's membership in the North America Free Trade Agreement. We would expect several millions of dollars of sales to result almost immediately and the creation of several hundred new American jobs within a few months of such membership.

How can the United States best encourage the China to participate responsibly in the international trading system?

We would recommend a two-pronged approach: First, wide commercial contacts with China so they become integrated into the world's economic marketplace even more than is the case now making it harder for China to turn back from the benefits of open marketplaces and world trading norms.

Secondly, work actively with China's other developed country trading partners to suggest, as a group of trading partners, China's adherence to certain international trading norms ranging from observance of intellectual property rights to adoption of international product standards and financial transaction standards. This type of group trading partner initiative vis-a-vis China is likely to be more productive for all who deal with her rather than letting China play one trading partner off against another -- including the U.S. -- while maintaining vague and arbitrary international trading policies.

What should trade negotiating objectives of the United States be in post-Uruguay Round Environment? Are there trade issues such as international rules governing services, intellectual property, and government procurement which should receive priority attention by the Congress and Administration? What are the most significant trade barriers to face United States firms who seek to do business in foreign markets?

While less developed countries, in particular, tend to have high tariff barriers to the products of the U.S. marine industry, in general our impression is that non-tariff barriers are a greater factor in restricting trade than tariff barriers. Specifically, complicated and conflicting standards for products in individual markets as well as non-uniformity between countries are a major roadblock to international trade. Accelerated adoption of International Standards Organizations product standards would solve many of these problems and U.S. trade policy should seek that result – starting with adoption of such standards domestically by the U.S. on an accelerated basis to both set the example and quicken mutual recognition agreements regarding standards between bilateral trading partners. While world trade is moving in this direction, it is much slower than it needs to be and U.S. leadership could accelerate the process.

What kind of trade policy will maintain and improve the competitive position of the United States in the world economy?

As indicated previously, reciprocal free trade and the several subsidiary policies it involves will maintain and improve the competitive position of the United States. The more vigorously that policy and subsidiary policies are pursued, the greater the benefits to be achieved. In this connection, the activist role which the late Secretary of Commerce Ron Brown played was quite helpful – not merely the high visibility trade trips with business leaders, but the day-to-day aggressive assistance which Commerce Department bureaucrats provided less visible members of U.S. industry trading in international markets such as the U.S. boating industry. In recent years the international activities of the Commerce Department have become much more intimately involved with the U.S. industry and much more aggressive and responsive.

U.S. trade policy also needs to better consider the needs of small business people. We have dealt with such agencies as the Ex/Im Bank, U.S. Trade Representatives office, Commerce Department and others. With the exception of the Commerce Department, the other agencies are helpful in providing information on their programs – but when it comes to actually responding to specific requests, the attitude is somewhat, “We’d like to help you but you’re too small, we’ve only got time for Boeing and Motorola sized issues.” While we certainly want our government helping the international market efforts of those companies, there should be some focus and resource availability for smaller companies and non-high tech companies which can successfully export, where consumer products are in demand internationally and where success of such small companies in the international marketplace will also create American jobs.

How does the United States develop a trade policy that best reflects the national interest?

Most of the goals of U.S. trade policy are well established and widely agreed: A growing share of the world market for goods and services, creation of U.S. jobs, extending U.S. influence and culture throughout the rest of the world – and let our trading partners enjoy similar advantages in order to help reduce costs to U.S. consumers – all of which should make the world a more prosperous and peaceful place. The means to achieve those goals have certainly become abundantly clear in the last seven years – embracing free market economics where the marketplace and not governments decide what is made for whom, by whom, how and at what price.

The main questions remaining involve how to accelerate the process of free market economics around the world and those questions largely lie in the area of reducing government involvement in marketplace matters as well as economic matters broadly. To the extent that government regulation is necessary and desirable, uniform regulation among countries or reciprocal recognition of nearly uniform regulation should be a trade policy goal.

Finally, at the micro economic trade policy level, U.S. trade associations such as the National Marine Manufacturers Association are good sources for information on specific trade policy needs. Collecting the top 10 needs from 300 or 400 trade associations serving industries involved in international markets would produce 3,000 or 4,000 specific items which could, in turn, be quickly organized into groups or patterns of like issues to be acted upon – probably less than 100 in all. That would be a quick way to develop a very specific trade policy serving well the needs of 75 percent or better of all exporting companies in the U.S.

Chairman CRANE. Thank you, Mr. Napier. Ms. Hughes.

STATEMENT OF LYRIC HUGHES, PRESIDENT, T.L.I. INTERNATIONAL CORP.; AND NATIONAL COUNCIL FOR U.S.-CHINA TRADE

Ms. HUGHES. Thank you. My name is Lyric Hughes, and I guess I started on the road to international in 1963 when I was 10 years old and my father joined U.S.A. and we moved from Skokie to Tehran. So since that, a little more recently, I have been president of the International Trade Club of Chicago. I founded Women in International Trade, which is now a national organization, and chairman of a group called Education for Global Involvement. And I am here today as a member of the National Council for U.S.-China Trade, which supports the permanent normalization of relations with China in terms of trade. I will focus my remarks on U.S.-China trade today.

I am president of T.L.I. International Corp. We have been in business for 20 years, and we are an international marketing communications firm based in Chicago. T.L.I. has done business with the People's Republic of China for 17 years, since my first visit there in 1979. Our mission is to help U.S. companies sell their products and services abroad by supporting their communications efforts. We are probably best known for bringing the Super Bowl to China, which we did when the Bears went over in 1986. More recently, we also brought the Rose Bowl. By the way, the Super Bowl idea was an idea of a U.S. Department of Commerce official, as was my first visit to China in 1979. And without the U.S. Department of Commerce, I would not be in business today, and we would not be able to offer the help that we do to American businesses.

Chairman CRANE. And you are letting them watch the Bulls?

Ms. HUGHES. Yes, we are. Michael Jordan is better known, we understand, than President Clinton.

Most governments support the efforts of their companies abroad, and NAFTA, which I worked for, is a good example of how trade policy can favorably effect U.S. companies. Only in the United States are companies doing business in China at the mercy of elected officials in terms of knowing that the business deal they make today might be undone tomorrow.

Since Jimmy Carter and the U.S. grain embargo against the Russians, our worldwide competitors have benefited from our country's attempts to gain political leverage by undermining the private interest and critical international activities of its citizens abroad.

Denying most-favored-nation status to China (that is normalized trade relations) would be the wrong sanction at the wrong time, punishing the wrong people. Not only the Chinese, but the U.S. firms whom you have heard from today would suffer. Obviously there are many problems with the U.S.-China trade relationships. There are many days when I am frustrated, and I swear that I will never go to China again or do business there. However, we realize what an important market this is for the United States and that we must persevere.

Of biggest concern to our clients, which include Fortune 500's and very small companies, is the protection or lack of protection of

their intellectual property. Through our antipiracy efforts on their behalf, through the Chinese media, I have come to understand the complexity of this problem in China. I found that high level officials in China are absolutely sincere in their desire to stem counterfeiting and other illegal activities, and they have a selfish reason to do so. Piracy not only discourages investment by foreigners, but it discourages their own people from building new industries without proper protection under the law.

But, imagine trying to regulate the activities of a country with five times as many people as the United States, from one central capitol such as Washington. Withdrawing MFN will not hurt the criminals who participate in these activities. It will do nothing to help the Chinese central government eradicate the program which it is only in recent history had legal authority to attack.

Another issue often cited in favor of withdrawing MFN, is China's human rights record. The year I went to China in 1979, was a year of famine in Southern China, which our Chinese hosts never mentioned at the time they hosted banquets for our delegation from the states of Illinois and Arkansas. In this country, the inalienable right achieved by the Chinese citizen has been the right to eat. Now that these basic needs have been achieved, I feel that China's continued economic growth and intercourse with the western world are the surest way of gaining more rights and protections for her citizens. The horrors of the cultural revolution could only have been carried out while China was isolated from the rest of the world. Do we really want to bring China the to point of isolation once again?

Finally, is it the time, with the succession of China's highest officials in a state of transition and uncertainty, to pressure Chinese officials and undermine the core of U.S.-China relations? Is this the time to give the hardliners an excuse not to deal with the United States? In closing, the annual ritual in which we are participating today is in danger of becoming institutionalized and ineffective.

I agree with Congressman Rangel's opinion that we must turn our focus, I would like to see the hearings next year focus on educational reform and building a global work force from the ground up. This Wednesday in Chicago, the Illinois Board of Higher Education will be focusing on just that activity, and working not only at the higher educational level. The United States has the best higher educational institutions in the world, bar none. It is just very paradoxical that we are under attack for our primary and secondary systems. We think integrating what we need to do internationally in building a global work force, will be something that would be the proper focus of a national debate. We would welcome continued discussion on that issue. Thank you very much for your attention.

[The prepared statement follows:]

**STATEMENT OF
LYRIC HUGHES, PRESIDENT
T.L.I. INTERNATIONAL CORPORATION
CHICAGO, ILLINOIS**

My name is Lyric Hughes, and I am president of T.L.I. International Corporation, an international marketing communications firm based in Chicago, Illinois. TLI has done business in the People's Republic of China for 17 years, since my first visit there in 1979. Our mission is to help US companies sell their products and services abroad by supporting their communications efforts.

Most governments support the efforts of their companies abroad. Only in the US, are companies doing business with China at the mercy of elected officials in terms of knowing that the business deal they make today might be undone tomorrow in Washington, in order to achieve the policy goals of Congress. Since Jimmy Carter and the grain embargo against the Russians, our worldwide competitors have benefited from our country's misguided attempts to gain political leverage by undermining the private interests and critical international economic activities of its citizens abroad.

Denying most favored nation status to China would be the wrong sanction, at the wrong time, punishing the wrong people. Not only the Chinese, but our US firms who have stayed the course through difficult times, and made investments totaling millions of dollars, would suffer.

The Japanese are our biggest competitors in China, and Japanese companies do business in China unhampered by the annual ritual of MFN approval. The same is true of the Europeans and the Australians.

Let me state clearly that I am not an apologist for the Chinese. Our company is not a lobbyist for their government; rather we work for US companies who want to do business in China and around the world. I am not here to claim that the Chinese are the most wonderful people in the world; rather I will tell you frankly that there are some frustrating days when I feel that I never want to do business in China again. Just as there are other days when I know that I am privileged to be a witness to massive historical changes within the largest single social group in the world.

There is no doubt in my mind that in time of war, we would be justified in utilizing whatever weapons we have to defeat our enemy. We are not, however, at war with China, a country my parents generation fought and died to protect from Japanese aggression.

Obviously, there are many problems with the US-China relationship. Of biggest concern to our clients, which include companies both large and small, is the protection, or lack of protection of their intellectual property. Through our anti-piracy efforts on their behalf, I have come to understand the complexity of this problem within China. I have found that high-level officials in China are absolutely sincere in their desire to stem counterfeiting and other illegal activities, and for very good reason. Piracy not only discourages investment by foreigners, it also discourages their own people from building new industries without proper protection under the law.

However, China is a nation of nations, and is really more of a historical ideal than a fully functioning, centrally governed country. Imagine trying to regulate the activities of a country with five times as many people from one central capitol such as Washington. Most of the counterfeiting activities take place far from Beijing, in southern China. Withdrawing MFN will not hurt these criminals, and it will do

nothing to help the Chinese central government eradicate the problem which it has only recently had the legal authority to attack.

Another issue often cited by those in favor of withdrawing MFN is China's human rights record. The year I went to China, 1979, was a year of famine in southern China, which our Chinese hosts never mentioned at the time they hosted banquets for our joint delegation from the States of Illinois and Arkansas. In this century, the inalienable right achieved by the Chinese citizen has been the right to eat. Now that basic needs have been achieved, I feel sure that China's continued economic growth and intercourse with the Western world is the surest method of adding more rights and protections for her citizens. The horrors of the cultural revolution could only have been carried out in a China isolated from the rest of the world. Do you really want to bring China to the point of isolation once again?

Let us imagine an entirely reverse situation. China decides to grant its own brand of MFN to its trading partners on a selective basis. China's statesmen, in examining America's fitness for this honor, bring up America's horrifying drug problem. "Why can't they solve this wasteful and destructive behavior," intone their elders, "we did." China issues warnings to the US trade officials that unless America's drug problem is solved, China will henceforth take retaliatory trade measures.

The US trade officials are stunned. Although they agree that there is a problem, they have no authority to control it, and moreover they resent a foreign power directing them in what they regard as a primarily domestic issue. What have the Chinese gained in this scenario?

Finally, is this the time, with the succession of China's highest officials in a state of transition and uncertainty, to pressure Chinese officials and undermine the core of US-China relations? Is this the time to give the hard-liners an excuse not to deal with the US?

In closing, the annual ritual in which we are participating today is in danger of becoming institutionalized and ineffective. My opinion is that MFN status, once granted to any nation, should not be permanent. A formal revocation procedure, for acts of war and for other good cause should be established, which could be instituted at any time. A threat with no specific date would, I think, be much more effective. This would 1) give the US-China trade relationship a badly needed sense of permanence 2) give trading partners on both sides a sense of security 3) reduce annual payments to US China lobbyists 4) distress our European and Japanese competitors and 5) save taxpayer time and money.

I would like to ask the Congress whether or not any other country has a similar procedure, and in an increasingly interdependent and multilateral world, whether we need this exercise any more. It is time to recognize the myth of a US-China bilateral trade relationship, divorced of consequences in the outside world. Is there any benefit accruing to your constituents? If the answer is none, perhaps our limited resources can be expended elsewhere.

Chairman CRANE. Thank you, Ms. Hughes. Mr. Napier, let me ask you a quick question. That 50 percent higher tariff on your products in Chile is so inconsistent with some of the positive steps they have made in moving toward free trade. Is that a particularly sensitive industry down there?

Mr. NAPIER. It is sensitive. It is a price-sensitive industry because the consumer purchases the products with discretionary income. So it is sensitive everywhere. Is it sensitive in Chile? No, not really. It is trading material for other things. They do not have a big industry. It is a question of taxing all sorts of imports as heavily as they can under their old regime. They have not gotten around to changing it yet. We have had some representations made, but have not really gotten anywhere yet.

Chairman CRANE. Keep me apprised of that one, because we are still keenly interested on a bipartisan basis in getting Chile into a free trade relationship with us.

Ms. Hughes, I just want to commend you on your testimony and your actions in behalf of expansion of our trade relations with People's Republic of China. I have mentioned your argument many times, that what more fundamental human right is there than the ability to feed, clothe, and shelter your family? The advancement of free markets and private enterprise over there, what they like to call Leninist capitalism, the ultimate oxymoron. But, the advancement of Leninist capitalism is providing the greatest hope that the Chinese people have ever experienced. So, we do not want to see it get derailed and unfortunately politics tend to get in the way at times, in the advancement of our common commitment to advancing free markets.

With that, I yield to Congressman Rangel.

Mr. RANGEL. I find it so inconsistent to have this view and then to have this other view that we have with Cuba. I truly believe if it was not for the private sector, most-favorable-nation treatment for China would be politically dead. They are communists. They have killed U.S. troops in Korea. The North Koreans have killed troops. The North Vietnamese, they are all communists, they have killed troops. The Cubans have not killed anybody. And they are not a threat to our national security. Everyone says that a free marketplace is the best place in order for true democracy to bloom. And yet, with Cuba, we do not even allow student exchanges or tourism or the normal things that we believe in the United States as the showplace of the world. We should just let Cubans see our dreams and aspirations instead of denying them food and medicine and hoping that a small group of people in Miami will be able to cause a revolution, where some ill-prepared people are supposed to go up against this well trained army. It really shatters me because of the eloquence of the private sector in really selling a very unpopular thing, that is, MFN for China, to the American people. Americans are just trained not to like communists no matter who they are. Then we see Tiananmen Square and we do not like them for that. And they are stealing from us. Violating intellectual property rights is nothing but theft. We can never compete if all of our research and development, in medicines and in movies, are stolen; if all you have to do is get a dubbing machine and sell it for half the price. It is going to put us out of business. Despite all of these

things that the Chinese do to us, the businesspeople still say, if you do not allow them to trade with us, it will be worse. It is courageous, if self-serving, for businesspeople to say what they think is in the nation's interest that's their right. But, how so many intelligent and concerned and patriotic Americans can just say, I do not know about Cuba, I do not know about Helms-Burton, I do not know anything about what is unpopular for me to know about. You are depending on a sound nonpolitical trading policy. That's what you are begging us for. And we should not do things to get us elected. We should do things that are in our National interest. And both sides play the same issue, year after year, decade after decade, and get a lot of campaign money and all shoot craps for the electoral vote.

It is not that I feel that strongly about Cuba, but we have got to do the same thing with Libya, Iran and then I am going to have to get my list of countries that I just do not like and compete, you know, just say I have got my list, I will take one of yours, you take one of mine and then you guys are going to be right in the middle wondering what has that got to do with trade policy. I hope when you have your meetings, someone just might raise it. It is not a lot for everyone to sell or to buy from Cuba, but if you meet with any of our rice growers, or chicken growers, automobile people, or people who grow the beans, they have got a heck of a lot of interest in opening up trade with Cuba.

But your testimony has really allowed me, at least, to get a better feeling of knowing the facts, since I was really taking it for granted. It is really great to be out here.

As for the boat industry, do you find anything in our present tax system that you think puts you at a disadvantage in exports?

Mr. NAPIER. No, not since the excise tax was repealed. That devastated us, if you remember that a few years ago.

Mr. RANGEL. I forgot all about that.

Mr. NAPIER. What it did was it cut our domestic sales so low that we no longer enjoyed the economies of scale in our manufacturing which enabled us to be very competitive internationally. Now we are building back.

Mr. RANGEL. we learned from that. I was thinking more of the value-added tax.

Mr. NAPIER. It does not affect us that much. Our two biggest problems are the nontariff barriers to trade in the developed nations and the tariff barriers in the developing nations.

Mr. RANGEL. Well, thank both of you. You were very informative.

Mr. NAPIER. Thank you.

Ms. HUGHES. Thank you.

Chairman CRANE. We appreciate your testimony, and with that, the Subcommittee stands adjourned.

Thank you, Congressman Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

[Whereupon, at 2:31 p.m., the hearing was adjourned.]

