

Statement of Robert B. Zoellick

U.S. Trade Representative

before the

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Committee on Ways and Means

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Chairman Crane, Representative Levin, and Members of the Committee:

I want to begin by thanking all of you for giving me this opportunity to speak before the Ways and Means Subcommittee on Trade. I have benefited from discussions with members of the Committee and look forward to working closely with all of you as the Bush Administration moves forward with its free trade agenda. I also wish to thank in particular Representatives Levin and English for joining the President at the recent Summit of the Americas meeting in Quebec City.

In Quebec City, the President explained why free trade is one of his top priorities: "Free and open trade creates new jobs and new income. It lifts the lives of all our people, applying the power of markets to the needs of the poor. It spurs the process of economic and legal reform. And open trade reinforces the habit of liberty that sustains democracy over the long haul."

I am pleased to report that in the administration's first months, with your help, we have been able to take steps to advance free trade in this hemisphere and around the world. We have launched the negotiations on the Free Trade Area of the Americas, made progress on our bilateral free trade agreements with Chile and Singapore, and have resolved productively a number of disputes with our trading partners.

The U.S. is Falling Behind

Yet we should not let this progress mask a more troubling reality: the United States is falling behind the rest of the world when it comes to trade liberalization. Years ago, U.S. involvement in international trade negotiations was a prerequisite for them to succeed. That is not the case today.

Globally, there are 130 free trade agreements. The United States is a party to just two: one is with Canada and Mexico (NAFTA) and the other is with Israel. The European Union has free trade or special

customs agreements with 27 countries, 20 of which it completed in the last 10 years. And the EU is negotiating another 15 accords right now. Last year, the European Union and Mexico (the second-largest market for American exports) entered into a free trade agreement. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with Mexico, Korea, and Chile.

We have no one to blame for falling behind but ourselves. And there is a price to pay for our delay. As Senator Graham of Florida has pointed out, during the last century, when it came time for countries to adopt standards for the great innovation of that era (electric power) Brazil turned to European models because the United States was not active in Brazil. So when you visit Brazil, be sure to bring an electric adapter. Today, as Senator Graham points out, Brazil is making decisions about standards for autos and other products so the United States needs to decide whether it wants to stand on the sidelines again.

Our inaction hurts American businesses, workers, and farmers, as they find themselves shut out of the many preferential trade and investment agreements negotiated by our trading partners. To cite just one example, while U.S. exports to Chile face an eight percent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty. As a result, U.S. wheat and potato farmers are now losing market share in Chile to Canadian exports.

Congressman John Tanner has summed up the big picture stakes to me as effectively as anyone I have heard: "America's place in the world is going to be determined by trade alliances in the next 10 years in the way military alliances determined our place in the past."

The Benefits of NAFTA and other Trade Agreements

In any discussion of future free trade agreements, we need to highlight the benefits of previous accords. Together, NAFTA and the completion of the Uruguay Round have resulted in higher incomes and lower prices for goods, with benefits amounting to \$1300 to \$2000 a year for an average American family of four. That is real money for farmers, nurses, teachers, police officers, and office workers, not bonuses for corporate executives.

Trade barriers hurt families. When trade is restricted, hard-working fathers and mothers pay the biggest portions of their paychecks for the higher cost food, clothing, and appliances imposed through taxes on trade.

NAFTA has also produced a dramatic increase in trade between the United States and Mexico. When the Congress approved NAFTA in 1993, U.S.-Mexico trade totaled \$81 billion. Last year, our trade hit \$247 billion -- nearly half a million dollars per minute. U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast.

Increased trade supports good jobs. In the five years following the implementation of NAFTA, employment grew 22 percent in Mexico, and generated 2.2 million jobs. In Canada, employment grew 10 percent, and generated 1.3 million jobs. And in the United States, employment grew more than 7

percent, and generated about 13 million jobs.

I recognize that these benefits of open trade can only be achieved if we build public support for trade at home. To do so, the Administration will enforce, vigorously and with dispatch, our trade laws against unfair practices. In the world of global economics, justice delayed can become justice lost.

The Administration will also be monitoring closely compliance with trade agreements as well as insisting on performance by our trading partners. Thanks to the help of the Congress in its support of the Trade Compliance Initiative advanced last year, USTR received additional staffing to strengthen its ability to pursue a two-track strategy of negotiating agreements and ensuring that the terms of these agreements are fulfilled. With these added resources, USTR will increase the number of staff devoted to monitoring the practices of our trading partners under existing trade agreements and to litigating trade disputes in all sectors.

For the United States to maintain an effective trade policy and an open international trading system, its citizens must have confidence that trade is fair and works for the good of all people. That means ensuring that other countries live up to their obligations under the trade agreements they sign.

Moving Forward

The Bush Administration is promoting free trade globally, regionally, and bilaterally. We are working to help launch a new round of global trade negotiations in the World Trade Organization later this year, while pursuing regional agreements such as the Free Trade Area of the Americas and bilateral agreements with countries such as Chile and Singapore. By moving on multiple fronts, we can create a competition in liberalization that will increase U.S. leverage and promote open markets in our hemisphere and around the world.

The Free Trade Area of the Americas provides a framework for the Administration's hemispheric strategy. This area, once completed, will be the largest free market in the world.

We have made real progress in turning the idea of an FTAA into a reality. At the Summit of the Americas in Quebec City, all 34 heads of state signed a declaration pledging to conclude negotiations on the FTAA no later than January 2005. The United States is committed to working with others to meet, or beat, that deadline.

Moreover, the draft text of the agreement will be released once it has been translated into the four official languages of the FTAA. This is an important, and perhaps unprecedented, step to build public awareness and support an open process. All 34 nations participating in the Quebec City summit also committed to help the smaller economies of the hemisphere -- especially the nations of the Caribbean and Central America -- address the unique challenges they face in moving forward with hemispheric integration.

The commitment to free trade was made in tandem with an unambiguous pledge to support democracy. Summit leaders agreed that any unconstitutional alteration or interruption of the democratic order in a state of the hemisphere would disqualify that government from further participation in the Summit of the Americas process. For a region that was home to the strict Calvo doctrine on non-interference by others in states' internal affairs, this democracy clause is a striking sign of a new political outlook for the hemisphere.

While pursuing regional free trade through the FTAA, the Bush Administration is also negotiating a free trade agreement with Chile. During a visit to Santiago last month, I met with President Lagos and other senior government and legislative officials, as well as representatives of business, labor, and environmental groups. I had two objectives. One, I wanted Chile to know that the Bush Administration is serious about the free trade agreement -- a point that President Bush and President Lagos made clear following their recent White House meeting, when they announced their goal of completing the negotiations no later than the end of the year.

My second objective was to send a signal to the nations of Latin America, and the rest of the world: The United States will reward good performers. Chile, for example, has been at the forefront of Latin American nations in liberalizing trade, while setting an example to the world of a free people reclaiming their democracy and making the transition to a mature, developed economy.

Leaders from many other nations in this hemisphere have now told us they want to pursue free trade agreements with the United States. We will consider each of these offers seriously, while focusing on the FTAA.

We are also pleased to have made progress on a number of trade disputes. Last month, we settled the U.S.-EU banana conflict, an issue that had interfered with our economic relations for nearly a decade. We have resolved a number of disputes by working through the World Trade Organization and the North American Free Trade Agreement. For example, Greece has moved to counter the piracy of U.S. films and television programs, Mexico has agreed to allow dry beans from the United States to be imported in a more timely and predictable manner, and India has lifted restrictions on U.S. agricultural, textile, and industrial products.

The Legislative Agenda

Frequent and substantive communication lies at the heart of the Executive-Congressional partnership on trade, and I intend to keep our lines of communication open as we move on our free trade agenda.

The Bush Administration's top trade priority is for the Congress to enact U.S. Trade Promotion Authority by the end of the year. Under this authority, the executive branch would be bound by law to consult regularly and in detail with members of Congress as trade agreements are being negotiated. But once that long and exhaustive process of consultations is completed, and the painstaking negotiations have ended in an agreement, our trading partners have the right to know that Congress will vote on the

agreement up or down. Indeed, in the absence of Trade Promotion Authority, which expired in 1994, other countries have been reluctant to close out complex and politically sensitive trade agreements with the United States.

We would like to launch a new round of global trade negotiations in the WTO, emphasizing a key role for agriculture. We will seek to negotiate regional and bilateral agreements to open markets around the world. Further reforms in the Middle East and Africa need our encouragement, and we are committed to working with the Congress to enact legislation for a free trade agreement with Jordan. I compliment the Committee for its important work with Africa and the Caribbean last year and we look forward to working with the Congress to improve the implementation of the African Growth and Opportunity Act and the Caribbean enhancement provisions. We would also welcome your ideas on additional legislative authority to promote trade, economic growth, openness, the rule of law, and democracy in Africa.

We also hope to see the Andean Trade Preferences Act, which expires in December, renewed and expanded. President Pastrana of Colombia has said that renewing the act would be one way to counter the drug traffickers in his country, as it would stimulate job creation in the real economy and diminish the appeal of the drug trade. The Central American countries have expressed interest in a free trade agreement with the United States, and we will seek your ideas and preferences as we consider that possibility.

There are opportunities in the Asia Pacific and, I hope, with APEC [Asia-Pacific Economic Cooperation]. We will start with a free trade agreement with Singapore and will work with you to pass the basic trade agreement with Vietnam negotiated by the Clinton administration. We are encouraged by the renewed emphasis on structural and regulatory reform by the Koizumi administration, and we look forward to working with Japan as it pursues this agenda, which is long overdue.

To help developing nations appreciate that globalization and open markets can assist their own efforts to reform and grow, we will need to extend the legislation authorizing the Generalized System of Preferences program.

Of vital importance, we will seek to work closely with the European Union and its candidate members in Central and Eastern Europe, both to fulfill the promise of a trans-Atlantic marketplace already being created by business investment and trade, as well as to reinvigorate, improve, and strengthen the WTO processes.

Now that there is a fragile peace in the Balkans, we must secure it by pointing people toward economic hope and regional integration. Therefore, we would like to work with the Congress to follow through on the prior administration's proposal to offer trade preferences to countries in Southeast Europe.

Protecting Labor Standards and the Environment As we pursue this agenda, we would like to work with you to consider a range of ideas for improving the labor and environmental conditions of our trading partners, as long as these proposals are not protectionist. We might use incentives, not just disincentives,

to encourage better environmental protection and labor standards. For example, incentives can be related to aid programs, financing through multilateral development banks, and preferential trade. We can also strengthen the role of complementary specialized institutions, such as the International Labor Organization.

USTR has announced recently that it will conduct written environmental reviews of major trade agreements, including the FTAA and the negotiations on agriculture and services underway in the World Trade Organization. These reviews provide negotiators with timely information on the environmental implications of trade accords and give us guidance on how trade and economic growth can strengthen environmental performance. In addition to the current environmental advisors, the Bush Administration agreed to add an environmental representative to the chemical advisory committee, in response to requests by environmental groups for participation on that committee. I have already benefited from both individual and group meetings with representatives of many environmental groups from the United States and other countries.

At the Summit of the Americas, President Bush stated, "Our commitment to open trade must be matched by a strong commitment to protecting our environment and improving labor standards." As the Congress and the executive branch explore how to demonstrate that trade supports labor and environmental standards, we should look first to economic growth. As the President has said, "When there's more trade, there's more commerce and there's more prosperity ... And a prosperous society is one more likely to have good environmental standards and be able to enforce those standards."

The Environmental Protection Agency and others can provide the kind of technical assistance that will improve the ability of our trading partners to improve both the adequacy of their environmental protection regimes and their ability to enforce their environmental laws and regulations.

We should enable advocacy groups to plant local roots. If labor standards and environmental protection come to be seen by developing nations as a price, imposed by wealthy countries, these causes will not gain widespread appeal.

When we think about the connection among trade, economic growth, labor, and the environment, we should see them as being mutually supportive, not in conflict with each other. I look forward to working with the Congress, and interested parties in the private sector, to discuss these issues further and to seek to find common ground.

Conclusion

The Bush administration has an ambitious trade agenda, reflecting the importance President Bush assigns to free trade. We should seize the opportunity before us to reassert America's leadership in setting trade policy and to build a post-Cold War world on the cornerstones of freedom, opportunity, democracy, security, free markets, and free trade. By doing so, we can set a course for peace and prosperity for the Americas and the global system, not just for a year or two, but for decades to come.