A RECORD TRADE DEFICIT, HOW CAN THE U.S. GOVERNMENT PREVENT A LOOMING TRADE CRISIS?

HEARING

BEFORE THE

SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY, AND HUMAN RESOURCES

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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A RECORD TRADE DEFICIT, HOW CAN THE U.S. GOVERNMENT PREVENT A LOOMING TRADE CRISIS?

THURSDAY, MARCH 25, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:07 p.m., in room 2247, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Ose, Mink, Kucinich, Cummings, and Tierney.

Staff present: Sharon Pinkerton, deputy staff diretor; Andrew Richardson, professional staff member; Glee Smith, counsel; Amy Davenport, clerk; David Rapallo and Michael Yeager, minority counsels; Courtney Cook, minority staff assistant; Jean Gosa, minority staff assistant; and Andrew Su, minority research assistant.

Mr. MICA. The meeting of the Criminal Justice, Drug Policy, and Human Resources Subcommittee will come to order. I would like to welcome everyone this afternoon for our hearing entitled, "Record Trade Deficit: How Can the U.S. Government Prevent a Looming Trade Crisis?" I'd like to open with some comments, and then I'll be pleased to yield to our ranking member. We'll go ahead and proceed. I think our other members will be joining us shortly.

I'm pleased again to extend a welcome to everyone today to discuss what I believe is one of the most critical topics, that is the U.S. trade deficit. The U.S. balance of trade which has long been ignored has reached alarming levels. I view this trade imbalance as one of the most critical issues facing our subcommittee, which now has oversight jurisdiction of the Department of Commerce, the U.S. Trade Representative's Office, the Export-Import Bank, the Trade Development Agency, and the Overseas Private Investment Corp.

The end of the cold war and the resulting globalization have created a world in which trade issues have never been more important and are increasingly defining our global relationships. With a record high trade deficit, this is certainly an appropriate time for Congress and this subcommittee to begin exercising our oversight responsibility in this critical area.

The news reports of banana wars, beef battles, and steel dumping cases clearly show the damage that occurs unless the U.S. Government is vigorous in advocating for U.S. commercial interests. The United States must reexamine its approach in order to aggressively promote exports while also taking steps to ensure complete enforcement of our laws against unfair trade practices.

This hearing has been convened because I believe the current wave of global turbulence is beginning to hit our shores. The crisis of collapsing currencies which started in Asia has spread to Russia and Brazil. The United States should be a winner in the global economy, not a loser. Instead, in 1998, the trade deficit reached a stunning all time high of $233 billion.

This is a 50 percent increase over the previous year's deficit. Commerce Department officials have predicted that our 1999 deficit could reach $300 billion. These numbers should serve as a wake-up call for the U.S. Government to do more to prevent what could be an impending disaster.

Year in and year out, we are consuming more than we produce. Every year, billions of dollars go abroad and more and more foreign produced goods capture our markets. I don't believe this situation can endure without some serious consequences. Now, I realize that many of the economic indicators, such as unemployment and inflation, are positive, but this rosy picture also has some thorns.

Recently, Alan Greenspan issued a warning about our soaring trade deficit. Let me quote him. He said, "The widening of the current account deficits has some disquieting aspects, especially when viewed in the long term context." He then warned that our own currency is endangered by the continued deficit.

The United States was once the world's greatest creditor nation. Now, we are its greatest debtor. In 1998, the American personal savings rate fell to a post-war World War II low of half a percent of disposable income. We spend 99.5 percent of our after tax income, according to a Newsweek article that was recently published.

Another area of concern is manufacturing. There are now more Americans in government than in manufacturing jobs. Almost 15 million jobs have been created since 1992, but only 4.3 percent of these 629,000 are in manufacturing. Almost all the rest are in service industries and government.

Perhaps the most disturbing element of the recent trade numbers issued by the Department of Commerce is that U.S. exports have actually fallen for the first time in 13 years. In the past, exports have been the engine of our economic growth. In the United States, 1 in 10 American workers owes his or her job to exports. On average, manufacturing jobs in companies that export pay at least 15 percent more than other manufacturing jobs, and also provide better benefits.

In my previous private sector work, I assisted businesses in pursuing international trade opportunities, and I know how important these markets are to keeping business healthy and profitable. This work provided me with a good vantage point for seeing how competitive the international market is, and how important it is for U.S. business to know that the U.S. Government is an effective advocate for their products and services.

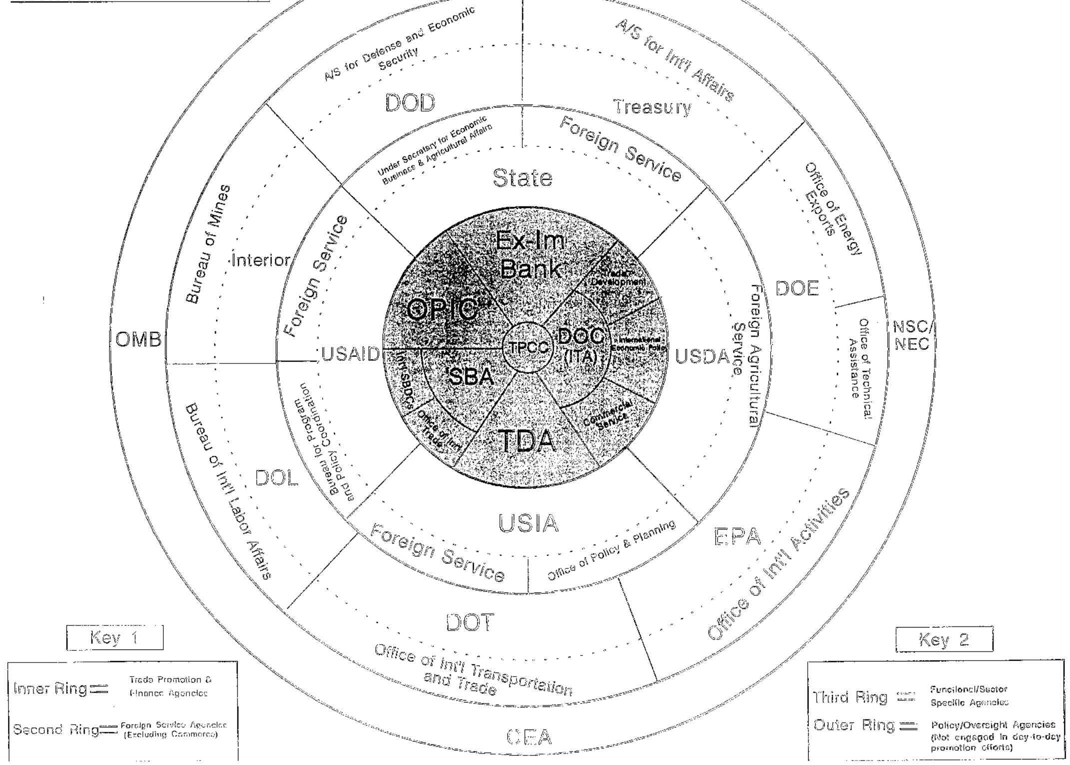
In the 103d and 104th Congress, I joined Senator Roth in introducing legislation to create a Department of Trade. The goal of that legislation was to reorganize the 19 different Federal agencies with trade responsibilities into a single coherent Trade Department. This department could focus solely on the business of trade instead of being distracted as our Department of Commerce is now with the Census Bureau, Weather Service, and other activities that detract from what I think should be their primary purpose. Much of that legislation passed the House during the 104th session of Congress. The Senate did not pass the measures.

I believe there is still much that can and should be done to reorganize our Nation's trade functions in an effort to better assist our U.S. companies as they compete overseas.

[Chart shown.]

[The information referred to follows:]

The TPCC Agencies
and their Principal Bureaus
involved in Trade Promotion



Mr. MICA. I have a chart that I used then to show the different agencies, 19 different Federal agencies and their principal bureaus, involved in trade promotion. It is, in my opinion, a design for disaster. It really doesn't accomplish what we could with the $2 billion-plus we will spend this year on this effort. And it is done in a disjointed fashion.

The Trade Promotion Coordinating Council has remedied some communication problems, but administratively and functionally this is still a disaster. Without objection, we'll make a smaller copy of that as part of the record.

Of course, while exporting more will certainly improve our deficit, we have to make sure that our laws against dumping are also rigorously enforced. The majority of our machine tools, a quarter of our steel, a third of our automobiles, and more than half our textiles are now foreign made. Why? A tidal wave, a tsunami of imports from Asia has, in fact, been hitting our shores. When all those cheap manufactured goods pour in, our own manufacturing base suffers.

This is already happening in the steel industry, which has recently suffered almost 10,000 lost jobs. Not because the steel industry is inefficient. In fact, since the 1980's, the steel industry has poured $50 billion into modernization. The U.S. steel industry is more environmentally sensitive than its global counterparts. Yet, their work force shrunk by over two-thirds during the last 25 years.

Why? Because Russia, Japan, China, South Korea, Brazil, and Indonesia are all illegally dumping steel into our country to save their own steel industries. To add insult to injury, four of these countries are being bailed out of the crisis with IMF money, International Monetary Fund loans supported by our own U.S. tax dollars.

Well, I strongly believe in free trade, but I also believe that free trade must be fair trade. Our two top deficit trading partners are Japan, with a $66 billion, and China with a $57 billion surplus. These two countries alone represent half of our entire trade deficit. Clearly, the United States must develop a strategy to deal with these two countries.

Part of the problem is explained by the fact that both of these countries erect unfair trade barriers. They are running huge trade surpluses at the expense of the United States while denying the United States, its companies and businesses access to their own markets. Even now, the administration is shaping a deal to have China enter the WTO, the World Trade Organization, and under favorable conditions to China. Our trade deficit with China is $1 billion a week.

China, despite being the most populous country in the world, shows no signs of becoming a purchaser of United States goods. While China accounts for less than 2 percent of our global exports, the United States has been purchasing over 30 percent of China's exports.

January trade numbers demonstrate this problem. Exports to China in January totalled $779 million. That's down from $1.3 billion in December 1998. This compared to China's imports to the United States during the same month of $5.56 billion.

In other words, the ratio of United States/China imports to exports was 7 to 1 in January. We sell less to China than we do to Singapore which is a very tiny country, a small land area. We are, in fact, vulnerable to this situation. We get our competitive clocks cleaned when we conduct business in this manner with unfair trade practices and allowing one-sided trade agreements.

The record deficit is certainly a result of imports outpacing exports. Today, we'll hear what's happening on both sides of that equation. Clearly, the U.S. Government must do a better job in addressing these critical issues if we are to prevent what I consider to be a potential trade meltdown. Today, we'll hear from Mr. Larry Chimerine, chief economist at the Economic Strategy Institute, about why the trade deficit matters and what the implications of a sustained trade deficit are for our country.

Mr. Howard Lewis, vice president for economic policy for the International Association of Manufacturers, will comment about how our current trade situation has impacted manufacturers, and provide some suggestions about how the Federal Government can work more closely with the private sector to promote trade.

We'll also hear from Mr. Reginald Brown, director of marketing for the Florida Fruit and Vegetable Association, and Mr. Barry Solarz who is vice president for tax trade for the American Iron and Steel Institute. He will outline how trade deficits and trade policies have injured their industry.

Finally, we will hear from Assistant Secretary for Trade, Michael Copps, from the Department of Commerce, about the U.S. Government's role in promoting U.S. exports around the world. We'll also hear some recommendations from the Department's Inspector General, Johnnie Frazier, as to how the Department could more effectively do its job.

Excuse me for that lengthy opening statement, but I wanted to get that on the record. I'm pleased now to recognize the distinguished ranking member, Mrs. Mink from Hawaii.

[The prepared statement of Hon. John L. Mica follows:]

The Honorable John L. Mica
"A Record Trade Deficit: How Can the U.S. Government Prevent a Looming Trade Crisis?"
March 25, 1999

I am pleased to welcome everyone here today to discuss the critical topic of the U.S. trade deficit. The United States balance of trade, which has long been ignored, has reached alarming levels.

I view this trade imbalance as one of the most critical issues facing our Subcommittee, which now has oversight jurisdiction of the Department of Commerce, the U.S. Trade Representative's Office, the Export-Import Bank, the Trade & Development Agency and the Overseas Private Investment Corporation.

The end of the cold war and globalization have created a world in which trade issues have never been more important and are increasingly defining our global relationships.

With an all time record high trade deficit, this is certainly an appropriate time for Congress and this Subcommittee to exercise this oversight responsibility.

The news reports of banana wars, beef battles and steel dumping cases clearly show the damage that occurs unless the U.S. government is vigorous in advocating strongly for U.S. commercial interests.

The United States must re-examine its approach in order to aggressively promote exports while also taking steps to ensure complete enforcement of our laws against unfair trade practices.

This hearing has been convened because I believe a current wave of global turbulence is beginning to hit our shores. The crisis of collapsing currencies, which started in Asia, has now spread to Russia and Brazil.

The United States should be a winner in the global economy, not a loser.

Instead, in 1998, the trade deficit reached a stunning all-time high of $233 BILLION. This is a 50% increase over the previous year's deficit.

And, Commerce Department officials have predicted that our 1999 deficit could reach $300 billion! These numbers should serve as a wake-up call for the U.S. government to do more to prevent an impending disaster.

Year in and year out, we are consuming more than we produce.

Every year billions of U.S. dollars go abroad and more and more foreign produced goods capture our markets. This cannot last.

Now, I realize that many of the economic indicators such as unemployment and inflation are positive. But this rosy picture has some thorns:

Recently, Alan Greenspan issued a warning about our soaring trade deficit: "The widening of the current-account deficit has some disquieting aspects, especially when viewed in long-term context." He then warned that our own currency is endangered by the continued deficit.

The United States was the world's greatest creditor nation; now, we are its greatest debtor. In 1998, Americans' personal savings rate fell to a post-World War II low of .5 percent of disposable income: we spend 99.5% of our after-tax income. (Newsweek, 2/22/99)

Another area of concern is manufacturing. More Americans now work in government than in manufacturing jobs. Almost 15 million jobs have been created since 1992, but only 4.3 percent of these (629,000) are in manufacturing. Almost all the rest are in service industries and government.

Perhaps the most disturbing element of the recent trade numbers issued by the Commerce Department is that U.S. exports have actually fallen for the first time in 13 years.

In the past, exports have been an engine of our economic growth. In the United States, one in ten American workers owes his or her job to exports. On average, manufacturing jobs in companies that export pay more than 15 percent better than other manufacturing jobs and offer better benefits.

In my previous private sector work, I assisted businesses in pursuing international trade opportunities. I know how important these markets are to keeping a business healthy and profitable.

This work provided me with a good vantage point for seeing how competitive the international market is and how important it is for U.S. business to know that the U.S. government is an effective advocate for their products and services.

In the 103rd & 104th Congress, I joined Senator Roth in introducing legislation to create a Department of Trade. The goal of this legislation was to re-organize the 19 different agencies with trade responsibilities into a single, coherent Trade Department which could focus solely on the business of trade instead of being distracted by the Census Bureau and the weather service.

While much of that legislation passed the House during the 104th Congress, the Senate did not pass these measures. I believe there is still much that should be done to re-organize our government's trade functions to better assist our U.S. companies in competing overseas.

Of course, while exporting more will certainly improve our deficit, we have to make sure that our laws against dumping are being rigorously enforced.

A majority of our machine tools, a quarter of our steel, a third of our autos, and more than half our textiles are foreign made.

Why? A tidal wave, or let me say "tsunami" of imports from Asia is hitting our shores. When all those cheap manufactured goods pour in, our own manufacturing base suffers. This is already happening in the steel industry, which has recently lost almost 10,000 jobs.

This is not because our steel industry is inefficient. Since the 1980s the steel industry has poured $50 Billion into modernization. The U.S. steel industry is more environmentally sensitive than its global counterparts -- and yet their workforce has shrunk by 2/3 over the last 25 years.

Why? Russia, Japan, China, South Korea, Brazil and Indonesia are all illegally dumping steel into our country to save their own steel industries. To add insult to injury, four of these countries are being bailed out of crisis with International Monetary Fund (IMF) loans supported by own U.S. tax dollars.

I strongly believe in free trade, but free trade must be fair.

Our top two deficit trading partners are Japan ($66 Billion) and China ($57 Billion). These two countries alone represent HALF of our entire deficit. Clearly, the U.S. government must develop a strategy to deal with these two countries.

Part of the problem is explained by the fact that both of these countries erect unfair trade barriers. They are running huge trade surpluses at our expense while denying us access to their markets.

Even now, the Administration is shaping a deal to have China enter the World Trade Organization under favorable conditions to them. Our trade deficit with China is $1 Billion a week!

China, despite being the largest country in the world, shows no signs of becoming a purchaser of U.S. goods. While China accounts for less than two percent of our global exports, the U.S. has been purchasing over 30 percent of China's exports!

January's trade numbers demonstrate this problem: Exports to China were down in January to $779 million from $1.3 Billion in December 1998. This is compared to China's imports to the U.S. during the same month of $5.56 Billion.

In other words, the ratio of U.S. imports to exports to China in January was seven to one. We sell less to China then we do to Singapore, a tiny island country.

We are vulnerable. We are also getting our competitive clocks cleaned with unfair trade practices and one-sided trade agreements.

The record deficit is certainly a result of imports outpacing exports. Today, we will hear what is happening on both sides of that equation.

Clearly, the U.S. Government must do a better job in addressing these critical issues if we are to prevent a trade meltdown.

Today we will hear from Dr. Larry Chimerine, chief economist of the Economic Strategy Institute, about why the trade deficit matters and what the implications of a sustained deficit are for our country.

Mr. Howard Lewis, Vice President for Economic Policy for the National Association of Manufacturers, will also comment about how our current trade situation has impacted manufacturers and hear some suggestions about how the federal government can work more closely with the private sector to promote trade.

Next, Mr. Reginald Brown, Director for Marketing, Florida Fruit and Vegetable Association, and Mr. Barry Solarz, Vice President for Tax and Trade, American Iron and Steel Institute, will outline how trade deficits and policies have injured their industries.

Finally, we will here from Assistant Secretary for Trade Michael Copps, Department of Commerce, about the U.S. government role in promoting U.S. exports around the world. We will also hear some recommendations from the Department's Inspector General, Johnnie Frazier, as to how the Department could more effectively do its job.

We thank you all for coming and look forward to your testimony.

Mrs. MINK. Thank you, Mr. Chairman. I, too, want to join you in welcoming our distinguished witnesses for this afternoon. This subcommittee has oversight jurisdiction over a number of trade-related Federal agencies. It's important that we exercise this jurisdiction, which the House has granted to this subcommittee, and do whatever we can to ensure that laws that have been enacted and agencies that are operating to enforce these laws to promote our interests are working effectively. That is the responsibility of this subcommittee.

I would like to yield the balance of my time to my colleague, Congressman Dennis Kucinich, for remarks he would like to make at this point in the record.

[The prepared statement of Hon. Patsy T. Mink follows:]

Statement of Rep. Patsy T. Mink, Ranking Member
Subcommittee on Criminal Justice, Drug Policy
and Human Resources
March 25, 1999

Thank you, Mr. Chairman. This subcommittee has oversight jurisdiction over a number of trade-related federal agencies, including the Department of Commerce, the Export-Import Bank, Overseas Private Investment Corporation, and others. It is important that we exercise that jurisdiction, not only to examine issues of trade policy, but to ensure that these agencies are operating effectively to promote the export interests of U.S. workers and businesses.

Our economy has experienced 8 years of economic expansion since the last recession recorded in March 1991. That is the largest peacetime expansion in history. Between 1992 and 1998, imports grew from $656 billion to $1.1 trillion. Between 1992 and 1997, merchandise exports grew by 54% and service exports by 46%. But last year, for the first time since 1985, exports have dropped roughly two-thirds of one percent between 1997 and 1998. That is a concern to me, because lost exports translate readily into lost American jobs.

There are many reasons that account for this. We are feeling the effects of troubled economic times outside our borders, particularly in Asia. We need successful economies on the Asian continent and elsewhere to consume U.S. exports. Our negative trade balance with Asia is responsible for nearly 80% of our trade deficit over the past 10 years.

Bad economic times make it harder to export our goods and services abroad, but that is only part of the problem. American companies compete on an uneven playing field in many parts of the world. The European Union, for example, resists opening their markets to U.S. bananas. Our companies are having trouble shipping fresh fruits and vegetables to China. Japan, Brazil, and a host of other countries are dumping steel onto our markets and giving their companies unfair subsidies. The list goes on. This is not to mention countries like China, which are not members of the World Trade Organization, and whose markets are essentially closed to many U.S. exports.

What can we do? We are not powerless to address this problem. We must enforce our rights under trade laws to stop unfair trade practices; aggressively promote the interests of U.S. companies in international trade negotiations to open up markets; and use our Commerce Department to promote U.S. sales abroad. I am interested in hearing from our witnesses how well we are performing in all of these respects.

Thank you again for appearing today. I look forward to hearing your testimony.

Mr. KUCINICH. Thank you very much, Mr. Chairman. Thank you, Mrs. Mink. Mr. Chairman, I thank you for calling this hearing. It's an extremely important topic. And you know, we all know, that Japan makes cars and that many Americans like to buy them, right? Well, the fact shows up in the trade deficit data, of course.

But did you know that the same data show that Americans like to buy Canadian cars more than Japanese cars, and Mexican cars somewhat less than Japanese cars? Canadian cars? Mexican cars? Of course, there are no identifiable Canadian and Mexican brands of automobiles. So why the trade deficit data shows that Americans are importing more cars from Canada and Mexico than we sell to the Canadians and Mexicans? Those cars carry American brands, but they are now made in Mexico and Canada.

The reason, members of the committee, is NAFTA, the North American Free Trade Agreement with Mexico. Since the North American Free Trade Agreement was passed, the United States trade balance with Mexico has gone from a surplus, where the United States sold more to Mexico than it bought, to a deficit.

Mr. Chairman, a critical factor explaining this phenomenon, that this hearing is to probe, is NAFTA. Before NAFTA was implemented in 1994, the United States had a positive balance of trade of goods and services with Mexico. According to Department of Commerce data, in 1992 the United States trade surplus with Mexico was worth $5.4 billion. In 1997, 3 years after NAFTA the United States had a trade deficit with Mexico of about $19.5 billion. According to the United Auto Workers, three quarters of the U.S. trade deficit with Mexico is attributable to the auto sector.

Go back to the example, then. What NAFTA did was make it easier for United States auto companies to close their American operations and to reopen them in Mexico. Today, U.S. auto makers frequently make vehicles in this way. An engine is manufactured in a plant in Ohio, then it is sent to Mexico for assembly in a truck. That counts as an export from the United States to Mexico. The fully assembled truck is then sent back to the United States, and that counts as an import from Mexico. The value of the assembled truck is greater than the engine, so balance of trade in this vehicle is in deficit. It adds to the U.S. trade deficit.

At one time, the engine would have been sent from Ohio to Michigan where it would have been assembled into a truck in the United States and the production of the truck would not have added to the trade deficit.

Now, this raises an important point. When Ohio produces an engine that is shipped to Mexico, the Department of Commerce considers that an export. And it is widely believed that all exports are good. But this case shows the fallacy of that proposition.

Ohio's export of an engine to Mexico occurs because the assembly plant in Michigan was closed and reopened in Mexico, causing a loss in United States jobs. This export represents a deterioration of the U.S. economy. Auto companies choose to close their United States operations and reopen in Mexico because wages are so much lower there, because unions are not independent, because environmental laws are poorly enforced, and because NAFTA both lowered the tariff on products produced in Mexico and sent to the United States, and protected the investment of United States companies with laws that are equivalent to American property protection. NAFTA has aggravated the trade deficit with Mexico.

The trade deficit with Mexico is a component in the overall United States trade deficit with the world. As is the case with Mexico, the United States trade deficit with the world is a drag on the United States economy. According to economist Charles McMillian,

> Trade is a clearly defined and routinely measured component of the Nation's economy, gross domestic product. By definition, GDP consists of four components: first, personal consumption; second, gross private investment; third, government expenditures; fourth, net exports trade. Statistically, international trade has been a constant drag on the U.S. economy since 1982 with accumulated losses to the U.S. economy of $1.6 trillion over the past 15 years.
>
> Far from accounting for any of the country's GDP growth during the first 6 years of the Clinton administration, net trade losses reduced real GDP by an average of—this is a negative—$126 billion or minus 1.8 percent of GDP per year. By definition, a trade deficit means that a county's domestic firms produce less than it's consumers buy. That is, at it's most basic level, trade deficit's mean that trade is reducing not expanding the overall market of U.S.-based firms and workers.

That's the end of the quote from Mr. McMillian.

I would, at this point, submit for the record, with the Chair's unanimous consent, this report published this month by this distinguished economist, from which I took that quote. In conclusion, could we submit this report?

Mr. MICA. Without objection, we will submit that and include it into the record.

Mr. KUCINICH. Thank you, Mr. Chairman. In conclusion, a growing trade deficit represents a drag on the U.S. economy, NAFTA has added to the trade deficit. NAFTA is therefore a problem for the U.S. economy. Thank you, Mr. Chairman.

[The prepared statement of Hon. Dennis J. Kucinich and the report referred to follow:]

Statement of Dennis J. Kucinich
at the Subcommittee on Criminal Justice Hearing
on the "Soaring Trade Deficit"
March 25, 1999

Mr. Chairman, we all know that Japan makes cars and that many Americans like to buy them, right? That fact shows up in the trade deficit data of course. But did you know that those same data show that Americans like to buy Canadian cars more than Japanese cars and Mexican cars somewhat less than Japanese cars. Canadian cars? Mexican cars? Of course there are no identifiably Canadian and Mexican brands of automobile. So why do the trade deficit data show that Americans are importing more cars from Canada and Mexico than we sell to the Canadians and Mexicans?

Those cars carry American brands, but they are now made in Mexico and Canada. The reason is NAFTA, the North American Free Trade Agreement. Since NAFTA was passed, the U.S. trade balance with Mexico has gone from a surplus, where the U.S. sold more to Mexico than it bought, to a deficit. Mr. Chairman, a critical factor explaining the phenomenon that this hearing is meant to probe is NAFTA.

NAFTA

Before NAFTA was implemented in 1994, the U.S. had a positive balance of trade on goods and services with Mexico. According to Department of Commerce data, in 1992, the U.S. trade surplus with Mexico was worth $5.4

billion. In 1997, three years after NAFTA, the U.S. had a trade deficit with Mexico worth $19.5 billion.

According to the United Auto Workers, three-quarters of the U.S. trade deficit is attributable to the auto sector. Going back to the example, then, what NAFTA did was make it easier for U.S. auto companies to close their American operations, and reopen them in Mexico. Today, U.S. automakers frequently make vehicles in this way: an engine is manufactured in a plant in Ohio and then it is sent to Mexico for assembly in a truck. That counts as an "export" from the U.S. to Mexico. The fully assembled truck is then sent back into the U.S., and that counts as an import from Mexico. The value of the assembled truck is greater than the engine, so on balance, the trade in this vehicle is in deficit. It adds to the U.S. trade deficit. At one time, the engine would have been sent from Ohio to Michigan, where it would have been assembled into a truck in the U.S., and the production of the truck would not have added to the trade deficit. Now this is I think raises an important point. When Ohio produces an engine that is shipped to Mexico, the Department of Commerce considers that an "export." And it is widely believed that all exports are good. But this case shows the fallacy of that proposition. Ohio's export of an engine to Mexico occurs because the assembly plant in Michigan was closed and reopened in Mexico, causing a loss in U.S. jobs. This export represents a deterioration of the U.S. economy.

Auto companies choose to close their U.S. operations and reopen in Mexico because wages are so much lower there, because unions are not independent, because environmental laws are poorly enforced, and because NAFTA both lowered the tariff from products produced in Mexico and sent to the U.S. AND protected the investments of U.S. companies with laws that are equivalent to American property protections. NAFTA has aggravated the trade deficit with Mexico.

The trade deficit with Mexico is a component in the overall U.S. trade deficit with the world. As is the case with Mexico, the U.S. trade deficit with the world is a drag on the U.S. economy. According to economist Charles McMillion, "[T]rade is a clearly defined and routinely measured component of the nation's economy – Gross Domestic Product... By definition, GDP consists of four components: 1) personal consumption; 2) gross private investment; 3) government expenditures; and 4) net exports trade... [S]tatistically, international trade has been a constant drag on the U.S. economy since 1982 with accumulated losses to the U.S. economy of $1.66 trillion over the past 15 years. Far from accounting for any of the country's GDP growth during the first six years of the Clinton Administration, net trade losses reduced real GDP by an average of -$126 billion or -1.8 percent of GDP per year. By definition, a trade deficit means that a country's domestic firms produce less than its consumers buy. That is, at its most basic level, trade deficits mean that trade is reducing—not expanding—overall market of U.S.-based firms and workers." I would at this point submit for the record the report published this month by economist Charles W. McMillion from which I took that quote.

In conclusion, the growing trade deficit represents a drag on the U.S. economy, and NAFTA has added to the trade deficit. NAFTA is therefore a problem for the U.S. economy.

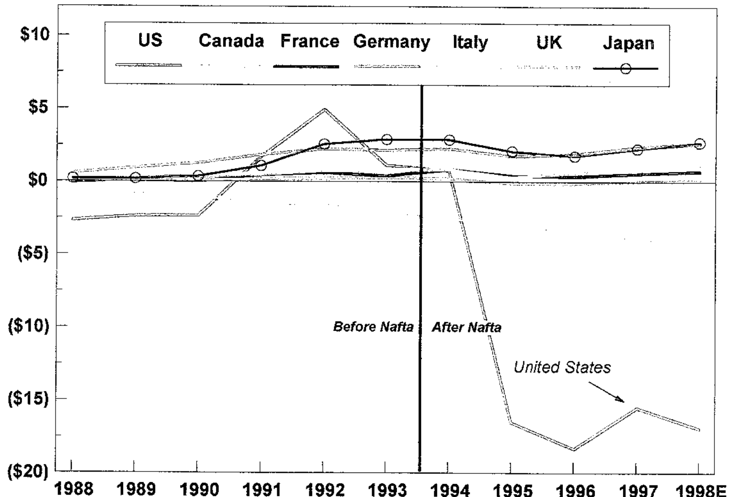
I look forward to putting questions to our witnesses today.

Assessing Nafta:

What is so different about US-Mexico Trade Five Years After Nafta?

Dr. Charles W. McMillion

G-7 Net Exports to Mexico Before and After Nafta
$ Billions Annual Net Exports: Each Country's Figures



OECD and MBG Information Services

MBG Information Services
Washington, D.C.

March, 1999

"Since December 1994, when President Zedillo Ponce de Leon took power, Amnesty International has documented more reports of threats against human rights defenders in Mexico than at any time during three decades of research into human rights violations in the country. In almost none of these cases have the perpetrators been brought to justice."

Amnesty International
Mexico City: January, 1997

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March, 1999 Update
Originally produced in September, 1997

Assessing Nafta:

What is so different about US-Mexico Trade Five Years After Nafta?

Dr. Charles W. McMillion

Executive Summary

The North American Free Trade Agreement (Nafta) that took effect with great fanfare on January 1, 1994 was the first-ever experiment in rapid and sweeping deregulation of investment and trade policies between a low wage developing country and highly industrial countries.

- Nafta advocates now attempt to trivialize Mexico's effects on US workers and firms by insisting that Mexico's population of almost 100 million is so impoverished its GDP is only 1/28th the size of the US economy. Yet Mexico's labor force is growing by well over one million each year -- more than half the size of US labor force growth

- Nafta provides guarantees to investment and speculators that catapulted $60 billion in global hot money into Mexico as Nafta took shape greatly increasing investor influence and leaving Mexico little room to maneuver. Tariff cuts were swamped by devalutaions.

- Nafta advocates expected the agreement to create US jobs by providing US advantage over the rest of the world in Mexico trade and assuring a US trade surplus far into the future. But during the first five years of Nafta, the US suffered total current account losses to Mexico of -$82 Billion while the rest of the world enjoyed a surplus from Mexico of $138 Billion. There is reason to expect this pattern will continue.

- Nafta advocates expected that increased trade with Mexico would drive a process of specialization that would enhance US productivity. But thus far the process has led the US to specialize in plastic and paper boxes, cereals, seeds and fruits while moving away from autos, electronics, and machinery such as computers. Overall US productivity growth suffered one of its weakest non-recessionary periods ever in Nafta's first five years.

- US net export losses suggests a displacement of 235,000 higher wage US jobs to Mexico trade. A proper accounting for jobs lost to contracted out "exports" would sharply raise the total job displacement figure to the range of 300,000.

- The calculations of Nafta's strongest supporters show that even before Nafta, wages associated with US exports to Mexico paid less than jobs displaced by US imports from Mexico. Nafta's investor guarantees, threats of relocation, and the size and growth of the Mexican labor force have had an even greater effect in depressing US wages and profits.

Nafta's investment and trade provisions have clearly failed the vast majority of US and Mexican workers and firms. To ignore this experience and lurch ahead with similar counterproductive measures throughout Africa or Latin America is a recipe for even deeper and wider trouble.

Assessing Nafta:

What is so different about US-Mexico Trade Five Years After Nafta?

Dr. Charles W. McMillion

The North American Free Trade Agreement went into effect on January 1, 1994. Nafta was the first-ever experiment in rapid and sweeping deregulation of policies affecting investment and trade between a low wage developing country and highly industrial countries. The agreement between Mexico, with its population of 94 million, the United States (population 260 million) and Canada (population 29 million) was precedent setting in other important ways as well.

Recent special interest "assessments" of Nafta's effects often use similar, quite inappropriate assumptions and grossly distort the scope and nature of the agreement to the almost insignificant tariff reductions of a few percentage points over 15 years. From 1993 to 1999 Mexico's average applied tariffs reduced the price of US exports by about 9% (from 10% to 1%). This was more than offset in just the first 11 months of Nafta as the official "crawling peg" raised US export prices by 12% before the Peso was forced to seek market rates in December, 1994.[1]

Yet Nafta's key purpose was to radically shift the regulatory climate for investment and trade in Mexico. As noted by Gary Hufbauer and Jeffrey Schott, Nafta's most celebrated economists among Nafta advocates:[2]

> *In large part, the agreement involves commitments by Mexico to implement the degree of trade and investment liberalization promised between its northern neighbors in 1988. However, the Nafta goes further...including protection of intellectual property rights, rules against distortions to investment (local-content and export performance requirements), and coverage of transportation services.*
>
> *...(Nafta) contains precedent-setting rights and obligations regarding services and investment... ...the investment obligations of the Nafta (and related dispute settlement provisions) accord national treatment to Nafta investors, remove most performance requirements on investment in the region, and open up new investment opportunities in key Mexican sectors... The investment provisions provide a useful model for future GATT trade accords...*

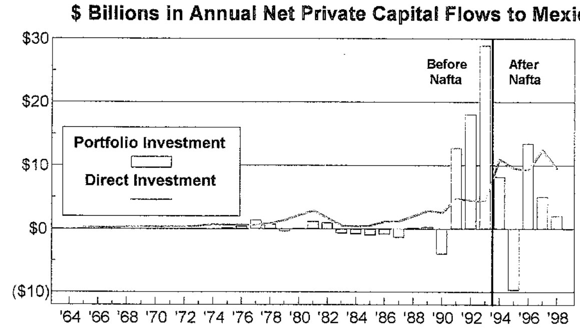
1 Tariff levels are discussed in "Study on the Operations and Effect of the North American Free Trade Agreement," issued by the Office of the US Trade Representative and related entities, (Washington, DC: USTR; July, 1997). p ii. On August 1, 1998, the Governments of the U.S., Canada and Mexico eliminated tariffs on about 600 more 8-digit tariff lines including certain textiles, chemicals, pharmaceuticals, antibiotics, steel and wire products, watches, toys, and other goods worth approximately $1 billion of trade annually The New Peso was officially pegged at 3.1 = $1 when Nafta went into effect and regularly reduced in value to 3.6 = $1 by the end of November, 1994 and roughly 10 = $1 in early 1999.

2 Gary Clyde Hufbauer and Jeffrey J. Schott, NAFTA: An Assessment (Washington, DC: Institute for International Economics, October, 1993) page 2.

$60 Billion of Hot Global Money

Poured into Mexico During Nafta Negotiations

$ Billions in Annual Net Private Capital Flows to Mexico



IMF International Financial Statistics and Bank of Mexico

Indeed, these major new obligations on public authorities conferred precedent-setting rights and guarantees for private investors and speculators and led to a remarkable reversal of Mexico's decades of capital flight. Suddenly, $60 billion in global hot money catapulted into Mexico as Nafta took shape turning it, briefly, into the fast buck capital of the world with speculative returns routinely in the range of 60%-to-120% per year.[3]

The celebration of Nafta's investor focus was not limited to the financial services and multinational business community but widely shared by prominent economists and pundits. On the eve of Nafta's ratification by a reluctant congress,[4] Hufbauer and Schott noted enthusiastically that, "The prospect of NAFTA implementation has already generated strong expectational effects, with capital inflows to Mexico estimated at about $18 billion in 1992."[5]

---

3 Portfolio, direct investment and exchange rate data are available in International Financial Statistics Yearbook: 1998 (Washington, DC: IMF, 1998) pp 626-627, and previous years.

4 One of the best accounts of the Congressional pork bazaar before the vote passing the Nafta agreement (234 "For" vs 200 "Against") is by Charles Lewis, founder and executive director of the Center for Public Integrity. Describing "The orgy of deal-making that preceded" the vote on Nafta, Lewis calculates "the quantifiable cost to the taxpayer of the Nafta deals will be at least $300 million" from government spending programs created in exchange for votes for Nafta. His figures do not include massive, private advertising and campaign contributions by Nafta supporters. See Charles Lewis, "Nafta-Math; Clinton Got His Trade Deal, but How Many Millions Did It Cost the Nation?" The Washington Post, Dec. 26, 1993.

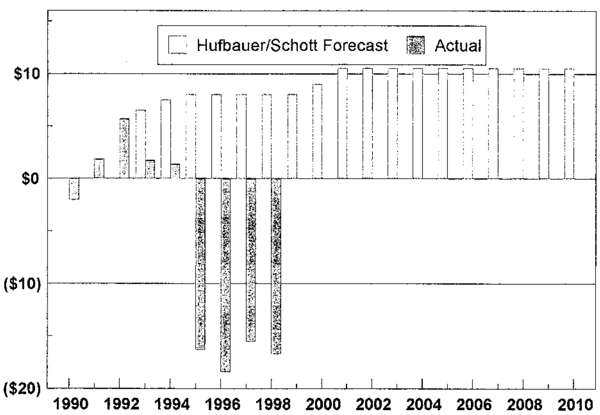
5 Hufbauer and Schott (1993) p. 4 The authors refer to South Korea's post-war/Cold War experience between 1959 and 1981 to suggest that the current account imbalance required by such massive financial flows would be sustainable for Mexico through the year 2010. (p. 15)

Issuing "A Last Minute Pitch for Nafta," respected, political columnist David Broder declared that "Nafta's approval would ensure Mexico the flow of investment capital to sustain a growth of 6 percent to 7 percent a year..." for the next 15 years.[6]

This promise of massive net private financial inflows to Mexico was, and is, the essential engine driving the Nafta agreement and its consequences. It is simply not possible to assess Nafta's effects nor to make sense of pre-Nafta forecasts separate from these precedent-setting investment provisions and massive new financial flows.

Any nation with a net capital inflow must run an offsetting trade deficit. That is, national accounting requires that a surplus in capital accounts be offset by a similar deficit in the current accounts.[7] This was the starting point for economists modeling the anticipated consequences of Nafta on Mexico and the US. For example, Hufbauer and Schott assumed that financial flows would leave Mexico with global current account deficits of $10-$15 billion in the 1990s and $13-19 billion from 2000 to 2010.[8] They then assumed that this global current account deficit for Mexico would automatically result in a US merchandise trade surplus with Mexico of $7-9 billion throughout the 1990s and $9-12 billion throughout the first decade of the 21st Century.

Billions of Dollars: U.S. Annual Merchandise Trade Balance With Mexico



U.S. Department of Commerce and MBG Information Services

[6] David Broder, "A Last Minute Pitch for Nafta," in The Washington Post, Nov. 3, 1993.

[7] In practice, countries occasionally stray from this accounting balance either by building up foreign currency reserve, as both Mexico and China are doing currently, or by spending down its reserve, as Mexico did through much of 1994.

[8] Hufbauer and Schott, p. 16.

These erroneous assumptions are quite important because Hufbauer and Schott's confident forecast of 15 years of substantial and unbroken US trade surpluses with Mexico were widely used to ridicule those who questioned the wisdom of the agreement. President Clinton repeatedly cited the study to insist that Nafta would create a net gain of "200,000 jobs by 1995."[9]

Unlike politicians, professional advocates and naive reporters, Hufbauer and Schott were quite clear in how they came to forecast net US job gain from Nafta:[10]

> *Our job projections reflect a judgment that, with NAFTA, U.S. exports to Mexico will continue to outstrip Mexican exports to the United States, leading to a US trade surplus with Mexico of about $7 billion to $9 billion annually by 1995.*

Similar happy forecasts, predictions of doom if Nafta was not passed, along with frequent name-calling were widely promoted in the weeks leading up to the November, 1993 Congressional vote on Nafta.[11] It should be noted that the US trade surplus with Mexico, which spiked up in 1992, was already widely known through regular monthly Census trade reports to be falling sharply by the time these forecasts were made. Indeed, the US surplus in traded goods with Mexico fell back to only $1 billion in 1993.

However, the fundamental error made by Hufbauer/Schott and others that anticipated US trade surpluses after Nafta, was their assumption that if Mexico has a current account deficit, the US must enjoy a surplus of almost equal size. This crude, two dimensional view might seem an odd assumption in a world of 200 countries each competing for markets. But it has remained a common, enormously distorting practice among many slow-to-adapt-to-change US economists including the US International Trade Commission[12]

Certainly there was no pre-Nafta empirical basis to assume that a Mexican deficit would automatically or primarily create a US trade or current account surplus. For example, while Mexico had a -$7.5 Billion current account deficit in 1990, the US suffered deficits with Mexico of -$3.6 Billion in its current accounts and -$2.4 Billion in merchandise trade. As Hufbauer and Schott made their forecasts in late 1993 before Nafta took effect, Mexico's current account deficit reached -$23.4 Billion -- but Mexico enjoyed a small current account *surplus* with the US.

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9 See, for example, President W.J. Clinton, Saturday Radio Address, Sept. 18, 1993. p. 1 (actually, Hufbauer and Schott forecast 170,000 jobs; the President and others rounded up.)

10 Hufbauer and Schott, p. 14.

11 Robert Pritzker, Chairman-elect of the National Association of Manufacturers claimed in his speech at the National Press Club on October 26, 1993: *...Since Mexico began to lower trade barriers in 1987, the US trade balance with Mexico has moved from a $5 billion deficit to a $5 billion surplus. ...Nafta would continue and even improve the positive trend.* This and other excerpts from his speech, "For the Record," The Washington Post, Oct. 27, 1993. Rightwing pundit Charles Krauthammer ridicules Congressman Bonior and others in "The Liberal Betrayal," The Washington Post, Nov. 12, 1993 and reporter Brett D. Fromson catalogs Wall Street warnings of doom that might follow in "If Nafta Fails, Will Markets Follow?" The Washington Post, November 9, 1993.

12 This distorting and parochial practice is so well established it is rarely noted explicitly in the text of economists' reports. A rare exception is International Trade Commission, Potential Impact of the US Economy and Industries of the GATT Uruguay Round Agreements: Vol I, (Washington, DC; USITC Publication 2790, June 1994) footnote 13, page I-6.

Mexico's Current Accounts $ Millions	1992	1993	1994	------------- Nafta 1995	1996	1997	---------- 1998E	Nafta Totals
Balance on Merchandise trade	-$15.9	-$13.5	-$18.5	$7.1	$6.5	$0.6	-$7.7	-$12.0
Balance on Services	-$2.7	-$2.5	-$2.6	$1.2	$0.5	-$0.5	-$0.8	-$2.2
Balance on Goods and Services	-$18.6	-$16.0	-$21.1	$8.3	$7.1	$0.1	-$8.5	-$14.1
Balance on Investment Income	-$9.2	-$11.0	-$11.7	-$12.9	-$13.0	-$12.8	-$13.8	-$64.2
Unilateral Transfers, net	$3.4	$3.6	$4.0	$4.0	$4.5	$5.2	$5.8	$23.5
Balance on Current Accounts	-$24.4	-$23.4	-$28.8	-$0.7	-$2.3	-$7.4	-$16.5	-$55.7
Source: International Monetary Fund and Banco de Mexico				**1998E estimated from QI-QIII**				

In 1990, Mexico had a global merchandise trade deficit of -$881 million consisting of a $2.4 Billion *surplus* with the US and a *deficit* of -$3.3 Billion with the rest of the world. Even in 1993 when Mexico had a merchandise trade deficit of -$13.5 Billion, the US enjoyed a surplus of only $1 Billion while the rest of the world enjoyed a surplus of $12.5 Billion with Mexico.

Nafta's promoters wrongly assumed that the agreement would shift Mexico's trade so as to primarily assure a US trade surplus. However, in the event, the disproportionate and adverse effect on the US from Mexico's trade has been worsened sharply since Nafta. In 1994, Mexico's -$28.8 Billion current account deficit consisted of a deficit with the US of only -$0.5 Billion and a deficit with the rest of the world of -$28.2 Billion.[13] The US surplus in merchandise trade with Mexico slipped to only $0.7 Billion in 1994 (from $1 Billion in 1993) while the rest of the world's surplus with Mexico rose to $17.8 Billion (from $12.4 Billion).

US Current Accounts With Mexico $ Billions	1992	1993	1994	------------ 1995	Nafta 1996	1997	---------- 1998E	Nafta Totals
Balance on Merchandise trade	$4.9	$1.0	$0.7	-$16.6	-$18.4	-$15.5	-$16.8	-$66.6
Balance on Services	$0.5	$0.1	-$0.7	-$3.6	-$3.8	-$4.0	-$4.5	-$16.6
Balance on Goods and Services	$5.4	$1.1	$0.0	-$20.2	-$22.2	-$19.5	-$21.3	-$83.2
Balance on Investment Income	$2.3	$2.2	$4.2	$3.3	$4.9	$4.7	$5.0	$22.1
Unilateral Transfers, net	-$3.2	-$3.4	-$3.6	-$3.8	-$4.2	-$4.5	-$5.0	-$21.1
Balance on Current Accounts	$4.6	-$0.1	$0.5	-$20.7	-$21.5	-$19.3	-$21.3	-$82.3
Source: US Dept. of Commerce			***1998E estimated from QI-QIII**					

These disproportionately adverse effects on the US were intensified to an extraordinary degree since the second year of Nafta. Since 1995, Mexico's current accounts have again steadily worsened to near -$17 billion in 1998 and total perhaps -$56 billion over Nafta's first five years. Even this result for Mexico was achieved only because of an unprecedented surplus of more than $20 billion per year with the US since 1995. That is, in 1998 Mexico suffered a near -$40 billion current account deficit with most of the world offset by a $21 billion surplus with the US. The only clear US winner under Nafta is investment income which has soared to new record highs.

[13] US Senator Byron Dorgan and others vainly attempted to raise with US Treasury officials the issue of the source of Mexico's current account imbalances during the heated Congressional debate over a $50 Billion US taxpayer guaranteed stabilization loan in early 1995.

Mexico's current account deficit is again deepening in 1999 as oil price declines undermine the value of exports despite the highest non-oil trade surplus ever with the US. (Appendix) However, rather than to allow the Peso to weaken normally beyond the current 10 Pesos/$1 US dollar rate to moderate its current account deficit, Mexico must now give considerable priority to its foreign debt obligations and current, desperate re-financing needs. For this reason, and to attack inflation which is near a 20% annual rate, financial authorities have set weekly "Cetes" government borrowing rates at 26.8% in early March with commercial paper rates are 28.6%. Whether through further Peso devaluation or high interest rate consumer austerity, US trade losses with Mexico seem quite unlikely to improve and likely to worsen in the year ahead.

Clearly, the major claims of Nafta promoters in the US -- that it would assure not only US trade surpluses with Mexico but provide disproportionate trade advantages for the US over the rest of the world -- have not only failed but have failed spectacularly.

Notwithstanding this clear and overwhelming data, much confusion has been created by a powerful effort to ignore US trade (revenues from exports less payments for imports) and to discuss only the 40-to-45% of US trade represented by exports. Representative of this ongoing and constant effort to mislead, President Clinton's letter transmitting his Administration's legislatively-required assessment of Nafta's effects boasts only:[14]

> *Export growth has been central to America's economic expansion. Nafta, together with the Uruguay Round Agreement, the Information Technology Agreement, the WTO Telecommunications Agreement, 22 sectoral trade agreements with Japan, and over 170 other trade agreements, has contributed to overall US real export growth of 37 percent since 1993. Exports have contributed nearly one-third of our economic growth -- and have grown three times faster than overall income.*

This partial and misleading emphasis on exports often blends into even more explicitly false statements as in President Clinton's recent radio address to the nation seeking "fast track" authority to extend Nafta throughout Latin America. President Clinton asserted:[15]

> *Already, over the last four years, more than 25% of our economic growth has come from overseas trade.*

These misleading and plainly false remarks are then widely and repeatedly reported as fact by even the best national media and become a baseline for all "informed" discussion of every trade issue.[16] Even before the unfortunate events and misrepresentations surrounding a

[14] Office of the US Trade Representative and others, "Letter from President William J. Clinton," in "Study on the Operations of..." Unnumbered cover page.

[15] President William J. Clinton, "Radio Address by the President to the Nation: August 23, 1997" Nearly identical misstatements were made by the President in his high profile "Remarks on US-China Relations" before The National Geographic Society, June 11, 1998. (Washington, DC: White House Press Office, 1997 and 1998)

[16] As the first version of this report was being written, respected reporter Steve Roberts hosted a discussion of US trade policy for the popular NPR Diane Rehm program on September 12, 1997 . With the authority of a neutral moderator, Roberts noted the White House "points out" that trade accounts for more than a quarter of our nation's

former White House intern became public in 1998, Frank Luntz, a Republican pollster known for lecturing his clients about the importance of language is reported to have said admiringly:

> *The Clinton administration is the most linguistically disciplined operation in the history of modern politics. They have no shame. That is why what they say is so effective.*[17]

And yet, statistically trade is a clearly defined and routinely measured component of the nation's economy -- Gross Domestic Product. Like the number of days in a week or the number of months in a year, this is not a matter of opinion. It does not lend itself to interpretation of any kind -- political or otherwise. By definition, GDP consists of four components:[18]

1) Personal Consumption,
2) Gross Private Investment,
3) Government Expenditures,
4) Net Exports Trade -- export revenues less import payments for goods and services.

Components of the US Economy:
Gross Domestic Product: Constant 1992-Chained Prices

$Billions	Total GDP	Personal Consumption	Gross Private Investment	Net Exports Trade: Goods/Services	Government Expenditures
1993	$6,389.6	$4,343.6	$863.6	-$70.2	$1,252.1
1994	$6,610.7	$4,486.0	$975.7	-$104.6	$1,252.3
1995	$6,761.7	$4,605.6	$996.1	-$96.5	$1,254.5
1996	$6,994.8	$4,752.4	$1,084.1	-$111.2	$1,268.2
1997	$7,269.8	$4,913.5	$1,206.4	-$136.1	$1,285.0
1998	$7,552.1	$5,151.6	$1,331.8	-$238.3	$1,297.3

US Department of Commerce, BEA and MBG Information Services.

The effects of global trade involves very important and complex issues of productivity and access to vital resources (such as oil) which are discussed below. However, statistically, international trade has been a constant drag on the US economy since 1982 with accumulated losses to the US economy of $1.66 Trillion over the past 15 years. Far from accounting for any of

growth. "How can you be critical of those numbers?" he asked to no response and apparent common sense.

17 Lutz is quoted by Peter Baker in "White House Finds 'Fast Track' Too Slippery," The Washington Post. September 14, 1997. Although The Washington Post has generally supported President Clinton and is among the most ideologically zealous and indifferent to fact in their support of "free trade," it has editorialized that "On subject after subject this (Clinton Administration) turns out to be a White House that you believe at your peril." Lead Editorial, The Washington Post, March 5, 1997.

18 See for example Table B-2, "Real gross domestic product," in Economic Report of the President: 1999, (Washington, DC: Government Printing Office, 1999) pp. 328-329.

the country's GDP growth during the first six years of the Clinton Administration, net trade losses reduced real GDP by an average of -$126 Billion or -1.8% of GDP per year.

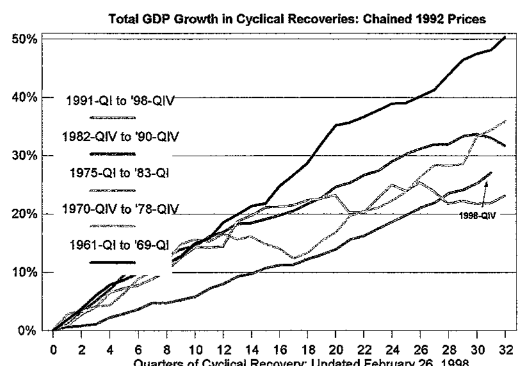
By definition, a trade deficit means that a country's domestic firms produce <u>less</u> than its consumers buy. That is, at its most basic level, trade deficits mean that trade is reducing -- not expanding -- overall markets of US-based firms and workers.

This is one of the reasons that, despite the strongest bull stock market in history and strong consumer spending, real GDP growth in the past five years has averaged only 3.4% per year and why economic growth in the current eight years of cyclical recovery has been the second weakest of any similar modern period. Even those cyclical recoveries beginning in November, 1970 and in March, 1975 that did not last as long as the current expansion, had more real GDP growth after seven years than in the current period -- even after the recessions of 1973-74 and 1980![19] Only the deep recession of 1982 drove the 1975-1982 growth pattern to be weaker than the current period. While the 1990s expansion has added 27% to the overall size of GDP, the comparable period in the recovery of the 1980s added 33% and the 1960s added 48%.[20]

The official US government report assessing Nafta is particularly misleading on this key issue of US economic growth. Insisting that "Strong growth in the United States stimulated US demand for imports from Mexico..." a chart is presented with side-by-side bar graphs of GDP and Domestic Demand growth between 1993 and 1996.[21]

The graphic shows US Domestic Demand soaring at more than twice the rate of US GDP growth. This is nonsense. It compares apples with oranges. What is not disclosed in the graphic

<u>The Current Recovery Has Been Historically Weak</u>



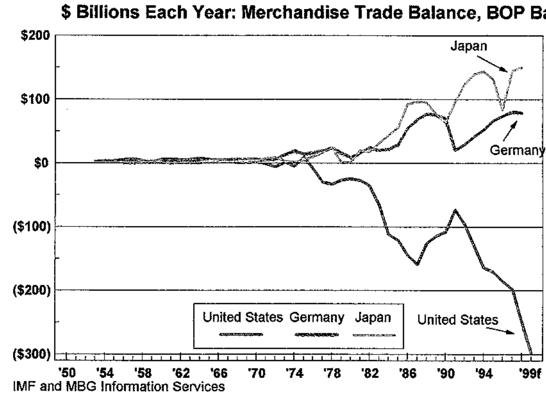
U.S. Department of Commerce and MBG Information Services or in the text -- is that it shows GDP growth in real, inflation adjusted terms and Domestic Demand in nominal terms which includes inflation. In fact, comparing apples with apples, real growth of US consumer expenditures was marginally slower than real US GDP growth between 1993 and 1996; Final Sales of Domestic Product was a bit slower than GDP growth; and Gross Domestic Purchases was only marginally faster than GDP.

Another claim made by advocates for Nafta is to consider the "total picture of global trade." This argument, made by a few academics such as Sidney Weintraub is that Mexico has been a net benefit to overall trade by displacing imports from Asia.[22] It is argued that this displacement benefits US producers because of Nafta's requirement of significant local content requirements along with other efficiency benefits of proximity[23]. Unfortunately, even before the current Asian financial crisis, the experience of five years has shown that soaring US imports from Mexico are not displacing US imports from Asia but are merely an even faster growing addition to those imports.

Trade Balances of the World's Major Economic Powers

The U.S. Position In Global Trade Has Collapsed in Recent Years

$ Billions Each Year: Merchandise Trade Balance, BOP Basis



IMF and MBG Information Services

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19 Certainly another key factor in recent slow growth has been constrained government spending that skyrocketed in the 1980s. This peaked in 1992 and actually fell, adjusted for meager inflation, during the Clinton term as sharp reductions in Federal spending more than offset spending growth by state and local governments.

20 These figures reflect the August 28, 1997 updates and revisions to quarterly GDP data by the Department of Commerce, Bureau of Economic Analysis.

21 Office of the US Trade Representative and others, "Study on the Operations of..," p. 13.

22 Sidney Weintraub's "Three Years Later, NAFTA Proves the Naysayers Wrong," The Los Angeles Times, March 2 , 1997 and in his full report, "Nafta at Three: A Progress Report, (Washington, DC: Center for Strategic and international Studies, 1997) Mr. Weintraub often writes in the L.A. Times which will not acknowledge his errors.

23 See, for example, The American Textile Manufacturers Institute's recent report "Free Trade in the Americas," February, 1999. Especially pp. 11-12.

In fact, since implementation of Nafta, the US has suffered the worst dollar losses in history for traded merchandise and for manufactured goods -- a subset of merchandise excluding principally oil and agriculture. The US merchandise trade deficit soared from -\$73.8 Billion in 1991 and -\$96.1 Billion in 1992, to consecutive records during Nafta of -\$166.1 Billion in 1994, -\$173.4 Billion in 1995, -\$191.2 Billion in 1996 and appears set to exceed -\$200 Billion in 1997. That is, global US merchandise trade losses soared to a record -\$531 Billion in the first three years of Nafta and will likely exceed -\$731 Billion when the fourth year is complete.

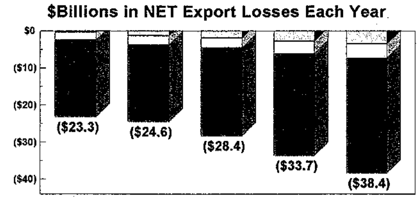
Global US dollar losses for traded manufactured goods have also been the worst in history since Nafta as deficits have soared from -\$47.3 Billion in 1991 and -\$65.9 Billion in 1992 to record losses of -\$127.0 Billion in 1994, -\$144.7 in 1995, \$137.2 Billion in 1996 and appear set to remain above -\$130 Billion again in 1997. That is, global US manufactured goods losses soared to a record -\$409 Billion in the first three years of Nafta and will likely exceed -\$540 Billion in losses when the fourth year is complete.

Imports and trade deficits from Asia have continued to grow rapidly during the first five years of Nafta. The US auto complex (autos/trucks/parts) suffered an unprecedented -\$80 billion trade deficit in 1998 -- its third straight record of global losses -- as soaring imports from Mexico merely add to import growth from Asia. Despite strong consumer demand, the US textile and apparel industry has lost -360,000 jobs over the past five years and suffered its worst trade losses in history as sharp import growth from Mexico merely adds to import pressures from Asia.

U.S. Textile & Apparel Trade Losses

Continue to Worsen With Asia, Mexico and CBI

\$Billions in NET Export Losses Each Year



	1994	1995	1996	1997	1998P
Mexico	(\$0.4)	(\$1.3)	(\$1.9)	(\$2.8)	(\$3.5)
CBI	(\$2.1)	(\$2.5)	(\$2.6)	(\$3.5)	(\$4.0)
Asia	(\$20.8)	(\$20.8)	(\$23.8)	(\$27.5)	(\$31.0)

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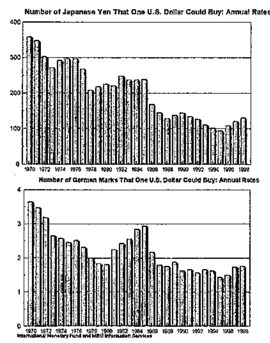
US global trade performance since Nafta is also the worst on record as a percent of GDP for periods when the dollar is weak -- below its so-called purchasing power parity (PPP) value.[24] Global trade losses have been worse than today only in two periods that were associated with an unsustainably strong exchange rate for the US dollar -- 1970-1974 and 1984-1988. In the first period, with the dollar based on gold and worth 360 Japanese Yen and 3.6 German Marks, President Nixon was forced by this concern for trade losses to abandon the gold standard and allow the dollar to be sharply devalued by market forces.

[24] Purchasing Power Parity is a traditional "common market basket" tool used by economists before floating exchange rates to estimate the appropriate rate of exchange between different national currencies. It continues to be used in estimates of relative living standards and (inappropriately) for comparing cross-national productivity levels. The Organization for Economic Cooperation and Development (OECD) in Paris regularly provides the most widely used estimates. see OECD, Main Economic Indicators: January, 1999. (Paris: OECD, 1999).

The second period followed very rapid economic growth, unprecedented federal budget deficits and extremely high real interest rates (real GDP grew by 7% in 1984). After having fallen sharply since 1970, the dollar rose to a value of 240 Japanese Yen and three German Marks. Concerned by widening trade losses, President Reagan organized the so-called "Plaza Accord" in March, 1985 and other activities to assist world financial markets in reducing the value of the "too" strong dollar.



Many prominent economists urged policy-makers in the mid-1980s to ignore the trade deficit with the assurance that it would be eliminated when the dollar fell in value to only 220 Yen...or 200...or, certainly by 175 Yen. But the dollar's value fell to as low as 84 Yen in the spring of 1995 and is today worth only about 120 Yen.[25] Even among the various private and government indexes of the dollar's value that adjust for differentials in inflation and are trade-weighted, the dollar fell to its weakest level ever in 1995 and remains today at historically low values. The current OECD estimate of PPP values for 1998 has the dollar worth 163 Yen and 2.01 German Marks. Perhaps it should also be noted here that the PPP just listed for Mexico in 1998 is 5.03 Pesos per US dollar.

Similarly, during the period of 7% annual GDP growth in the mid-1980s, -$200 Billion annual federal budget deficits, 10% real interest rates, and an "overvalued dollar," many prominent economists began to reverse historic understandings of trade. The popular logic became that the overvalued dollar was causing the trade deficit; the overvalued dollar was caused by high real interest rates which were caused by the shortfall of savings which was caused by the federal budget deficit and by run-away consumer spending.

Trade concerns became secondary to reducing the US federal budget deficit -- a matter emphasized in every G-7 meeting and most trade negotiations during the mid-to-late-1980s.

This unique logic of the mid-1980s in the US had strong appeal and was supported by much of the data. However, since 1988, with a weak dollar, US economic growth far below global averages until 1998, a sharp decline in the federal budget deficit now become a surplus, the unique trade logic of the mid-1980s is no longer supported by the data. US economic growth has been slower than world growth every year between 1984 and 1997, and the dollar has been well below its PPP value since 1987.

Today's record trade losses are quite clearly NOT the result of an overvalued dollar, nor of persistently strong US economic growth, nor of large federal budget deficits. As before the unique period of the mid-1980s, today's trade deficit is clearly a major cause -- not a consequence -- of the US savings shortages.

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[25] See, for example, C. Fred Bergsten and William R. Cline, The United States-Japan Economic Problem, (Washington, DC: Institute for International Economics, 1985).

As important as the failure of the Nafta promoters' macro-level forecasts are the failure of their forecasts about the detailed composition of trade. Relying on 18th Century economic realities of national comparative advantage, promoters ignored the extraordinary new powers of transnational firms and new global production technologies to assume:[26]

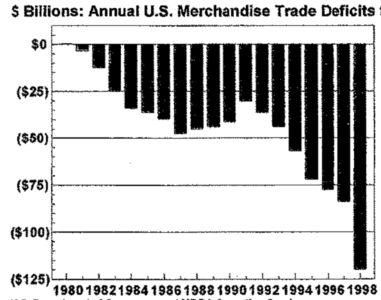
> *Over the long term, the main impact of larger US-Mexican trade will be higher incomes made possible by greater efficiency and faster growth. Efficiency in both economies will be boosted by the tendency of each country to export those goods and services in which it has a comparative advantage.*

Perhaps it is an unexamined faith that the content of this old pattern has not been affected by new technologies and organizational abilities that leads Nafta promoters to wrongly accuse empirical analysts of equally obsolete concerns. Reflecting this long and unchanging tradition, Hufbauer and Schott accuse of embracing a simplistic "pauper labor theory" those who find no support in the data for their obsolete theories.[27]

They assure that huge differentials in labor and other production costs in Mexico compared with the US are still of little importance to firms or major traded industries because they are offset by the far higher general levels of US productivity.

Yet the rapid changes in trade patterns have shown quite clearly for many years that these old truisms have been radically transformed in the US by modern capabilities of transnational firms. The times have long passed when the US was a big net exporter of sophisticated equipment to Less Developed Countries (LDCs) while importing primarily raw materials, apparel and footware. More recently, the Clinton Administration has made this same baseless argument concerning oddly-named "Big Emerging Markets" (BEMs) which include Mexico and 17 other mostly larger LDCs and excludes OPEC. The BEMs include: Argentina, Brunei, Brazil, China, Hong Kong, India, Indonesia, S. Korea, Malaysia, Mexico, Philippines, Poland, Singapore, S. Africa, Taiwan, Thailand, Turkey, Vietnam.[28]

$ Billions: Annual U.S. Merchandise Trade Deficits to BEMs



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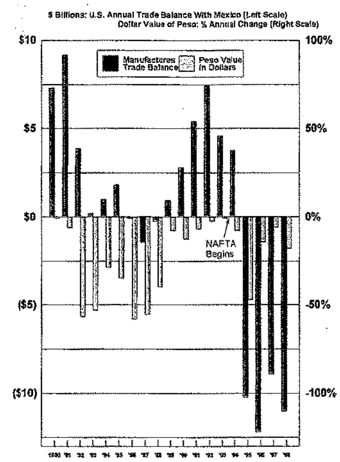
[26] Hufbauer and Schott, p. 23.

[27] Hufbauer and Schott, p. 12. In recent years the most prominent advocate of this obsolete, counterfactual faith is Paul Krugman. See his oddly titled "Does Third World Growth Hurt First World Prosperity?" Harvard Business Review; July/August, 1994. pp. 113-121. A detailed critique of some of Krugman's larger errors of fact, logic and scholarship is in Charles W. McMillion, "Third World Growth," Harvard Business Review; Sept/Oct, 1994. pp. 181-183.

[28] US International Trade Administration, "The Big Emerging Markets," Business America, March, 1994.

The major US imports from BEMs have long been high value added manufactured goods such as machinery and transportation equipment. Even with some residuals of the Cold War remaining -- particularly in aircraft and defense related electronics -- the US has had chronic and now rapidly deepening manufacturing trade deficits with BEMs. These key manufacturing trade losses set new records in each of Nafta's first five years: -$60 Billion in 1994, -$77 Billion in 1995, -$82 Billion in 1996, -$84 Billion in 1997 and perhaps -$110 Billion in 1998. This is a net loss in manufacturing trade to the so-called "Big Emerging Markets" of over -$400 Billion during the first five years of Nafta.



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By sharp contrast, the US has long enjoyed a trade surplus, or only a small deficit, in manufacturing trade with developed countries other than Japan. US trade losses to Japan have been very deep and persistent.

But US manufacturing trade losses to low wage, low regulatory cost LDCs are large and growing rapidly. Mexico has only added to these losses with unprecedented deficits of -$10-to-$12 Billion each year since 1995. Oddly, neither the official government "assessment" of Nafta's affects nor any of the "independent" assessments from major institutions seem to have noticed -- much less assessed -- this major change.

As important as the overall shift and imbalance in US/Mexico trade since Nafta, is the industry composition of trade. Agricultural and steam engine era assumptions of national comparative advantage upheld by Nafta promoters holds that US/Mexico trade, even with imbalance, will spur productivity and therefore growth and prosperity for both countries. Each country will specialize in industries where it is most efficient, increasing net exports in those industries, and will shift out of industries where it is less efficient, increasing net imports.

Clearly, as with competitive domestic markets, such specialization based on productivity and product quality would be a benefit that could offset some or all of the US losses from trade deficits. These considerations are quite important in assessing the benefits of US interstate trade and of US trade with Canada and Europe where production cost differentials are comparable.

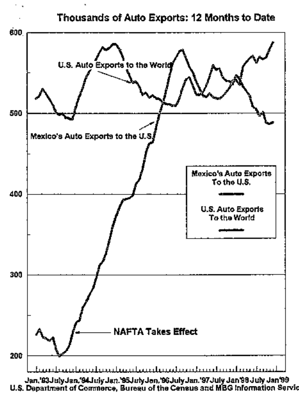
But Mexico is not Canada or Europe and it is preposterous for economists and politicians to ignore the massive differences in conditions and commercial patterns. The poorly enforced minimum wage in Mexico in March, 1999 is 31.91 New Pesos per day -- $3.20 per day at current

More recently, see Jeffrey E. Garten, The Big Emerging Markets and How They Will Change Our Lives, (New York: Basic Books, 1997).

exchange rates. Compensation for manufacturing workers in Mexico have officially fallen from -85% below US costs in 1993 to -90% less than US costs today following five years of Nafta.[29] It should be noted that during the past five years total real compensation per hour for US labor has risen by less than 3% -- virtually all this increase coming in 1998. Real US manufacturing compensation has grown less than 4% during the period, with most of the increase also coming in the last year. The widening gap between US and Mexican wages during Nafta has therefore been the result of falling wages in Mexico and virtually stagnant wages in the US.

A new study by Miguel Szekely, an economist at the Inter-American Development Bank, points out that Mexico's consumers have suffered a 39% drop in purchasing power over the past five years.[30] The report, written for the United Nations Development Program, shows that two-thirds of Mexico's population is now considered "poor," compared with less than half that was considered so before Nafta. Szekely notes that it would take five years of very strong economic growth just to recovery to the high poverty levels that existed in Mexico even a generation ago. It is now quite difficult to foresee a time when Mexico can be a significant customer for US-made products.

Mexico Exports 100,000 More Cars To the US
Than The US Exports to the World -- Including to Mexico



U.S. Department of Commerce, Bureau of the Census and MBG Information Services

Trade with Mexico, as with other BEMs, is driven not by traditional efficiencies and inherent comparative advantages of national firms but by transnational firms taking advantage of tremendous cost savings, undermining smaller national firms.

For example, Mexico has no "national" auto producer. Nevertheless, in 1998 Mexico exported 99,000 more cars *just to the US* than firms producing in the US exported to Mexico and to the rest of the world *combined*. Producers in Mexico shipped 587,000 cars to the US last year while producers in the US exported only 488,000 cars to the world -- including to Mexico. The US paid $28.3 Billion for imported cars, trucks and parts from Mexico in 1998 while earning only $11.7 Billion for mostly outsourced industry "exports" to Mexico.[31]

Indeed, across the entire spectrum of traded industries, it is hard to imagine how anyone even remotely knowledgeable about US/Mexico commercial patterns could make a case that it is

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[29] US Dept. of Labor, BLS, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975-1997," September, 1996. Table 1. USDL 98-376.

[30] Reported by Joel Millman in a front page report of the Wall Street Journal, "Is the Mexican Model Worth the Pain?" March 8, 1999.

[31] Unit figures are available for auto and truck exports and production from the US Department of Commerce, Bureau of Economic Analysis. The dollar value of cars, trucks and parts imports and exports are available in the BEA's "International Trade in Goods and Services: December, 1998," (FT900), Exhibit 18.

driven primarily by traditional forces of productivity and national comparative advantage.[32] Unfortunately, Nafta proponents do not attempt to make their arguments based on the data but -- despite the awful track record -- merely assert obsolete theories as fact or forecast.[33]

Indeed, US/Mexico trade patterns are almost the opposite of what Nafta supporters might believe.[34] US net export losses to Mexico are now concentrated in autos and electronics with losses now emerging in optics and precision instruments, and machinery including computers and computer components. US net export gains are largely in bulk commodities such as cereals, oil seed, organic chemicals, pulp wood and animal fats. Even the few manufactured goods with net export gains are concentrated in bulk commodities such as plastic boxing and packing materials, cereal and assorted seeds and fruit.

US Trade With Mexico:
Losses Are Concentrated in Vehicles and Electronics

Annual Balances HITC Codes & Industries	Before Nafta 1991-1993	After Nafta 1994-1998	Annual Change
Merchandise Totals:	$3.1	-$12.4	-$15.5
5 Industries Suffering Largest Net Export Losses Since Nafta			
87 Vehicles	-$0.8	$6.5	-$5.6
85 Electrical Machinery	-$2.1	-$5.2	-$3.1
84 Machinery and Parts	$2.5	$0.3	-$2.2
27 Mineral Fuels	-$3.7	-$5.1	-$1.4
90 Precision Instments	$0.5	-$0.6	-$1.1
5 Industries Enjoying Largest Net Export Gains Since Nafta			
12 Misc. Grain, Seed, Fruit	$0.5	$0.8	$0.3
29 Organic Chemicals	$0.6	$0.9	$0.3
48 Paper/ Paperboard	$8.5	$1.2	$0.4
10 Cereals	$0.7	$1.2	$0.5
39 Plastics And Articles	$1.5	$3.0	$1.4
US Dept. of Commerce, Bureau of Census and MBG Information Services			

[32] Traditionally, productivity has generally been taken to refer to the productivity of labor which is relatively fixed in a location. Today, trade is being driven largely by the productivity of capital which is instantly and globally mobile driving factor price equalization.

[33] Even Nora Claudia Lustig, an insightful scholar of Mexico at the Brookings Institution, ignores the content of US/Mexico trade and assumes that any increase in the total volume is driven by traditional productivity and national comparative advantage forces as she joins the popular celebration of Nafta's "success." See her Nafta: Setting the Record Straight, (Washington, DC: Brookings Policy Brief No. 20, 1997).

[34] Importantly, this new post-Nafta trade pattern does NOT now exist with the Caribbean, and the rest of Latin America where the US continues to enjoy both overall net export surpluses and surpluses in the expected high productivity industries of machinery, electronics and autos.

Clearly a process that leads the US to specialize in plastic, cereals, paper boxes, cereals, organic chemicals and assorted fruits and seeds while moving away from autos, electronics, and machinery such as computers is not a net positive for the US economy, its workers or domestic producers. It contributed to the virtual stagnation in overall US productivity growth in 1994 and 1995 and is one reason that productivity growth (despite strength in 1996 and 1998) has been the weakest ever recorded in the current recovery.

However, this upside-down trading pattern is good for the few transnational firms that are rapidly increasing their production in or contracting out to Mexico.[35] Oddly, this contracting out is uncritically celebrated as "jobs creating exports" in all "assessments" by Nafta promoters. Yet 46% of all US "exports" to Mexico and 65% of US imports from Mexico were intra-firm transactions in 1997.[36] The detailed data of the major traded industries tell an even more interesting story as 92% of imported vehicles and parts were intra-firm, 84% of electrical machinery and parts, and 89% of telecommunications and sound equipment. And of course, these are only the transactions linked by intra-firm stock ownership and do not include the many other forms of contract and sourcing relationships.

The overwhelmingly intra-firm nature of US trade with Mexico raises a complex set of measurement problems particularly for the politically sensitive issue of the effect of trade on jobs. Exports "create" or "support" new jobs only to the extent that exports represent new production. Certainly, if a firm, closes part of its production process in California, moves it to Mexico but continues to supply its new Mexican facility with components, US "exports" have increased but US jobs have been reduced. Other firms that previously supplied the operation in California and were able to continue to supply the relocated operation in Mexico would appear as new exporters even if they sold the operation less than previously.

Although it is not possible to quantify, clearly many US exports to Mexico are of this contracting out type that "destroy" rather than "create" jobs in the US. Yet the methodology that attributes jobs created or sustained by exports to Mexico ignores this major factor.[37] Even more importantly, while every serious analyst in the past considered both imports and exports, today Nafta advocates ignore jobs displaced by imports. There is no substantive basis for this shamelessly misleading practice.

Today's global economy makes bi-lateral assessments inherently complex. Nonetheless, the Department of Commerce calculates that it now requires 14,000 full time jobs to produce $1 Billion worth of traded goods. Ignoring the job displacements from contracting out many US

35 In Nafta's first year, Mexico became the largest source of contracted-out production sharing. U.S. International Trade Commission, Production Sharing: Use of US Components and Materials in Foreign Assembly Operations, 1991-1994. (Washington, DC: ITC, May, 1996).

36 Related Firm trade is defined by the Tariff Act of 1930 to include transactions between parties with ownership or control of 6% or more of the outstanding voting stock in its partner. US Dept. of Commerce, Bureau of Census, "US Goods Trade: Imports & Exports by Related Parties: 1997," (Washington, DC: DOC, May 14, 1998). Detailed industry data for Mexico come from a special data run by the Bureau of Census.

37 Lester A. Davis, US Jobs Supported by Goods and Services Exports: 1983-94, (Washington, DC: US Dept. of Commerce, Economics and Statistics Administration, Nov. 1996) The current report attributes 729,000 US jobs from exports to Mexico -- approximately 14,000 jobs to each $1 Billion in goods exports. There are no country specific data for services.

"exports" to Mexico, applying this formula to the US net export loss to Mexico of $16.8 Billion in 1998 suggests a displacement of 235,000 higher wage US jobs to Mexico trade. A proper accounting for jobs lost to contracted out "exports" would sharply raise the total job displacement figure to the range of 300,000.[38]

Also key in any assessment of US/Mexico economic relations since Nafta is the effect of the relationship on the wages of working US consumers. Again, the recent flood of reports from Nafta promoters are extremely misleading in their treatment of this important issue. Even in the Hufbauer and Schott report that was featured in selling Nafta it was noted that:[39]

> *Based on the 1990 composition of trade, the median weekly wage associated with US exports to Mexico and US imports from Mexico were practically the same: about $420 to $425 per week. This calculation is striking because it suggests that there is no overall tendency for US exports to Mexico to support high-skilled US jobs, nor for US imports from Mexico to displace low-skilled US jobs.*

That is, even by the calculations of Nafta's strongest supporters, in 1990 wages associated with US exports to Mexico paid -$5 per week less than jobs displaced by US imports from Mexico. Since 1990, as discussed above, the composition of US/Mexico trade has shifted dramatically in ways that have likely widened this disparity. Imports from Mexico have grown faster than exports to Mexico since Nafta implementation, indicating a force of downward pressure on wages.

Kate Bronfenbrenner has documented wide use of intimidation by transnational interests threatening relocation to Mexico to force US workers into concessions on wages and benefits.[40]

Most important, although it is again not possible to document or quantify, is the intense market pressure on wages, profits, regulatory compliance and most other US production cost factors from transnational production in a nation on the US border with a population three times the size of Canada. Many Nafta advocates now attempt to trivialize Mexico's effects on US workers and firms by the fact that due to Mexico's impoverishment its GDP is only 1/28th the size of the US economy. Yet with a population of almost 100 million, Mexico's labor force is growing by well over one million each year -- more than half the size of US labor force growth. This is one important reason why real compensation per hour for all US nonfarm workers declined during the five years ending in 1997 -- even in a time of cyclical recovery and low unemployment.[41]

Real compensation appears to have grown by 2.6% in 1998, its strongest rise since 1986. Yet the extraordinary wage and benefit stagnation of recent years continue to be reflected in many ways. Consumer debt levels and ratios have reached record highs, personal savings rates

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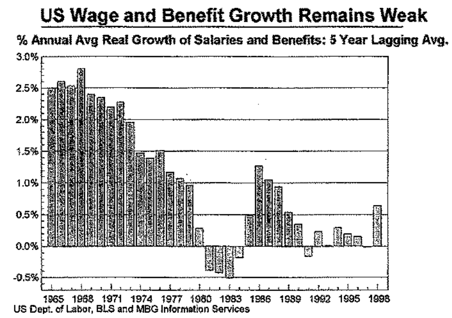
38 As of August, 1997, total US employment in manufacturing remains -600,000 below its 1990, post-recession levels. While 10.2 million net new US jobs have been created since Nafta took effect, fewer than 0.4 million of these have been in traded-goods sectors.

39 Hufbauer & Schott, p. 21. (Their table, p. 16, shows that even before the US lost its manufacturing surplus with Mexico, export-related jobs paid $420 per week and jobs displaced by imports from Mexico paid $424.)

40 Kate Bronfenbrenner, Final Report: The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize, (Cornell University, Program on Labor Education Research, September, 1996.)

41 The US Dept. of Labor, BLS data series on "Productivity and Costs," shows real compensation per hour for all nonfarm workers with an index of 100 in 1992 and 99.9 in 1997 (latest data from release of March 9, 1999.)

actually fell to negative in late 1998 -- for the first time since 1933. Certainly there are many causes for these developments but there is no question but that Nafta's investment and trade provisions with Mexico are key factors.



Finally, despite their confident forecasts six years ago, Nafta advocates now insist that Mexico's recent economic and trade performance have nothing to do with Nafta but have been driven by a never before witnessed devaluation of Mexico's Peso.

But Peso devaluations have been a common occurrence in Mexico for a generation. The 47% devaluation of 1994-95 was less severe than devaluations in 1982, 1983, 1986 and 1987 and barely worse than those in 1984, 1985 and 1988. Why was $42 Billion in US-tax-payer-backed stabilization loans necessary to avoid even greater crisis in Mexico after Nafta's first year? Even with this, why has Mexico suffered its worst depression since the 1930? Why have Mexican wages fallen 30% below pre-Nafta levels? Why are US trade losses twice as large as ever before and concentrated, for the first time, in highly productive, high wage manufacturing industries?

As indicated at the outset, the principal reason is the Nafta guarantees to investors and speculators that have left Mexico vulnerable to global events, investors and speculators.[42] Nafta's investment and trade provisions have clearly failed the vast majority of Americans as well as Mexicans. The failures of Nafta provide important lessons not only for US policymakers but for Asia and for developing and transnational states everywhere. To ignore this experience and lurch ahead with obsolete theories of globalization could be a fast track to even deeper and wider trouble.

[42] See especially Chapter 11; Article 1110 of the Nafta agreement which states:

No Party shall directly or indirectly nationalize or expropriate an investment of an investor of another Party in its territory or take a measure tantamount to nationalization or expropriation of such an investment.

This language so clouds the legal concept of a "taking," that the Ethel Corporation, for example, has brought a $251 million lawsuit against Canada in an autonomous Nafta tribunal charging the attempt to ban a gasoline additive MMT as a toxin constitutes "expropriation." For a recent overview of a wide variety of cases see "Trade Pacts Accused of Subverting U.S. Policies," Los Angeles Times, February 28, 1999.

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U.S. Trade Losses With Mexico Reach $62 Billion in Five Years of NAFTA

Net Imports from Mexico Are Now Concentrated in Autos, Electronics and Apparel; Non-Oil Deficit Is Worst Ever in 1998

Net Exports: Millions of Dollars	Annual Balances									Nafta: 5 Yrs
HITC: Exports F.A.S./Imports Customs	1990	1991	1992	1993	1994	1995	1996	1997	1998	1994-'98
MERCHANDISE TOTALS	($1,797)	$2,148	$5,381	$1,664	$1,350	($15,809)	($17,506)	($14,549)	($15,699)	($62,212)
NON-FUEL OIL TOTALS	2,664	5,912	8,875	5,499	5,447	(10,838)	(10,917)	(8,116)	(12,166)	(36,591)
87 Vehicles, Other Than Railway Or Tramway Rolling St	(264)	(486)	(643)	(1,400)	(1,494)	(5,808)	(8,550)	(7,771)	(8,756)	(32,380)
85 Electrical Machinery And Equipment And Parts There	(2,132)	(1,862)	(1,936)	(2,515)	(4,086)	(5,482)	(5,142)	(4,468)	(7,012)	(26,190)
27 Mineral Fuels, Mineral Oils And Products Of Their	(4,461)	(3,764)	(3,494)	(3,836)	(4,097)	(4,970)	(6,589)	(6,433)	(3,532)	(25,621)
62 Articles Of Apparel And Clothing Accessories, Not	(285)	(334)	(401)	(457)	(607)	(1,016)	(1,331)	(1,889)	(2,530)	(7,374)
61 Articles Of Apparel And Clothing Accessories, Knit	(21)	(17)	(19)	(60)	(89)	(441)	(753)	(1,176)	(1,594)	(4,052)
94 Furniture; Bedding, Cushions Etc.; Lamps And Light	(272)	(114)	(144)	(180)	(361)	(707)	(1,096)	(1,309)	(1,589)	(5,062)
07 Edible Vegetables And Certain Roots And Tubers	(791)	(753)	(655)	(886)	(914)	(1,163)	(1,260)	(1,246)	(1,450)	(6,033)
90 Optical, Photographic, Cinematographic, Measuring,	349	525	570	424	13	(751)	(862)	(529)	(1,047)	(3,175)
22 Beverages, Spirits And Vinegar	(216)	(161)	(161)	(160)	(191)	(340)	(437)	(567)	(724)	(2,258)
08 Edible Fruit And Nuts; Peel Of Citrus Fruit Or Mel	(268)	(342)	(386)	(300)	(235)	(448)	(437)	(447)	(607)	(2,174)
95 Toys, Games And Sports Equipment; Parts & Access	(17)	(35)	(19)	(120)	(104)	(388)	(455)	(394)	(495)	(1,835)
09 Coffee, Tea, Mate And Spices	(345)	(340)	(262)	(255)	(319)	(577)	(553)	(631)	(470)	(2,550)
03 Fish And Crustaceans, Molluscs And Other Aquatic I	(223)	(215)	(160)	(221)	(266)	(395)	(391)	(422)	(417)	(1,892)
84 Heavy Machinery And Mechanical	1,694	2,316	2,916	2,356	2,216	(71)	(431)	328	(416)	1,626
63 Made-Up Textile Articles Nesoi; Needlecraft Sets;	(85)	(93)	(110)	(132)	(120)	(259)	(216)	(299)	(367)	(1,261)
70 Glass And Glassware	(107)	(112)	(68)	(44)	(93)	(162)	(204)	(206)	(271)	(937)
69 Ceramic Products	(42)	(56)	(96)	(122)	(146)	(173)	(204)	(250)	(265)	(1,037)
64 Footwear, Gaiters And The Like; Parts Of Such Arti	(100)	(97)	(119)	(108)	(104)	(164)	(231)	(281)	(246)	(1,026)
71 Natural Or Cultured Pearls, Precious Or Semiprecio	(117)	(54)	36	(56)	(64)	(316)	(397)	(208)	(213)	(1,198)
74 Copper And Articles Thereof	(9)	41	9	6	25	(376)	(108)	(49)	(190)	(698)
20 Preparations Of Vegetables, Fruit, Nuts, Or Other	(175)	(134)	(75)	(90)	(105)	(173)	(161)	(149)	(164)	(751)
42 Articles Of Leather; Saddlery And Harness; Travel	(51)	(46)	(55)	(63)	(74)	(100)	(147)	(157)	(155)	(633)
86 Railway Or Tramway Locomotives, Rolling Stock, Tra	115	117	11	(32)	11	5	(86)	(60)	(115)	(244)
79 Zinc And Articles Thereof	(115)	(54)	(42)	(89)	(84)	(98)	(95)	(129)	(105)	(512)
68 Articles Of Stone, Plaster, Cement, Asbestos, Mica	(21)	(17)	(28)	(41)	(27)	(68)	(76)	(76)	(92)	(339)
26 Ores, Slag And Ash	(126)	(57)	(51)	(32)	(53)	(110)	(84)	(63)	(71)	(381)
72 Iron And Steel	232	566	651	316	70	(145)	(110)	(109)	(67)	(360)
01 Live Animals	(332)	(172)	(146)	(324)	(202)	(521)	(44)	32	(66)	(801)
19 Preparations Of Cereals, Flour, Starch Or Milk; Ba	(14)	(9)	19	25	14	(56)	(64)	(81)	(55)	(242)
17 Sugars And Sugar Confectionary	105	89	35	23	18	(27)	(1)	(16)	(53)	(80)
44 Wood And Articles Of Wood; Wood Charcoal	61	139	220	157	112	(57)	(143)	(146)	(39)	(272)
65 Headgear And Parts Thereof	(15)	(18)	(27)	(35)	(37)	(42)	(41)	(38)	(38)	(196)
92 Musical Instruments; Parts And Accessories Thereof	(3)	(11)	(16)	(15)	(26)	(39)	(37)	(37)	(36)	(174)
91 Clocks And Watches And Parts Thereof	33	35	23	11	21	13	26	20	(30)	51

Industry data are prioritized by 1998 balances.

U.S. Trade Losses With Mexico Reach $62 Billion in Five Years of NAFTA

Net Imports from Mexico Are Now Concentrated in Autos, Electronics and Apparel; Non-Oil Deficit Is Worst Ever in 1998

Net Exports: Millions of Dollars HITC: Exports F.A.S./Imports Customs	1990	1991	1992	1993	Annual Balances 1994	1995	1996	1997	1998	Nafta: 5 Yrs 1994-'98
24 Tobacco And Manufactured Tobacco Substitutes............	($13)	($17)	($8)	($4)	$35	$12	($2)	($33)	($29)	($16)
14 Vegetable Plaiting Materials And Vegetable Product........	(31)	(30)	(25)	(34)	(33)	(27)	(28)	(27)	(21)	(136)
34 Soap Etc.; Lubricating Products; Waxes, Polishing..........	42	7	46	45	53	5	(6)	(22)	(16)	14
06 Live Trees And Other Plants; Bulbs, Roots And The........	(14)	(8)	(3)	(4)	2	(9)	(2)	(6)	(13)	(28)
25 Salt; Sulfur; Earths And Stone; Plastering Materia...........	(188)	(145)	(101)	(59)	(52)	(74)	(78)	(46)	(9)	(259)
93 Arms And Ammunition; Parts & Accessories Thereof.......	3	(4)	(0)	14	17	(4)	(1)	(2)	(2)	7
53 Vegetable Textile Fibers Nesoi; Yarns & Woven Fa.........	1	1	0	(0)	(0)	(1)	(1)	(1)	(1)	(5)
45 Cork And Articles Of Cork..	1	2	1	1	2	9	1	0	0	13
43 Furskins And Artificial Fur; Manufactures Thereof...........	1	2	4	8	5	0	1	1	1	8
67 Prepared Feathers And Down And Articles Thereof.........	4	5	4	5	7	1	1	1	1	11
46 Manufactures Of Straw, Esparto Or Other Plaiting M.......	(4)	(3)	(3)	(2)	(3)	(4)	(1)	(1)	1	(8)
66 Umbrellas, Sun Umbrellas, Walking-Sticks, Seat-Sti.......	1	1	3	2	2	0	1	2	1	6
36 Explosives; Pyrotechnic Products; Matches; Pyropho......	8	11	12	5	0	(3)	0	(0)	2	(0)
51 Wool And Fine Or Coarse Animal Hair, Including Yar......	2	(0)	(2)	(3)	(3)	5	7	2	3	14
50 Silk, Including Yarns And Woven Fabrics Thereof...........	1	1	3	2	2	7	11	4	4	28
97 Works Of Art, Collectors' Pieces And Antiques................	(5)	6	6	(2)	11	(31)	10	5	6	1
81 Base Metals Nesoi; Cermets; Articles Thereof.................	0	1	(1)	(2)	3	1	4	7	8	23
13 Lac; Gums; Resins And Other Vegetable Saps...............	16	12	6	10	20	15	10	6	20	71
75 Nickel And Articles Thereof...	16	11	10	9	10	8	11	19	21	69
78 Lead And Articles Thereof...	(18)	(7)	(25)	(13)	(10)	(28)	(3)	(23)	21	(44)
18 Cocoa And Cocoa Preparations......................................	16	41	36	25	41	9	16	3	24	94
80 Tin And Articles Thereof..	(17)	1	16	4	8	19	15	16	26	84
05 Products Of Animal Origin, Nesoi.....................................	26	26	30	25	28	19	28	28	27	130
16 Edible Preparations Of Meat, Fish, Crustaceans, Mo.......	(9)	(1)	16	58	68	20	11	12	30	141
96 Miscellaneous Manufactured Articles...............................	(19)	(25)	16	13	(14)	(49)	(27)	47	41	(1)
89 Ships, Boats And Floating Structures...............................	12	18	28	21	32	15	15	21	49	133
60 Knitted Or Crocheted Fabrics...	10	12	15	13	20	23	31	43	67	184
57 Carpets And Other Textile Floor Coverings......................	29	36	51	65	63	39	29	47	67	246
83 Miscellaneous Articles Of Base Metal..............................	182	244	293	302	312	241	101	125	77	855
11 Milling Industry Products; Malt; Starches; Inulin;...............	31	39	65	65	64	41	78	82	89	354
49 Printed Books, Newspapers, Pictures And Other Prin......	63	88	117	165	197	95	119	79	104	594
55 Manmade Staple Fibers, Including Yarns & Wovens........	43	38	52	35	15	(56)	1	35	116	110
31 Fertilizers..	32	37	65	104	106	(17)	61	107	118	375
21 Miscellaneous Edible Preparations..................................	24	41	68	84	116	50	61	85	124	437
35 Albuminoidal Substances; Modified Starches; Glues;.......	26	43	57	73	87	79	102	125	130	522
82 Tools, Implements, Cutlery, Spoons And Forks................	59	63	69	88	94	67	63	113	134	472
37 Photographic Or Cinematographic Goods........................	28	29	30	49	77	76	97	162	138	549

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Net Imports from Mexico Are Now Concentrated in Autos, Electronics and Apparel; Non-Oil Deficit Is Worst Ever in 1998

Net Exports: Millions of Dollars HITC: Exports F.A.S./Imports Customs	1990	1991	1992	1993	Annual Balances 1994	1995	1996	1997	1998	Nafta: 5 Yrs 1994-'98
30 Pharmaceutical Products	$62	$64	$61	$85	$125	$95	$102	$127	$148	$596
33 Essential Oils And Resinoids; Perfumery, Cosmetic	53	75	106	142	191	110	111	147	159	718
56 Wadding, Felt And Nonwovens; Special Yarns; Twine,	104	125	137	155	164	149	111	99	164	687
04 Dairy Produce; Birds' Eggs; Natural Honey; Edible	55	107	141	222	158	106	87	143	170	663
58 Special Woven Fabrics; Tufted Textile Fabrics; Lac	37	51	56	67	90	108	113	127	184	622
59 Impregnated, Coated, Covered Or Laminated Textile	35	28	61	51	62	52	53	108	201	477
23 Residues & Waste From The Food Industries; Prepa	129	163	262	213	270	200	222	196	239	1,127
28 Inorganic Chemicals; Organic Or Inorganic Compound	41	112	94	82	61	101	171	186	278	798
41 Raw Hides And Skins (Other Than Furskins)	96	143	152	105	112	98	214	279	306	1,009
54 Manmade Filaments, Including Yarns & Woven Fabri	105	70	122	136	172	120	201	266	313	1,072
98 Special Classification Provisions, Nesoi	452	528	494	358	454	(169)	(19)	217	352	836
32 Tanning Or Dyeing Extracts; Tannins And Derivative	54	81	128	138	213	173	225	286	360	1,257
47 Pulp Of Wood Or Other Fibrous Cellulosic Material;	322	289	293	281	386	596	321	388	367	2,058
15 Animal Or Vegetable Fats And Oils And Their Cleava	114	129	163	202	230	335	264	342	411	1,582
88 Aircraft, Spacecraft, And Parts Thereof	376	567	868	483	535	86	113	190	547	1,470
38 Miscellaneous Chemical Products	171	204	198	257	363	351	455	484	562	2,215
73 Articles Of Iron Or Steel	146	204	305	232	511	432	828	552	575	2,899
52 Cotton, Including Yarns And Woven Fabrics Thereof	41	41	123	208	256	196	286	371	696	1,805
76 Aluminum And Articles Thereof	228	288	351	356	436	365	500	544	702	2,546
40 Rubber And Articles Thereof	195	301	326	305	345	299	470	711	803	2,629
02 Meat And Edible Meat Offal	250	472	531	448	625	345	493	691	815	2,970
12 Oil Seeds And Oleaginous Fruits; Miscellaneous Gra	234	409	530	505	645	561	956	1,022	892	4,076
29 Organic Chemicals	464	484	532	694	780	770	861	1,108	1,062	4,582
10 Cereals	884	626	863	671	961	903	1,838	899	1,298	5,899
48 Paper And Paperboard; Articles Of Paper Pulp, Pape	466	690	886	984	1,215	952	1,171	1,279	1,431	6,049
39 Plastics And Articles Thereof	1,043	1,154	1,588	1,729	2,349	2,153	2,814	3,506	4,034	14,856

US Department of Commerce, Bureau of the Census, Global Trade Information Services and MBG Information Services (202) 544-6490

Industry data are prioritized by 1998 balances.

Mr. MICA. I thank you, Mr. Kucinich, for a very interesting opening statement. The information you have provided, as it relates to how we calculate exports and imports, particularly with this question of export for assembly and then reentry, is something the subcommittee needs to look into further.

I'm pleased to recognize, at this time, the gentleman from California, Mr. Ose, for an opening statement.

Mr. OSE. Thank you, Mr. Chairman. I thank you for calling this hearing. As you know, California has a tremendous interest in trade. With respect to agriculture, as it affects my district directly, I am most interested in hearing the testimony today. This is one subcommittee meeting I would not miss. So I thank you.

Mr. MICA. I thank the gentleman. And I'd like to again welcome our panel. As you may know, this is an investigations and oversight subcommittee of Congress, and in that vein, we have a policy of swearing in all of our witnesses. So, if you would not mind, please stand and raise your right hands?

[Witnesses sworn.]

Mr. MICA. All of the witnesses answered in the affirmative. We welcome each and every one of the panelists today. Thank you for your participation and we look forward to your testimony. Let me say at the outset that we try to limit the oral testimony to 5 minutes. If you have lengthy statements or other materials that you would like made part of the record, we will do that upon request and unanimous consent. We'll also leave the record open for an appropriate number of days, at least 10 days to complete that. Without objection, so ordered.

With that, I would like to recognize Mr. Larry—tell me the correct pronunciation?

Dr. CHIMERINE. Chimerine, Mr. Chairman.

Mr. MICA. Chimerine.

Dr. CHIMERINE. But it's been butchered before.

Mr. MICA. All right. Even a little name like "Mica" has been butchered, but we're pleased to have you. You are with the Economic Strategy Institute. Sir, welcome and you are recognized.

STATEMENTS OF DR. LAWRENCE CHIMERINE, SENIOR VICE PRESIDENT AND CHIEF ECONOMIST, ECONOMIC STRATEGY INSTITUTE; HOWARD LEWIS, VICE PRESIDENT, ECONOMIC POLICY, NATIONAL ASSOCIATION OF MANUFACTURERS; REGINALD BROWN, DIRECTOR OF MARKETING FOR THE FLORIDA FRUIT AND VEGETABLE ASSOCIATION; AND BARRY SOLARZ, VICE PRESIDENT FOR TAX & TRADE, AMERICAN IRON & STEEL INSTITUTE

Dr. CHIMERINE. Thank you very much, Mr. Chairman. Since I'm going to try to stick to your time criteria, let me focus on two or three issues this afternoon. I'm an economist, I'm not a trade policy expert. My colleagues here can talk more about specific trade policy issues better than I can. What I'd like to cover this morning are the two, I think, central macro economic issues reflecting trade.

No. 1, does it matter? And I think you made reference to this in your comments earlier. It disturbs me greatly. Quite frankly, even a large part of the economics profession, and other policy analysts, are arguing "so what?"—that the economy is doing great anyway and trade deficits are irrelevant.

Second, even before that issue, many of them say not only that it doesn't matter but that it's a sign of strength. They argue that it's good we're running this big trade deficit, because it reflects the fact that our economy is strong and other economies are not doing as well around the world, so why be concerned about it? I think both arguments are not only dead wrong but very disturbing, and creating a sense of complacency regarding trade that is very dangerous from a long term perspective.

Let me start with what causes the trade deficit. It is true that the trade deficit is now rising—it is essentially going off the chart, as you mentioned, because of macro economic conditions around the world, largely, the recessions in Asia and in other emerging market countries around the world, and slower growth in Europe. All of this is holding down our exports.

Second, the overvalued dollar, or the sharp increase of the value of the dollar against many currencies, is triggering rising import penetration which is displacing domestic production in the United States. That combination is pushing the trade deficit up dramatically. But I think it's important not to forget the fact that we've had a persistent trade imbalance now for almost 20 years, regardless of relative macro economic conditions.

We had large trade deficits even when Asia was thriving and booming, and even when the dollar was a lot weaker. It does vary somewhat year to year, but we have been running a large trade deficit every year now for almost 20 years regardless of macro economic conditions, oil prices, exchange rates, and some of these other economic determinants of trade flows. This is a serious persistent problem.

In my judgment, it largely reflects structural factors which have caused a persistent structural trade imbalance in the United States. And periodically, much as now, we get macro economic factors which add to it. But the real problem is the structural trade deficit, and without going into a lot of detail, it reflects a number of factors.

First is the export-led growth strategies that most of Asia has employed in recent decades, including closed markets, tying their currencies to the dollar at favorable exchange rates, and other characteristics of those economies designed essentially to generate growth by exporting primarily to the United States. They all subsidize their exports with preferential tax policies and other subsidies.

Some of them require U.S. companies to produce in that market to sell there. And they employ a whole variety of other what we call "unfair trade practices," primarily practices which limit access to their markets and which give them an advantage in exporting to the United States and other markets. These are the factors, in my judgment, that are the root cause of our trade deficit.

Now, you'll hear many macro economists say that that is not the case, that we have a trade deficit because we don't save enough. This is an outgrowth of that famous identity that, roughly speaking, the trade deficit is the difference between investment and savings. It is often argued that our low savings rate is why we have a big trade deficit.

That's like saying the reason a company is losing money is because their revenues are lower than their costs. It tells you absolutely nothing about what's going on; whether revenues have fallen, whether the cost structure is too high, whether they are losing market share, et cetera.

Similarly, that identity can reflect a number of forces. In fact, some of our low savings rate, in my judgment, reflects the trade imbalance which puts downward pressure on wages and jobs in the United States, thus lowering savings. It is not automatic that causality goes from savings to trade. It's a two-way relationship. So it does not in any way undermine the argument that we do have a significant structural trade deficit.

These same economists will tell you that the reason that now we have a trade deficit is that the economies overseas are very weak. Well, earlier they said that all that matters is how much we save. Well then, you can't come back 2 days later and say that the recessions overseas are affecting our trade deficit. It is a combination of a number of factors, but there is this large structural component.

They will also argue that, if anything, we should be happy about the unfair trade practices which exist overseas. They argue that dumping is good for the United States—it's like a gift to consumers—without telling us what it does to the production side of the economy? It's nice to have lower prices, but if you don't have a job it doesn't really matter very much. Of course, they also argue that if other countries have closed markets, it's their consumers that are hurt, not us.

But what about the U.S. companies that cannot sell into those markets? What about the global economies of scale they lose by having limited access to foreign markets, and how does that affect their competitiveness in the long term? So all those oversimplifications, in my judgment, misrepresent the real trade problems, or causes of the trade deficit in the United States.

Does it matter? I think it matters greatly. Admittedly, the economy is relatively strong right now. Domestic demand is particularly buoyant, housing activity is at a very high level. But it is not preordained that the domestic economy is always going to be so strong, that it's always going to offset the drag from trade. We have had many times over the last 20 years when that was not the case. But it's the long term consequences, some of which you mentioned in your opening statement, which bother me even more.

As we continue to run these trade deficits year after year, our foreign debt is piling up, increasingly sucking more income and dividends out of the system on a long term basis. Eventually, foreigners are going to decide they have enough dollar assets.

When that's the case, we'll see sharp downward pressure on the dollar exchange rate, a sharp increase in interest rates, and it will slow long term economic growth. And, of course, as I said a moment ago, it has a significant impact on the competitiveness of the industries that are directly affected. It is an important issue that needs to be addressed.

What do we do about it? Very briefly, I think you said so yourself, Mr. Chairman, in your opening remarks, there is no one magic bullet. I think it requires a multitude of trade policies all designed, No. 1, to provide more access to foreign markets, and No. 2, to limit unfair import penetration in the United States.

This has to start with trade policies aimed at opening foreign markets—which this administration, to its credit, has tried to do probably more than any other administration over the last five or six decades, I wish with more success, but nonetheless, they have made the effort.

It means enforcing and tightening existing trade laws in the United States, particularly anti-dumping, which is more important now than ever because overcapacity breeds dumping, and we are awash in overcapacity in most manufactured goods and commodities around the world because of the crisis overseas.

It means, in my judgment, increasing funding for programs which will improve U.S. competitiveness and increase our access to foreign markets. I'm talking about export financing and promotion programs, which we underfund in this country relative to our trading partners, and which represent a small part of our budget. In fact, we could increase these ten-fold and use up only a small part of our budget surplus.

You know, I think the biggest threat to prosperity in this country is trade and competitiveness. I think we get much more bang from the buck with selected tax cuts and expenditure increases designed to improve our competitiveness and give us a more fair shake in global markets, than we would with big tax cuts for example.

And it probably implies looking at a number of other things. Strengthening the dispute resolution mechanism in the WTO and a number of other programs designed, in my judgment, to accomplish the twin goals of equal access overseas and limiting unfair penetration of U.S. markets. Thank you.

[The prepared statement of Mr. Chimerine follows:]

Testimony of Dr. Lawrence Chimerine

Senior Vice President and Chief Economist,

Economic Strategy Institute.

Presented To House of Representatives

Committee on Government Reform

Subcommittee on Criminal Justice, Drug Policy and Human Resources

My name is Dr. Lawrence Chimerine. I am a Senior Vice President and Chief Economist of the Economic Strategy Institute in Washington, D.C., President of Radnor Consulting Services in Radnor, PA, and Senior Advisor to the WEFA Group in Eddystone, PA. I am pleased to present testimony to the House Govt. Reform and Oversight Committee's Subcommittee on Criminal Justice, Drug Policy and Human Resources on how the government can more effectively deal with the huge U.S. trade imbalance.

In sum, my views are as follows:

1. While the recent increase in the trade deficit largely reflects weak economic conditions in Asia and other parts of the world, which have held down U.S. exports, and rising import penetration in various industries in the U.S. as a result of the depreciation of the U.S. dollar in recent years, there is also a large structural component to our trade imbalance. This persistent structural portion of our trade deficit reflects closed markets in many foreign countries, currency manipulation by many of our trading partners, excessive subsidies and other factors which enable many foreign companies to unfairly penetrate U.S. markets, and other unfair trade practices.

2. While the rising trade deficit is now being offset by strong domestic demand, this is not always likely to be the case. In fact, when the domestic economy slows, the trade imbalance will be a big drag on the U.S. economy, causing a sharp slowdown in economic growth and job creation. In the long term, a continuation of these large deficits will create potential instability and slower growth by increasing our dependence on foreign capital, by sucking an increasing amount of income and dividends out of the U.S., and by adversely affecting the competitiveness of many U.S. industries.
3. It is essential therefore that the structural trade imbalance be addressed. This will require a multitude of policies, including trade policies based on equal access and reciprocity, thus leading to more open markets overseas; maintaining effective trade laws in the U.S. to address those unfair trade practices which create unfair access to U.S. markets; increased funding for export financing and promotion programs to help U.S. exporters in foreign markets; and increased funding for technology and other programs which will improve U.S. competitiveness.

Introduction

In his State of the Union, the President proposed a new round of global trade talks to further liberalize international trade. However, recent polls indicate that the already fragile support for free trade and globalization in this country is eroding further. This appears to reflect the collapse of emerging market economies in Asia and elsewhere, the sharply rising U.S. trade imbalance, and accelerating job losses in trade-sensitive industries. These developments are not only intensifying the debate on trade related issues, especially on whether foreign trade is good for the U.S. economy in general, and living standards and jobs in particular, but threaten to create an increasing wave of protectionist sentiment in the U.S. Unfortunately the debate regarding trade in this country has been oversimplified and has not focused on the real issues- in my judgment, this is also contributing to the growing nationalistic attitude in many quarters.

Causes of the U.S. Trade Deficit

The real issue is not whether free trade is good for the U.S., but whether the one-way free trade which characterizes trade patterns between the United States and many of its trading partners, especially Japan, China, and other Asian countries, is on a net basis in the best interests of the U.S. economy, and its citizens, companies and workers. Virtually all economists agree that real two-way free trade, in which all markets are essentially open, in which exchange rates float freely and in which countries refrain from preferential treatment to its export oriented industries, will strengthen all economies over time. It increases consumer choice, holds down prices, spurs innovation, and stimulates job creation. There are always some losers in such a pure free trade regime, but, especially if countries follow sound macro-economic policies, the gains that the winners receive will exceed the losses incurred by those who are negatively affected by increased trade flows. However, despite the pronouncements of many conventional, so-called free trade economists, it is far from clear that this is the case in the largely one-way free trade environment that now exists. Interestingly enough, the public at large appears to be far ahead of much of the intellectual community in recognizing the forces which now distort trade patterns between the U.S. and other countries, and the consequences of such forces. These include the following:

- Many of our trading partners, especially in Asia, clearly structure their economies to generate export-led growth, holding down domestic consumption, using the resulting high level of savings and foreign capital to expand capacity in a growing number of industries to support more exports, and by providing generous government subsidies and preferential tax and other treatments to exporters. Some foreign governments also, when necessary, encourage their export-oriented companies to dump products in foreign markets. This economic structure not only puts the emphasis on exporting rather then domestic consumption, but frequently encourages exports that are inconsistent with free trade principles. In addition, it has led to gross overinvestment and overcapacity in Asia and elsewhere, which is the root cause of the economic crisis in Asia. The result here has been weaker exports, rising imports which have displaced domestic production, and squeezed profitability in many industries.

- Many foreign markets are essentially closed to U.S. exports of U.S. goods and services. This too has contributed to our large structural trade imbalance, and also reduces incomes and profits in the United States. Sluggishly growing Japan, for example, continues to limit imports by maintaining a closed distribution system, restricting foreign investment to a trickle, imposing onerous licensing and inspection requirements on importers and engaging in discriminatory procurement practices.
- Most Americans are concerned about the impact of trade with low-wage countries – they believe that this has caused a huge shifting of jobs overseas, and/or is creating downward pressure on wages and living standards in the United States as a condition for keeping jobs here. While some of this is inevitable, it has clearly been worsened by currency manipulation by many of these countries, who tie their currencies to the

dollar at exchange rates that give them a competitive advantage, and by accumulating dollar reserves in order to prevent their currencies from rising in value. Under a truly floating rate regime, exchange rates would better reflect the difference in wage levels across countries.

- Many Americans are also concerned about the insistence of many foreign countries that U.S. companies must produce there in order to sell there, even when that would not occur in purely competitive markets. A good example is the way the Chinese have essentially forced Boeing to produce aircraft parts and components in China as a condition for selling jets in the Chinese market.

The effect of the these practices is a huge and persistent trade imbalance in the U.S., regardless of changes in macroeconomic conditions, exchange rates, and other such factors. Some economists disagree, blaming our trade imbalance on our low savings rate. This is an outgrowth of the well-known identity that the difference between savings and investment roughly equals the trade imbalance. However, that identity says nothing about causality – a plausible case can be made that at least to some extent the structural trade deficit is holding down savings, rather than just the other way around. Nor does our experience with many of our leading trade partners reveal a consistent relationship between trade balances and relative growth rates.

Japan piled up huge surpluses with United States throughout the 1970's and 1980's when its economic growth rates were much higher than America's. China has been averaging near double-digit annual growth since 1988 (compared with a 2% average for the United States), yet during this period the U.S. merchandise deficit with China ballooned from $3 billion to $50 billion.

Moreover, prior to the current crisis, growth in Pacific Rim countries such as Singapore, Malaysia, Taiwan, South Korea and Thailand greatly exceeded U.S. levels even as their trade surpluses kept expanding. The "Don't Worry" crowd needs to explain why so much of the U.S. global merchandise deficit over the last twenty years was with the world's fastest growing countries.

There are still some analysts who blame trade deficits on our large budget deficits since the Reagan economic program was put in place in the early 1980's. However, while a lower budget deficit and higher domestic savings would reduce our trade deficit somewhat, and would probably take some pressure off the dollar, citing the budget deficit as the major cause of the trade deficit is inaccurate, as can be seen by the following:

1. Our budget deficit has disappeared, yet our trade deficit keeps rising.

2. The U.S. began experiencing large trade deficits with Japan in the early 1970's, well before the advent of large budget deficits.

3. Similarly, Japan's high savings rate may be a contributor to its trade surplus, but it's not the major cause. In particular, the Japanese are running trade surpluses with almost every country, including both high saving and low saving countries, and countries with large budget deficits and small budget deficits.

4. To the extent there is some correlation between the two deficits, some of the causality goes from trade to the budget deficit, rather than completely the other way around. In particular, the weaker economic growth and higher interest rates caused by trade deficits widens the budget deficit by holding down tax revenues, by increasing interest expense, and by increasing expenditures on other cyclically sensitive programs.

Impact on U.S. Economy

Although it is fashionable to argue that trade deficits don't matter in view of the fact that the economy has done very well in recent years despite the huge and rising trade imbalance, such a conclusion is ill-founded. In fact, a good case can be made that the trade deficit could cause significant problems in the short term as well as in the long term.

The U.S. economy has continued to expand at a healthy pace in recent years because of rapid growth in domestic demand, especially for consumer goods and services, housing and high tech business equipment. In turn, domestic demand has been fueled by the record high stock market, declining interest rates, and rising real incomes. However, it is likely that domestic spending will slow sometime in the future as consumers become satiated with various goods and services. And, of course, a sharp correction in the stock market or upward pressure on interest rates could intensify such a slow down. Any sharp slowdown in consumer spending will almost certainly push the U.S. economy in recession as a result of the rising drag from trade. In sum, we can't always count on strong domestic demand to offset our huge trade imbalance.

With respect to the longer term, the persistent trade deficit is a concern for several reasons. First, it is resulting in a huge increase in the international debt of the U.S. which is increasingly sucking income and dividends out of the U.S. economy - - this could slow long term economic growth, much like what happened in the 80's and early 90's. Second, this growing dependence on foreign capital makes United States financial markets extremely vulnerable. It is in fact likely that at some point foreigners will be unable to accumulate dollar assets at the rate that has been the case in recent years - - even worse, they may decide to sell some of the assets they have already accumulated. This of course would cause substantial downward pressure on the U.S. dollar and/or upward pressure on interest rates and inflation, all of which could further slow long term growth. Finally, the industries that are most directly affected by the trade imbalance will tend to lose competitiveness, because they will be unable to experience the benefits of economies of scale, and because profits needed to finance more investment will not be available.

What Should Be Done

Unfortunately there is no single magic bullet that can significantly reduce the structural trade deficit over time. Only a combination of policies, which would include the following, would provide any hope of success:

1. Reducing the structural trade deficit can come only from market opening in Japan, China, and other Asian countries. It is thus imperative that the administration continue its polices aimed at bringing about more open markets in these countries. It should in fact be made clear to all that the underlying principle for U.S. trade policy in the future will be equal access and reciprocity -- we will no longer continue to permit one-way,

unilateral free trade of the type that has hurt many U.S. industries in the past, and which have contributed to our large structural trade imbalance.

2. An aggressive trade policy designed to open foreign markets must be accompanied by a willingness to limit foreign access to the U.S. market if our access to foreign markets is not increased, as is now being done with Europe.
3. It is absolutely essential that effective trade laws be maintained in the United States, especially antidumping and countervailing duty laws. This is more important than ever because of global overcapacity, which tends to breed dumping, and because domestic demand is so weak in so many of our trading partners in Asia and elsewhere at present that they are likely to increase their emphasis on exporting in order to reverse some of their economic recessions.
4. It is important that the U.S. take whatever steps are necessary to prevent currency manipulation, which frequently gives foreign companies a competitive advantage in global markets. Thus, while we should not advocate an overly weak dollar, an excessively strong dollar which reflects such manipulation should not be tolerated by the U.S. government.

5. It is vital that the U.S. continue to work with the WTO to expand its jurisdiction to include unfair trade practices that are currently very common, but which the WTO cannot effectively deal with. It is also important that the dispute resolution mechanism be strengthened and that foreign countries be forced to abide by the decisions made by the WTO.
6. It is vital that the U.S. continue to make every effort to protect U.S. intellectual property in all markets around the world. It is also important that the U.S. government prevent foreign countries from insisting on technology transfer as a condition for selling in their markets.
7. It has never been more important for the U.S. to pursue policies which will continue to improve the competitiveness of U.S. industries in global markets. This might require increased funding for various technology programs, increased tax credits to stimulate investment and technology, and other such policies.
8. It is essential that the USTR be beefed up in order to monitor and enforce the multitude of trade agreements already in place. As is well known, the U.S. has negotiated many trade agreements with the Japanese and other trading partners, in which these countries agreed to eliminate some of their import limiting policies, but which generally result in little or no changes. Part of the problem is that these agreements are rarely

monitored, largely because of short staff in our trade monitoring and negotiating agencies. This needs to be corrected.

9. Finally, it is essential that the United States increase funding for various export financing and promotion programs. A good example is the EX-IM Bank. Funding for the EX-IM bank lags far behind funding for comparable export credit agencies in most foreign countries. For example, in 1995, EX-IM financed 2 percent of total U.S. exports, far below the 32 percent in Japan, the 18 percent in France and the 3-10 percent in most other major industrialized countries. This is especially important at present because EX-IM funding is primarily for exports to developing countries, most of which are in deep recession at present and would not be able to afford the purchase of foreign goods without foreign credit assistance.

The bottom line is that the U.S. chronic trade deficit largely reflects the fact that our markets are largely open while many foreign markets are not, and that many foreign countries unfairly increase their penetration of the U.S. market. This has dramatically reduced or eliminated the net benefits that would likely occur in a pure free trade environment. U.S. policies should be designed to counter these trends, and make trade work in a favorable way for the U.S. economy, by emphasizing market opening, and by preventing dumping, excessive subsidies, currency manipulation, and other unfair trade practices. We also should be pressing the IMF to insist on such structural reforms as a condition for IMF financial assistance. For the issue is not simply protectionism versus free trade – its one-way free trade versus two-way free trade. And its becoming clear that one-way free trade will undermine the entire trading system if it continues.

Mr. MICA. Thank you for your testimony. I'd like to recognize Mr. Howard Lewis, vice president, economic policy of the National Association of Manufacturers. Welcome sir, and you are recognized.

Mr. LEWIS. Thank you Mr. Chairman, members of the subcommittee. I have a longer statement which I'd like to have added to the record.

Mr. MICA. Without objection that will be made part of the record.

Mr. LEWIS. I'll pare down my remarks today to try to keep it within your 5 minute limit. Let me begin my testimony this afternoon with a discussion of the U.S. trade deficit.

Right now, as Larry has indicated, the United States is running U.S. record trade deficits. Last year these deficits reached $169 billion. This year they expect to exceed that by a considerable amount. To say the least, the trade deficit is a complex and large subject.

To a great extent right now the deficits reflect the difference in growth rates between the United States and very weak economies overseas. It also reflects some significant swings in exchange rates that we've seen over the past several years.

So the first point I really want to make is there are some very large economic forces at play here. In my testimony today I'd like to draw your attention to two points about the trade deficit.

First, in looking at the deficit, people have tended to concentrate, quite rightly, on the import side of the ledger and ignore what's happening on the export side. Given the nature of this deficit that we're running at this time, this is a big mistake, and let me explain why.

Overall imports grew last year by about 5 percent or $52 billion. At the same time exports actually fell seven-tenths of 1 percent, $6 billion. Well, a lot of people say, "Isn't that what happens when you run a record trade deficit? Imports go up exports go down." Not necessarily. You've got to look at the specific case.

For example, if you go back to 1987, which is the last time we were running a record trade deficit, in that year imports grew by about 12 percent or by about $57 billion. But exports also grew in that year by roughly $45 billion. So in 1987, the last record trade deficit, you had, and I put this in quotes, "only" a $12 billion swing. That is in sharp contrast to what you've seen this time or this past year where you have a negative $58 billion swing.

So the importance of exports here is important but I don't want to be misunderstood here either. There is no doubt that recent import surges in steel, semi-conductors, and other industries have had a serious impact on American workers and firms. This should not be down played for 1 minute.

But it is equally important to recognize the impact that this decline in U.S. exports have had on American workers and firms. Export expansion has powered 30 percent of the economic growth in this country over the last 15 years and this source of growth has now dried up. What is more, jobs connected with these exports are precisely the types of jobs that we want to see more of in this country.

In comparison to non-exporters, plants that export grow jobs 18 percent faster, are 10 percent less likely to go out of business, pay on the average 15 percent more, and provide benefits 40 percent higher. We should pay attention, in other words, when this type of job begins to dry up and that is precisely what has happened since mid 1997.

The second point I want to make about the trade deficit may come as something of a surprise. While there is no doubt that we are running a record trade deficit, these deficits probably aren't as big as we think they are. The information on why this is so has been sitting on the Census Bureau website for 2 years now.

Basically, we have known for some time that just in the area of merchandise trade, I'm not even talking about services, just in the area of merchandise trade we under count U.S. exports by somewhere between 3 to 10 percent. In 1998, that would have amounted to between $20 and $67 billion in exports or would have reduced the U.S. trade deficit by somewhere between 10 and 40 percent.

The fact that we might be able to reduce the trade deficit by up to 40 percent by just getting the numbers right obviously doesn't mean that we don't need aggressive policies that open markets and promote trade, just the opposite. On the other hand, anyone who is concerned about the efficiency and the effectiveness of government, as this subcommittee is, should be worried by the fact that we don't have the ability to collect accurate data upon which to make our policy decisions. Incidently, there apparently is no under counting in the import area. You get those numbers right.

Let me just skip quickly, Mr. Chairman, to the discussion of export promotion. I do want to say though that the biggest point I'm making about the trade deficit right now is the fall off in our U.S. exports. Some people who are looking at the trade deficit and looking at these massive macro economic factors that are driving these deficits may view the issue of export promotion as relatively unimportant in the scheme of things. I don't share this view.

What the U.S. Government does in these areas can have a major impact on U.S. export in specific industries in specific countries. For example, over the next 2 years the Export-Import Bank will probably support $6 billion to Korea, in exports to Korea. That represents a significant share of exports to that market which is still the 10th largest economy in the world.

Next year, U.S. semi-conductor companies will start selling a chip for use in ordinary personal computers and laptops that exceeds the super computer control levels that Congress put in place last year. Recently, an executive from a high tech company began his testimony in the Senate Finance Committee by saying, "If I had known at my company's founding what I know today about U.S. international tax rules, I would have advised that parent company be established outside the United States."

Finally, when Congress decided last year to require commercial satellites be placed on the Arms Export Control List it significantly and, I admit, probably unintentionally raised taxes on U.S. commercial satellites anywhere in the world, due to the differences between the tax law treatment of defense and commercial exports. The point I'm making here is that this stuff is really important and we should pay a lot of attention to the policies in this area, not only to the policies in this area but also to how they are implemented.

Three years ago, Mr. Chairman, and I'll just briefly conclude here, the NAM's chairman of our Small Business Committee urged us to get back into the business of running trade missions. As I point out in my longer testimony, this a bit of going back to the future for us since the NAM was founded in 1895 to do precisely this.

However, we weren't sure how to get back to the future, and we found a lot of help in the U.S. Department of Commerce in their Matchmaker Program. Through the Matchmaker Program we basically have created a very effective public-private partnership. It's an export program. They've got the product, U.S. Government can deliver a superior product in the way of a trade mission overseas. We've got the customers. And the trick is to marry these two up.

We've started these programs in Mexico and Europe and we hope to do some more later this year and more. They really are roll-up-your-sleeves trade missions, they aren't vacation junkets. For example, in our Mexico mission the United States Commercial Service in Mexico will set up some place between 300 to 400 meetings for our 20 participants that will be going down there. That's a lot of work.

The more I have worked in this practical side of U.S. trade policy, the more impressed I have become with the ability of our Commercial Service to even deliver these products. For example, when I was in Southeast Asia, I actually talked to commercial officers who could not make long distance phone calls, who could not make long distance phone calls from our Embassy. I have seen the antiquated equipment that people have in the Government offices.

Just the other day, I was listening to the head of the Eximbank discuss how to improve his agency. Along with some complex matters on the Bank's portfolio, he had some straight forward recommendations, including putting all the export financing agencies in one building, upgrading Eximbank's technology and stationing Export-Import Bank officials overseas.

I was struck by how doable these suggestions were in comparison to many of the issues we deal with here in Washington. Making phone calls, using modern technology, putting staff where they are needed, all steps that are absolutely essential to the efficiency and effectiveness of any export advocacy program whether in Eximbank, TDA, OPEC or Commerce.

Mr. Chairman, this concludes my testimony. I will be glad to answer any questions.

Mr. MICA. Thank you, Mr. Lewis. I'll now turn to Mr. Reginald Brown, director of marketing for the Florida Fruit and Vegetable Association. You are recognized and welcome, sir.

[The prepared statement of Mr. Lewis follows:]

Testimony
At Hearings on the Topic:

A Record Trade Deficit: How Can the U.S. Government Prevent a Looming Trade Crisis?

By
Howard Lewis III
Vice President, Economic Policy
National Association of Manufacturers

Before
Subcommittee on Criminal Justice, Drug Policy and Human Resources
Government Reform and Oversight Committee
U.S. House of Representatives

March 25, 1999

My name is Howard Lewis. I am vice president for economic policy at the National Association of Manufacturers (NAM). I am pleased to be here this morning to discuss the issue of U.S. trade deficit and preventing a trade crisis.

The importance of international commerce – and the need for policies to support it – has always been a top priority for the NAM. But today this subject is more important than ever. The growing stake that our larger members have in the global economy has long been recognized, but what has happened in the past ten years with our smaller companies is a story far less appreciated. Let me illustrate this point with some numbers from the annual NAM operating survey of our smaller members.

(Incidentally, 85 percent of NAM's total membership of 14,000 are smaller companies. If you add up the total output of these 14,000 firms – large and small – it equals roughly 85 percent of the U.S. industrial base. So, the numbers I am about to give you are indicative of what is going on in a large part of the U.S. manufacturing sector today.)

Ten years ago, when we polled the smaller companies in our membership, one out of every two – 50 percent – said that they did not export at all. Today, when we ask the same question, only one out of every 5 – 20 percent – say they don't export. Moreover, exporting isn't just an incidental activity for many of these firms. Ten years ago, only 4 percent of our smaller members said they earned more that 25 percent of their revenue from exporting. Today, that percentage has nearly doubled and another 13 percent are now earning between 11-25 percent of their revenue from exporting.

The message in these numbers is clear: American manufacturing firms of all sizes are in the international markets and they are in these markets to stay. Therefore, as a country, we had better pay attention to the policies – both large and small – that affect the ability of these firms to operate on an international scale. The oversight responsibilities of this Subcommittee in regard to the efficiency and effectiveness of some of the key departments and agencies involved in the support of U.S. trade could hardly be more relevant.

Let me start my testimony today with a brief discussion of the U.S. trade deficit and then turn to the topic of trade promotion.

Right now the U.S. is running record trade deficits. Last year, it reached nearly $169 billion and this year it is expected to exceed that figure by a considerable amount – maybe approaching $210 billion. To say the least, the U.S. trade deficit is a large and complex subject. To a great extent, the deficits we are running right now reflect a very strong U.S. economy and weak economies throughout much of the rest of the world. They also reflect significant swings in exchange rates over the past several years. So, some very large economic forces are at play here that go well beyond the scope of my testimony today.

There are two specific points about our trade deficit, however, that I would like to draw to your attention. First, in looking at the trade deficit, people have tended to concentrate on the import side of the ledger and ignore what has been happening on the export side. Given the nature of deficit that we are now running, this is a mistake. Let me explain why.

Overall, imports last year grew by about 5 percent or $52 billion. At the same time, exports actually fell by 0.7 of a percent or $6 billion. Isn't that what usually happens when we run a record trade deficit? Imports go up. Exports go down. Not necessarily. Look at what happened the last time that we ran a record trade deficit, which was in 1987. In that year, imports grew about 12 percent or $57 billion dollars. But exports also grew – by roughly $45 billion or 14 percent. Because of this export expansion, there was a negative swing in our overall trade balance in 1987 of "only" $12 billion – a marked contrast to the $58 billion negative swing we saw last year.

I want to make sure that I am not misunderstood here. There is no doubt that recent import surges in steel, semiconductors, and other industries are having a serious impact on American workers and firms. This should not be downplayed for one minute. But it is equally important to recognize the impact that the decline in U.S. exports is having on American workers and firms as well. Export expansion has powered 30 percent of the economic growth in this country for the last 15 years or so. That source of growth has now dried up.

What is more, the jobs connected with these exports are precisely the types of jobs that we want to see more of in this country. In comparison to non-exporters, plants that export:

- "grow" jobs 18 percent faster;
- are 10 percent less likely to go out of business;
- pay, on average, 15 percent more; and
- provide benefits 40 percent higher.

We should pay attention when the source for these types of jobs begins to dry up and that is precisely what we have seen happening beginning in mid-1997.

The second point I want to make about the trade deficit may come as something of a surprise – while there is no doubt that we are running record deficit, these deficits probably aren't as big as we think they are. The information of why this is so has been sitting on the Census Bureau's website for over two years now. Basically, we have known for some time that in the area of merchandise trade that we undercount U.S. exports by anywhere from 3-10 percent. In 1998, this would have amounted to $20-67 billion in exports and would have reduced the trade deficit from somewhere between 10 to 40 percent last year.

The fact that we might be able to reduce our trade deficit by up to 40 percent by just getting the numbers right does not mean that we don't need aggressive policies that open markets and promote exports. Just the opposite. On the other hand, anyone who is concerned about the efficiency and effectiveness of government, as this Subcommittee is, should be worried about the fact that we don't have the ability to collect accurate data upon which to make policy decisions. (Incidentally, there apparently is no comparable undercounting with U.S. imports. We get those numbers right.)

The biggest point I am making here about the U.S. trade deficit, however, is my first point: that U.S. exports have not just slowed down but actually have declined. As I have already indicated, large economic forces are at play that are driving these deficits. The best way to prevent a trade crisis in this country would be to get the rest of the world growing again. This, however, is not something under the direct legislative control of the U.S. Congress. So, let me focus on something that is – namely, a whole set of government policies that directly affect the ability of U.S. companies to engage in international commerce. Looking at the marcroeconomic forces behind our trade deficits may lead people to view these policies as relatively unimportant in the overall scheme of things. I don't share this view at all. What the U.S. Government does in this area can have a major impact on U.S. exports in specific industries and to specific countries. For example:

- Over the next two years, the Export-Import Bank (Ex-Im) will probably support around $6 billion in exports to Korea. This will represent a significant share of our exports to a country that is still the 10th largest economy in the world.
- Next year U.S. semiconductor companies will start selling a chip for use in ordinary PC's that exceeds the supercomputer control level that Congress enacted into law just last year.
- An executive from a major high-tech company recently began his testimony with the following observation: "…if I had known at [my company's] founding what I know today about the [U.S.] international tax rules, I would have advised that the parent company be established outside the U.S."
- When Congress decided last year to require that commercial satellites be placed on the arms export control list, it significantly (and probably unintentionally) raised taxes on U.S. commercial satellite sales anywhere in the world due to the different tax treatment of defense and commercial exports.

This stuff, in other words, is important and we should pay a lot of attention to not only what our policies are in this area but also how we implement them.

The set of U.S. Government policies that directly affect exports covers a lot of territory. It certainly includes:

- The export financing functions carried out by Ex-Im, OPIC and TDA.
- The export controls regulations implemented by Commerce. And –
- The export advocacy work also carried out by Commerce.

In addition, as noted above, tax laws certainly can come in to play as well as emerging issues such as international product standards and certification. I will not even pretend to try to cover all of this in my testimony today. Instead, since this Subcommittee has oversight responsibilities for the Commerce Department, let me focus on the last bullet in the preceding list – export advocacy.

Three years ago, the Chairman of NAM's Small Business Committee told us that we should consider getting back into the trade mission business as a means of providing concrete help to smaller manufacturers. In many ways, this was going back to the future for us. The NAM was founded in 1895 to promote exports, but prior to 1996 we hadn't run a trade mission for at least 30 years. So, it wasn't at all clear how we were going to get back to the future. The Commerce Department helped us get there. Through its Matchmaker Program we have begun to create a very effective public-private partnership that plays the strengths of both sides. In terms of setting up trade missions, the U.S. Government can deliver a superior product that is hard to duplicate in the private sector. In terms of delivering customers, the NAM, as I have already indicated, has a growing number of members who can take advantage of this product in ways they never could have 10-15 years ago. We are in the midst of organizing a joint mission to Mexico this June. We hope to have another one this fall going to England and Ireland. Last year, we collaborated on a mission to the Benelux countries. We would like to do a lot more of this in the future.

Let me emphasize that these trade missions are roll-up-your-sleeves and get-to-work type of trips. I have been on some of them; they are not vacation junkets. For example, on our trade mission to Mexico in June, we are expecting about 20 small manufacturers. They will start in Monterrey where the U.S. Commercial Service will have arranged for each participant three to four individual meetings per day with local Mexican customers and agents who will be pre-screened. The same thing will happen two days later in Guadalajara. And two days after that, it will be repeated in Mexico City, where we will also throw in a day at an NAM-sponsored trade fair that will be taking place at the same time. Besides paying for their own travel costs, participants on this trade mission will be charged a fee to help cover the costs of the U.S. Government in setting up the visit. In return, these executives will each have around 15-20 carefully tailored meetings set up for them with prospective customers or business representatives in Mexico.

Overall, on this mission, we are talking about somewhere between 300 to 400 meetings that have to be arranged for this week. That is a lot of work. But does it have anything to do with heading off a looming trade crisis? In some ways, it has a lot to do with this question because international commerce is about thousands of firms each day interacting with millions of customers around the globe. There is no single magic bullet that is going to roll back the U.S. trade deficit or restore stability to international financial markets. We have to sweat the details of each transaction, each trade mission, and each export-financing package. The more I have worked with various parts of the U.S. Government on this very practical side of U.S. trade policy, the more impressed I am that an agency such as the U.S. Commercial Service can "deliver" the type of trade mission in Mexico that I have just described.

I have, for example, actually talked to commercial officers overseas who couldn't make long distance phone calls because of budget constraints. I have seen the antiquated equipment used in many government offices. The other day, I was listening to the head of the Ex-Im Bank discuss how to improve that agency. Along with some complex matters dealing with the Bank's portfolio, he had some straightforward recommendations, including:

- Putting all the export financing agencies in one building;
- Upgrading Ex-Im's technology;
- Stationing Ex-Im officials in key overseas markets.

I was struck by how doable these suggestions were in comparison to many of the issues we deal with here in Washington. Making phone calls, using modern technology, putting staff where they are needed. All steps that could be implemented without huge debate but things that are absolutely essential to the efficiency and effectiveness of any export advocacy program whether in Ex-Im, TDA, OPIC or Commerce.

Mr. Chairman, thank you for the opportunity to testify today. I would be glad to answer any questions members of the Subcommittee may have.

Mr. BROWN. Thank you and good afternoon. We commend you for holding this hearing. The issues at stake are very intensely held by our members and we have had some very interesting experiences with trade over the last 4 or 5 years in our industry. I'd like to just take an opportunity to walk through some of those experiences with you this afternoon. And, hopefully, have the written testimony submitted into the record, and move forward from there.

Mr. MICA. Without objection, your lengthy statement will be made part of the record.

Mr. BROWN. Florida is geographically located in an area of the country that allows us to produce many of the commodities that the American consumer eats in the winter time. Our primary competitor historically is the Mexican vegetable industry and primarily the State of Sinola in Western Mexico.

After the North American Free Trade Agreement was enacted, we fell under the gun, if you will, as the identified sacrificial lamb or lost soul in the process of trade. We got into a situation where the Mexican industry was building up their capacity to produce. They were ready for the lower tariffs that the treaty offered to the Mexican producers, and got themselves in position to take a greater share of the American market away from the Florida production system.

You add into that the fact that immediately after the passage of NAFTA, the peso fell in half. We ended up with a great, huge dam that was originally the North American Free Trade Agreement that suddenly burst under the pressure of the peso devaluation. We were absolutely submerged under a sea of imported product.

During the 5 years or 4 years that we've been dealing with this issue, from about 1991 through about 1997, 1998, I'll give you some idea of what happened in the shift in competitive position between the two countries. In the production of cucumbers in 1990 and 1991, Florida represented about 47 percent of the domestic market during the period that we competed with each other. Currently, Florida holds about 23 percent market share. It fell roughly in half.

In the production of squash to feed the American public, we held approximately 27 percent market share and that fell to 13 percent. In the production of eggplants, we held about 48 percent share and that fell to 21 percent. In the production of peppers, we held a 63 percent share and it fell to 50 percent during that period of time.

Now, the great tomato wars we've all heard so much about and we've all been to battle over in various trade remedy opportunities that we were offered through the trade laws of this country, that particular industry has fallen from a 65 percent share to a 47 percent share. If the other crops we talked about just prior to that had the strength that the tomato industry had, they had a much more pervasive case in terms of the amount of market share that was lost due primarily to the peso devaluation and the very favorable anticipated situation with the North American Free Trade Agreement. This is a severe problem for our industry in terms of the import surge.

On the export side, we have yet to manage to enter any fresh citrus into Mexico. They continue to hold up some artificial barriers in the farm by the sanitary areas that permit the entry of citrus into Mexico. And we feel very strongly that being in the fresh produce industry we are believers in free trade, but we've got to have fair trade.

The issue revolves around the fact that we don't seem to be able to play the game in both directions as well as we should. We are currently working on export markets around the world. We have made some progress with small penetration into the Japanese market with the United States tomatoes. We are continuing to try to make penetration into the Chinese market, but the Chinese are holding very high tariff barriers on the perimeters of their country, and they are also holding up the traditional weapon of choice, unsubstantiated by the sanitary restrictions that prevent the entry of United States products to China. These are the kinds of problems concerns that our industry has dealing with trade issues.

The purpose of the meeting today is how can the U.S. Government more effectively promote trade? Well, being from kind of the bottom of the pile, down where the producer makes something from the land and where food is made in this country, that is on the farm, we just think you ought to do a better job of negotiating good deals because the deals that we've experienced to date have not been good for us.

Our negotiators need to be more aggressive in looking out for the interests of U.S. industries domestically from countries importing into the United States, and also more aggressive in opening doors and knocking down product sanitary barriers in other parts of the world.

The United States needs to look at a system in future trade negotiations of a request and offer type of approach to tariff reductions, not a unilateral tariff reduction process. We need to look very seriously at exemptions for commodities that are sensitive in the negotiation process that would give those industries adequate protection from foreign imports.

We need to look at safeguard mechanisms that are crafted for sensitive items that are functional. We've had some offered that have been enacted into trade treaties that have not worked, and we have tested them to the extent we were able to and found them to be ineffective. We need to look at mechanisms that deal with ways of dealing in major trade disruptions when they occur due to currency devaluation and currency manipulation.

We also need to look at domestic trade relief statutes that give adequate protection for regional or crop-specific seasonality issues so we can use our current trade laws, under 201 and 202 and our dumping cases, for those industries that are very narrowly based and very much focused in the targets of importing countries. We do appreciate the effort the Department of Commerce has given to the industry in the suspension agreement with the Mexican tomato producers in dealing with our industry in Florida, but we look forward to hopefully having more success with trade agreements.

Hopefully, if we can have some success, we will not see a future in which the ability to produce many of these products is no longer available in this country. I thank you for the opportunity to speak.

[The prepared statement of Mr. Brown follows:]

BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES

HEARING ON
A RECORD TRADE DEFICIT: HOW CAN THE
U.S. GOVERNMENT MORE EFFECTIVELY
PROMOTE TRADE?

COMMENTS OF THE
FLORIDA FRUIT & VEGETABLE ASSOCIATION

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March 25, 1999

BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE,
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HEARING ON
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COMMENTS OF THE
FLORIDA FRUIT & VEGETABLE ASSOCIATION

Good afternoon, Mr. Chairman. My name is Reggie Brown. I am Director of Marketing and Membership for Florida Fruit & Vegetable Association – an organization that represents growers of fresh vegetables, citrus, tropical fruit and other agricultural commodities in Florida. We commend you for holding this hearing on this most important issue, and also greatly appreciate the opportunity to present our thoughts today on how trade has affected our particular industry.

Florida's unique geographic location affords growers an opportunity to provide consumers here in the United States, as well as throughout the world, with fruits, vegetables and other specialty crops during the months of the year when other domestic producers cannot grow and harvest these crops. Historically, the primary competition for Florida's fruit and vegetable industry in the U.S. marketplace has come from Mexico. In international markets, Florida's export crops compete against low-cost, often subsidized producers, from Latin America, Europe and elsewhere.

We were hopeful that the agreements reached in the Uruguay Round, as well as the North American Free Trade Agreement, would have leveled the playing field for our growers in both the domestic and international marketplace. If problems resulted, we were assured that domestic trade statutes would be effective avenues for relief. Unfortunately, as these agreements have been implemented over the past 4 or 5 years, Florida's fruit and vegetable industry has lost, rather than gained, competitive ground. With competition increasing under the NAFTA, many of Florida's producers have been forced to curtail their operations. Others have closed down altogether. Special provisions were negotiated in both the NAFTA and the Uruguay Round Agricultural Agreement that were designed to protect Florida agriculture and offer expanded export opportunities. They've been largely ineffective in preventing import increases, as have generally been our efforts to utilize our domestic trade relief statutes.

Since the NAFTA took effect in 1994, imports of fruits and vegetables from Mexico have increased dramatically. Statistical data show that for many crops, we have lost a considerable share of the U.S. market to Mexican imports. NAFTA has contributed to this situation in a couple of ways: first, by reducing U.S. tariffs, making low-priced Mexican imports even more competitive; and, second, by spurring investment in Mexico's agricultural industries from non-traditional sources. But, the factor that has had an equal or greater impact than NAFTA on the competitive relationship between our industry and Mexico is the devaluation of the Mexican peso. The peso's precipitous drop in late 1994, and continual slide ever since, has significantly enhanced the competitive position of Mexican agricultural exports in the U.S. marketplace to the detriment of Florida's fruit and vegetable industry.

At the same time that we've been losing the domestic market share due to NAFTA and currency valuation, our ability to develop export markets has been hampered by non-tariff trade barriers and a strong U.S. dollar abroad. The Uruguay Round was widely billed as a major win for U.S. agriculture. Domestic growers, because of their superior quality and technical advances, were expected to benefit more than most foreign producers from increased global market access. For Florida, the global market gains have been minimal, offering little offsetting relief from increased competition in the domestic marketplace. In many markets, tariffication of non-tariff barriers on several fruit and vegetable crops resulting from the Uruguay Round has increased, not decreased, border protections. Scientifically unjustified sanitary and phytosanitary barriers continue to block our access to key markets, including Mexico, despite the inclusion of an agreement in the Uruguay Round to reduce the use of these measures to restrict trade. Unfortunately, with tariffs coming down, sanitary and phytosanitary restrictions are now the barrier of choice by countries that want to limit competition in their markets.

We've made some limited progress in opening new markets for our products. For example, we're slowly developing the Japanese market for fresh tomatoes. We're making incremental gains on opening new markets for other crops.

Progress has been painstakingly slow in other areas, however. We're still unable to ship fresh citrus into Mexico or China, despite literally years of negotiations. In China, for example, access U.S. fruit and vegetable exports is restricted by tariffs of 35% to 40% and an unjustified phytosanitary ban that prohibits access for most U.S. fresh fruits and vegetables. China's most recent WTO accession offer does not go far enough to reduce and bind these tariffs and remove the unjustified phytosanitary ban. Any approach that offers China leeway in implementing its WTO accession obligations is likely to favor China's fruit and vegetable sector, which is already a competitive industry and has significant potential for displacing Florida production.

Overall, as this brief inventory of trade concerns suggests, we're losing the domestic market share much faster than we're gaining export markets. It seems our trade policies are doing more for our competition than for Florida's fruit and vegetable growers. So, it is not surprising to us that the U.S. trade deficit is at record levels. One need only look at the experience of our industry since the implementation of NAFTA and the Uruguay Round to see why.

With this experience as a backdrop, we are forced to view with extreme caution the Seattle Round of negotiations under the World Trade Organization, as well as the proposed Free Trade Area of the Americas. Unless the United States fundamentally changes its approach on how these agreements are negotiated and implemented, we're concerned that both these initiatives will lead to a further decline of our industry. The question posed at this hearing is: "How can the U.S. government more effectively promote trade?" Our answer is straightforward: Do a better job of negotiating and implementing trade agreements so as to ensure that sensitive U.S. industries are protected.

As we move closer to meaningful negotiations on further trade liberalization, we recommend the following:

- The U.S. should adopt a request-and-offer approach to tariff reduction negotiations – as opposed to the formula reduction strategy it utilized in the Uruguay Round

- Exemptions from tariff phase-out should be negotiated for the most highly sensitive U.S. agricultural products

- More effective safeguard mechanisms should be crafted for sensitive items that are subject to tariff reductions in the agreements

- Future agreements should contain mechanisms to address the impacts of currency devaluation on trade

- Changes should be made in our domestic trade relief statutes – such as the recognition of regional or crop-specific seasonality – so that these laws become of practical value to our growers.

Beyond recommended changes in the U.S. negotiating approach to future agreements, it also is imperative that the Office of the U.S. Trade Representative and the U.S. Department of Agriculture aggressively pursue enforcement of existing agreements. Trade agreements must work for our domestic industry, not just our competitors around the world. The agencies must also act proactively on behalf of industries both in breaking down barriers to foreign markets and in ensuring that domestic producers can compete fairly in U.S. markets.

Without a significant change in our approach to these agreements, it is likely that industries such as ours will continue to decline or disappear altogether. The net result will be a nation even more dependent on foreign food supplies.

Thank you.

Mr. MICA. Thank you for your testimony, sir. Now, I'd like to recognize Mr. Barry D. Solarz, vice president for trade and tax at the American Iron and Steel Institute. You are recognized, sir.

Mr. SOLARZ. Thank you Mr. Chairman. Given the time limits, I will summarize my remarks and ask that the full text of my statement be submitted into the record.

Mr. MICA. Without objection, the full text will be made part of the record, thank you.

Mr. SOLARZ. Thank you. I will first summarize the steel trade situation, the key lessons to be learned from the case of steel. Then I will focus on what, for us, is the single most important thing the Government can do in both the short and long run to address this country's large, and as Larry Chimerine has correctly pointed out, persistent trade deficit—and that is to improve the effectiveness of U.S. trade laws and trade law enforcement.

In 1998, U.S. steel imports exceeded exports by a record 36 million tons and the U.S. steel trade deficit was a record $11.7 billion, or nearly 7 percent of our total record trade deficit last year. As a result, America's steel trade crises is now at the center of our public debate about the future of U.S. trade policy and the case of steel deserves close review in any examination of our overall trade deficit.

Since 1980, U.S. steel producers have reduced inefficient capacity by 30 percent, reduced employment by 60 percent, invested nearly $60 billion in modernization, more than doubled labor productivity and emerged as a world class industry once again.

Yet, what has occurred in U.S. steel trade over the past year turns free trade theory on its head. In what some might call a triumph of inefficiency, dumped and subsidized imports, often from less efficient, heavily polluting foreign competitors, have caused serious injury to technologically advanced, internationally competitive, environmentally responsible U.S. steel companies and their highly skilled employees.

So instead of these being the best of times for our new and world class America steel industry, U.S. steel import market share hit an all time record 37 percent in November 1998. This is happening because major foreign competitors have not made the kind of hard and painful adjustments that U.S. steel companies and employees have made.

Foreign steel cartels, closed markets, currency manipulation, government subsidies and dumping have remained pervasive in world steel trade. A number of key steel producing countries abroad have experienced a collapse of their currency and domestic steel demand. These countries have all tried to export their way out of trouble, at the same time.

Due to the collapse of Asia and other major export markets, they've all simultaneously targeted the large, strong and open U.S. market with record imports at cutthroat illegal prices. The result is a supply driven crisis that has caused the United States to become the world's steel dumping ground.

Accordingly, the case of steel does hold important lessons for the future of U.S. trade policy. The case of steel shows us that we need to ensure, as Larry Chimerine has been pointing out, two way free and fair trade.

We also believe that we need to establish a new consensus on U.S. trade policy. We need to ensure more burden sharing by other major industrial nations, especially the European Union and Japan. We need to ensure that the IMF focuses on increasing domestic demand in countries in crisis and not just on encouraging them to export their way out of difficulty.

We need, as Larry has mentioned, to treat our trade deficit as though it matters because it's costing thousands of good manufacturing jobs and, over time, is a recipe for industrial stagnation and decline. We need to address the import as well as the export side of the trade ledger in our policies.

In some contrast to what Howard Lewis has said on this, we do feel that there has often been a greater focus put on export promotion than on what is going on in terms of unfair trade in the U.S. market.

That, Mr. Chairman, brings me to my final point. Mr. Chairman, most important of all, we need to ensure that U.S. trade laws are as strong as the World Trade Organization allows and that U.S. trade laws and trade agreements are vigorously enforced. The case of steel shows once again that even the most competitive U.S. industry can be destroyed by foreign unfair trade.

It shows that even when demand is strong, as it is, world class U.S. mills can suffer significant lay offs, short work weeks, severe price depression, production cuts, and lost orders. It shows why the United States needs to ensure that trade is fair and rule based. It shows why the United States needs to negotiate forcefully with other governments engaged in unfair trade.

It shows also, unfortunately, in the recent announcement of bilateral agreements giving dumped steel from Russia a guaranteed United States market share over the strong objection of United States trade law petitioners, that U.S. trade policy principles and the health of key U.S. industries can still be sacrificed to, "higher foreign policy interests."

It shows one more thing. Where the rules are not being enforced, and the trade laws are not as effective as they should be, Congress should take immediate steps to strengthen our trade laws in WTO consistent ways. My written statement contains attachments that provide additional information on this critical issue for steel and the U.S. economy. AISI appreciates this opportunity to provide comments on the U.S. trade deficit and the case of steel.

[The prepared statement of Mr. Solarz follows:]

STEEL

American Iron and Steel Institute

Statement of the
American Iron and Steel Institute

before the

Criminal Justice, Drug Policy and
Human Resources Subcommittee
of the House Government
Reform Committee

on

the U.S. Trade Deficit

March 25, 1999

The U.S. Trade Deficit: The Case of Steel

Statement of Barry D. Solarz
Vice President, Tax and Trade
American Iron and Steel Institute

Before the Criminal Justice, Drug Policy and Human Resources Subcommittee
Of the House Government Reform Committee
March 25, 1999

This statement is offered on behalf of the U.S. member companies of the American Iron and Steel Institute (AISI), who together account for approximately two-thirds of the raw steel produced annually in the United States.

Free Trade Theory Turned on Its Head

In 1998, U.S. steel imports exceeded exports by a record 36 million tons and the U.S. steel trade deficit was a record $11.7 billion -- nearly 7 percent of the total U.S. trade deficit last year (**Attachment 1**). As a result, as the 106th Congress well knows, America's steel trade crisis now stands at the center of our public debate about the future of U.S. trade policy. Therefore, as this Subcommittee and the Congress as a whole consider how best to turn around what has become a persistent, worsening, structural U.S. trade deficit, the case of steel is deserving of especially close review.

What has occurred in U.S. steel trade over the past year turns free trade theory on its head. In what some might call a "triumph of inefficiency," dumped and subsidized imports, often from less efficient, heavily polluting foreign competitors (**Attachment 2**) have caused serious injury to technologically advanced, internationally competitive, environmentally responsible U.S. steel companies and their highly skilled employees.

Since 1980, U.S. steel producers have reduced inefficient capacity by 30 percent, reduced employment by 60 percent, invested nearly $60 billion in modernization, more than doubled labor productivity and emerged as a world class industry once again. As an indication of its new self-confidence, the U.S. steel industry has supported virtually every major government trade liberalizing initiative in recent years, including NAFTA, the GATT Uruguay Round, fast-track renewal and negotiations on a Free Trade Area of the Americas. We supported these initiatives to open world markets not just because of the U.S. steel industry's enhanced ability to compete in steel export markets but, more importantly, because of the ability of steel's world class U.S. customers in automotive, machinery and the like to increase what we call U.S. indirect steel exports.

Now, it is true that, due in large part to the accumulated damage from over two decades of dumped and subsidized steel imports, the U.S. came out of this period with insufficient steelmaking capacity to meet all of its requirements in peak demand periods. This contrasts sharply with many foreign competitors who remain burdened by substantial excess steel capacity. But it is also the case that the U.S. has added 15 million tons of new, state-of-the-art electric arc furnace ("mini mill") capacity since 1989, while the large U.S. integrated producers have made important advances that have increased steel yields. And so, the world took notice when the U.S. exported more than 7 million tons of steel in 1995, over 50 percent to non-NAFTA markets, a 55-year high. As a result, right before this crisis began, many analysts were predicting that a revitalized, low cost and growing U.S. steel industry would soon win back significant market share from imports and make inroads in world steel export markets as well.

After all, the United States had the world's most productive steel industry workforce. The U.S. was an acknowledged world leader in the application of state-of-the-art steelmaking technology. The U.S. economy was very strong. And there was growing U.S. steel demand due to U.S. steel producers' significant investment, working closely with customers, to establish world class practices and product applications. In sum, these should have been the best of times for U.S. steel producers and their employees.

Instead, U.S. steel import market share hit an all-time record 37 percent in November 1998. And, unlike in the mid-1980s, the crisis this time threatens to undo an American success story of industrial revitalization. It is therefore of critical importance to understand what is happening to steel -- and why it is occurring at this time.

Steel's Story -- What Has Happened and Why

The short answer is that (1) many major foreign competitors have not made the kind of hard and painful adjustments that U.S. steel companies and employees have made; (2) foreign steel cartels, closed markets, currency manipulation, government subsidies and dumping have remained pervasive in world steel trade; (3) key foreign steel producing countries have experienced a collapse of their currency as well as domestic steel demand; (4) these countries have all tried to export their way out of trouble at the same time; and (5) due to the collapse of Asia and other major export markets, they have all simultaneously targeted the large, strong and open U.S. market with record imports at cut-throat, illegal prices. The result is a supply-driven crisis, which has caused the United States to become the World's Steel Dumping Ground (**Attachments 3-4**).

The gross economic mismanagement and major structural economic failures in Asia, Russia and South America have made worse an already enormous world steel overcapacity problem. This has led to a crisis in world steel markets in which over 300 million tons, or roughly one-third of total world steel capacity, is in serious distress and looking for markets at any price. The result has been an unprecedented surge of unfair steel trade into the U.S. market and entire NAFTA region, which has caused significant damage to steel companies, employees and communities throughout this nation.

Over the past year, while average U.S. import values have declined by almost $100 per ton, total import volume has increased by over 70 percent. Comparing 1998 with 1997, the previous record year, U.S. steel imports from Asia jumped 144 percent, and U.S. steel imports from the former Soviet Union (not including cut-to-length plate, already under a trade case agreement) shot up 72 percent. Even more alarming, in some individual steel product lines, in a period of only 3 or 4 months in 1998, steel imports from South Korea and Japan exceeded imports in the previous 7-10 years combined.

Yes, we know some economists like to say that this is all just a result of stronger economic growth in the U.S. than abroad, of normal market forces such as changes in currency values or of normal business practices. But there is nothing "normal" about 21st century U.S. steelmaking facilities losing sales to dumped steel from 19th century-style open hearth mills in Russia. There is nothing "normal" about a 700 percent surge in U.S. hot rolled steel imports since 1995. And there is nothing "normal" about having no place left to put imported steel in the United States, as our docks and warehouses are overflowing with steel imports and U.S. steel inventories remain at record levels.

Key Lessons from the Case of Steel

Accordingly, AISI's U.S. member companies are gratified that a growing bipartisan majority in the Congress now recognizes that the case of steel holds important lessons for the future of U.S. trade policy. AISI agrees. Key lessons include:

- Ensure two-way free and fair trade. The case of steel shows that the United States needs to develop a new consensus on trade policy. As numerous polls have made clear, the public will no longer accept "one-way free trade." If we are ever to restore public support for free trade in this country, there must be two-way free and fair trade based on accepted rules. The United States should not accept: cartel practices and essentially closed markets in Japan and other countries for steel and steel-intensive products; any resumption of South Korean "directed lending" practices to favored industries; restrictive trading rights and an import registration system in China, which have led to the progressive closure of that steel market to imports since 1993; Brazil's recent efforts to make it more difficult to import steel there; or the European Union's (EU's) maintenance of very tight quotas on finished steel imports from the former Soviet Union. This issue of two-way free and fair trade is important not just to steel, but to steel's U.S. customers who, in 1998, suffered a trade deficit of their own on the order of $34 billion (**Attachment 5**).

- Ensure more burden sharing by other major industrial nations. The case of steel shows that it is especially important at this time that our large industrial trading partners, the EU and Japan, accept an equitable share of finished steel imports. In 1998, in spite of having a steel market 16 percent larger than the U.S., the EU imported only about 40 percent of the U.S. level from the former Soviet Union and only about a third of the U.S. level from Asia. Meanwhile, in Japan, a domestic cartel continues to keep steel import market share at a ridiculously low level.

- Ensure that the IMF focuses on increasing domestic demand. The case of steel shows that, instead of focusing on domestic austerity measures and export promotion efforts, the IMF should not repeat past mistakes. The IMF should not encourage South Korea and other countries in crisis to rely heavily on trying to export their way out of difficulty. These countries need to put an end once and for all to the failed "Japan Inc. model" of over-investing, over-building and over-exporting. They need to stimulate real competition and increase domestic demand.

- Treat the trade deficit as though it matters, because it does. The case of steel shows that neither the U.S. steel trade deficit nor the U.S. trade deficit overall is a "good" thing as some economists would maintain. Structural trade deficits and an unsustainable, excessive level of imports cost thousands of good manufacturing jobs and, over time, are a recipe for industrial stagnation and decline.

- Address both sides of the trade ledger. The case of steel shows that, whether the issue is steel trade or U.S. trade overall, U.S. policy makers need to focus as much attention on the import side of the equation as on the export side. Unfortunately, for some economists and U.S. policy makers, this has not always been the case.

- **Most important of all, ensure that U.S. trade laws are as strong as the World Trade Organization (WTO) allows and that U.S. trade laws and trade agreements are vigorously enforced. The case of steel shows once again that even the most competitive U.S. industry can be destroyed by foreign unfair trade. It shows that, even when demand is strong, world class U.S. mills can suffer significant layoffs, short work weeks, severe price depression, production cuts and lost orders. It shows why the United States needs to ensure that trade is fair and rule-based. It shows why the U.S. needs to negotiate forcefully with other governments engaged in unfair trade. It shows also, unfortunately, in the recent announcement of bilateral agreements giving dumped steel from Russia a guaranteed U.S. market share over the strong objection of U.S. trade law petitioners, that U.S. trade policy principles and the health of key U.S. industries can still be sacrificed to "higher" foreign policy interests. And it shows one more thing -- that, where the rules are not being enforced or where the trade laws are not as effective as they should be, Congress should take immediate steps to strengthen our trade laws in WTO-consistent ways (Attachments 6-7).** Examples of helpful actions would include:

  * providing legislative authority for a steel import permit system with effective, real time import monitoring, as America's NAFTA partners Canada and Mexico already have;
  * making Section 201 of the trade laws, which provides relief from import surges, as strong as allowed by international trade rules;
  * allowing the industry to establish "injury" under trade laws more quickly, before massive layoffs and financial losses result;
  * giving additional scrutiny to steel cartel practices and other foreign private sector unfair methods of competition; and
  * providing other remedies as appropriate.

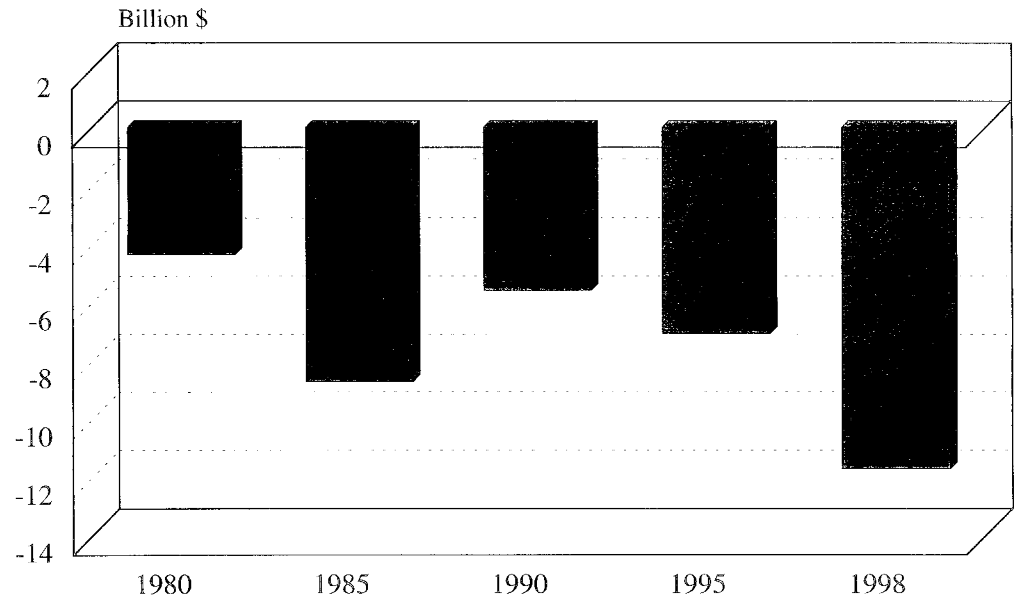
*

AISI appreciates this opportunity to provide comments to the Criminal Justice, Drug Policy and Human Resources Subcommittee of the House Government Reform Committee on the U.S. trade deficit and the case of steel.

Attachment 1

Balance of Trade

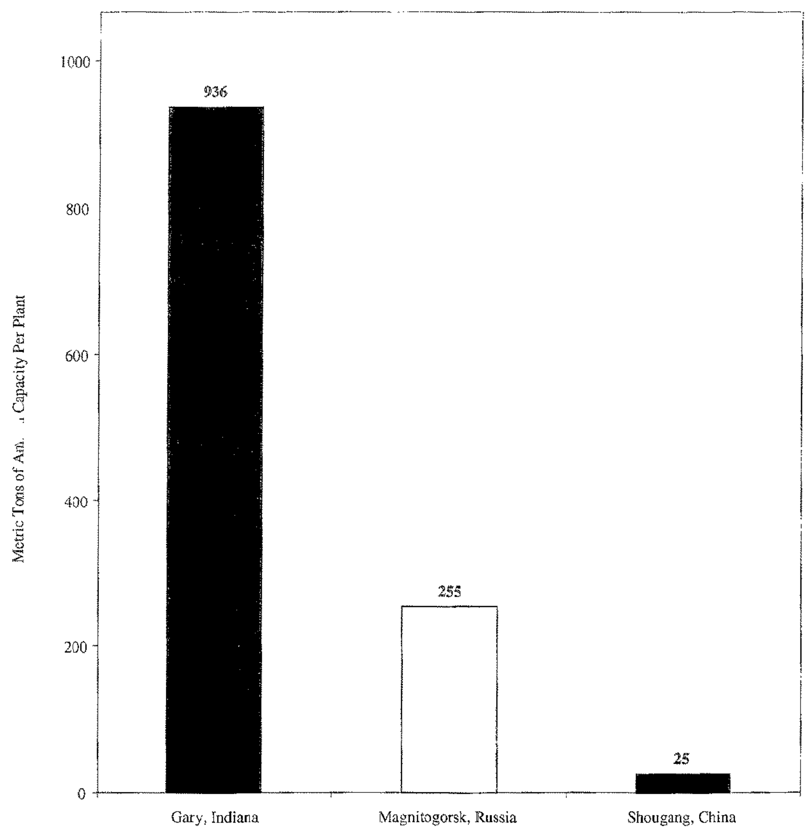
Steel Mill Products



U.S. Dept. of Commerce, Bureau of Census

Attachment 2

Productivity Comparison: U.S., Russia and China

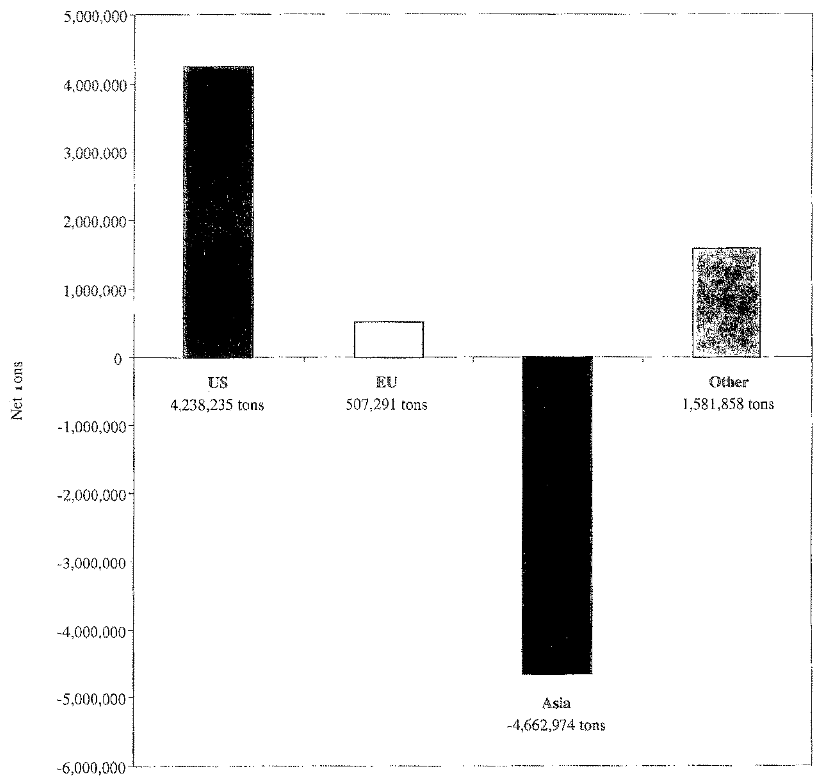


Sources: Employees: USX (7,690 employees at Gary) and Economist Intelligence Unit (26,000 at Shougang); capacity: PaineWebber cost curve plant data (1998).

Attachment 3

Japan: The 1998 Surge in Exports of Finished Steel Mill Products Has Been Directed at the United States

Change in Export Volume
1998 vs. 1997

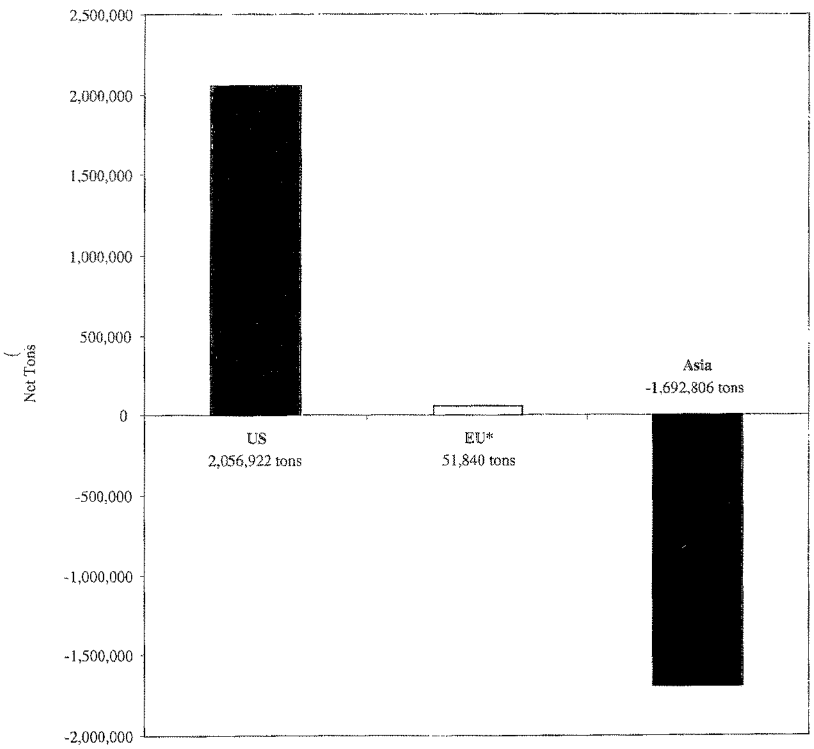


Source: WTA from Japan Tariff Association
Note: HS codes for finished steel include: 7208, 7209, 7210, 7211, 7212, 7213, 7214, 7215, 7216, 7217, 7219, 7220, 7221, 7222, 7223, 7225, 7226, 7227, 7228, 7229/ 730110, 730210, 730220, 730240, 7304, 7305, 7306

Attachment 4

Russia: The 1998 Surge in Exports of Finished Steel Mill Products Has Been Directed at the United States

Change in Export Volume
Jan-Nov 1998 vs. Jan-Nov 1997

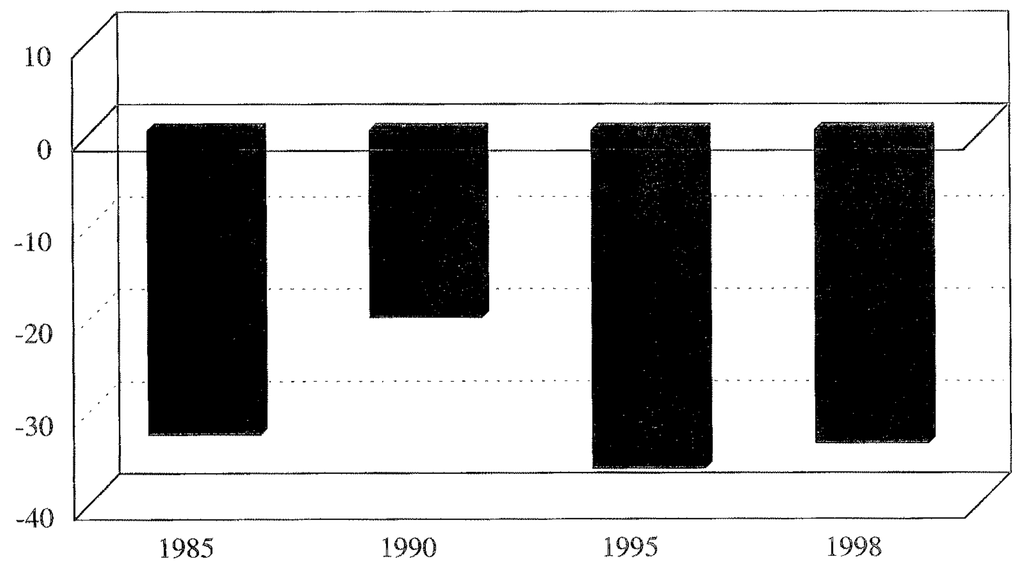


* Note: EU data is Jan-Aug 1997 and 1998
Asia consists of exports to Japan, Korea, China and Taiwan only.
Sources: U.S. data from Department of Commerce, IM-145. EU and Asia data from Tradstat.

Attachment 5

Balance of Trade

Indirect Steel



NOTE: Total value of net indirect steel trade; not just steel content.
Source: AISI

Attachment 6

March 1999

TRADE LAW REFORMS URGENTLY NEEDED

Legislation will soon be introduced to update and enhance key U.S. trade laws. These reforms are essential to keep the trade laws effective and relevant to current conditions in a newly turbulent global economy.

The Need for Trade Law Reform

The trade laws (particularly the antidumping and countervailing duty laws) have long been, and remain, critically important to the U.S. manufacturing sector. They are the last line of defense for U.S. industry, operating on market-economy principles, against injury caused by unfairly traded imports. The basic covenant at the heart of U.S. trade policy holds that while America maintains an open market to fairly traded goods of any origin, our industry and workers will not be subject to injury from unfairly traded imports because the trade laws will be enforced and kept up-to-date.

The last general reform of the U.S. trade laws, unconnected to any particular trade agreement, occurred more than a decade ago. In that time, the problems to which these laws must respond have changed considerably, as underscored by the recent Asian and Russian economic conflagrations and the steel trade crisis that has ensued. It has become painfully clear, for example, that the current trade laws are not capable of responding to the kinds of sudden import surges -- causing dramatic and rapid injury -- which are now part of the international economic scene.

The trade laws themselves, and the proposed reforms, are fully consistent with WTO rules. The reforms fall into three categories:

- amendments to the **safeguard law** (section 201 et seq. of the Trade Act of 1974);
- amendments to the **antidumping and countervailing duty laws** (sections 701 et seq. of the Tariff Act of 1930); and
- provisions establishing a new **steel import monitoring program**.

The safeguard and AD/CVD amendments mostly respond to the fact that current U.S. law makes relief unnecessarily difficult to obtain, imposing standards more onerous than those in the relevant WTO agreements. Even where there is no direct discrepancy between WTO and U.S. standards, WTO-consistent improvements are available that will help keep the laws relevant to the new challenges of the global economy. The steel import monitoring provisions would establish a WTO-compatible program comparable to those maintained by other WTO Members such as the EU, Canada and Mexico.

Importance to U.S. Manufacturing

Having effective and up-to-date trade laws in place is important to internationally competitive U.S. manufacturing industries -- particularly the steel industry, where international trade has been more heavily distorted by subsidies, closed markets, cartelization, and dumping than in any other economic sector. The U.S. industry has borne the brunt of the resulting -- and very painful -- economic adjustments.

During the 1980s, the U.S. steel industry was given a mandate to restructure and modernize, and it delivered -- eliminating inefficient capacity, sharply reducing jobs, making nearly $60 billion in capital investments, and more than doubling its productivity. The U.S. industry emerged as the world class producer of steel and the low-cost producer for the U.S. market -- but it has continued to suffer the consequences of global excess capacity created by massive subsidies, closed home markets, and industrial cartels, which relieve foreign steel producers from having to make adjustments of their own.

Like any other industry, the steel industry has utilized the trade laws as necessary to respond to all of this unfair trade. The industry has also supported market-opening agreements like the NAFTA and the WTO agreements, in large part because they provide for a continued strong deterrent against unfair trade.

The proposed trade law reforms will help to keep a credible and effective deterrent in place into the next Millenium. These reforms deserve enthusiastic support from friends of the U.S. manufacturing sector.

Attachment 7

March 1999

TRADE LEGISLATIVE PROPOSALS

Section 201 amendments.

- Conform causation standard to the WTO *Safeguards Agreement* by deleting the word "substantial."
- Provide that where there are both captive and merchant sales, and merchant sales are adversely affected by import competition, only merchant sales will be counted in determining serious injury or threat of serious injury.
- Provide that a rapid decline in prices coupled with a rapid increase in imports creates a presumption of critical circumstances and threat of serious injury for 201 purposes.
- Conform statute to WTO requirement that only a causal link between imports and serious injury be shown.
- Amend the present injury standard by changing the factors the ITC must consider in its analysis to be consistent with the WTO present injury standard.
- An affirmative finding under section 201 creates a presumption that injury is ongoing for purposes of AD/CVD sunset reviews. A negative finding under the higher standards of section 201 is to be ignored in finding injury for purposes of AD/CVD sunset reviews.

Antidumping and countervailing duty amendments.

- Where there are both captive and merchant sales, and merchant sales are adversely affected by import competition, only merchant sales will be counted in determining injury or threat of injury.
- There will be a presumption of critical circumstances and threat of material injury where there is a rapid decline in prices and/or a rapid increase in imports. The ITC will, in these circumstances, rely on the latest data available for the present and immediate past, and not rely on long-term trends for its analysis.
- The ITC shall cumulate imports from different countries in its injury analysis whenever imports from the countries are under investigation at the same time, even if the petitions were not filed on the same day as long as there is any discernible competition between the imports and the domestic like product.

- Exporters must not be allowed to mask the full extent of their dumping by using U.S. affiliates.

- Ensure that exporters cannot evade AD/CVD orders by making minor alterations to the product.

- Prevent foreign governments from negotiating settlements of trade cases without U.S. companies' and workers' approval.

- Clarify that the ITC shall make an affirmative injury determination if imports are "a contributing" cause of injury to the domestic industry and should not weigh the injury caused by unfair imports against other factors.

Import licensing program.

- Congress should enact legislation to establish an import licensing program for certain designated products that would require importers to provide appropriate information and would require the Administration to release this data to the public in aggregate form on an expedited basis.

Mr. MICA. Thank you for your testimony. I'll lead with some questions, if I may.

Mr. Chimerine, I was particularly interested in the opening statement by my colleague, Mr. Kucinich, from Ohio, who talked about what he labeled improper trade accounting. He described one particular situation dealing with the manufacture of automobiles.

Do you feel we properly count today, and should we take a look at how we calculate our trade deficit? Then, based on his statement, it sounds like the trade deficit could be even worse than what is reported, is that correct?

Dr. CHIMERINE. It's very hard to say, Mr. Chairman. I think it could go either way. I think Howard Lewis has earlier indicated that in some sense, in some ways, we're probably understating our trade deficit. We probably do miss some exports and do not count some exports that we actually make.

But I must tell you, I don't think I would change the equation very much. If we added $50 billion or took $50 billion off the reported trade deficit, it's the same story. The fundamental trend is we have a huge and persistent trade imbalance. It is largely structural, at least on an average basis. Sometimes, there are short term forces that make it larger or smaller.

To me that's the overriding issue. While I'm not the first to advocate measures to improve the quality of our statistics, and I agree that the trade statistics in particular tend to be inaccurate and very erratic, I think the real issue is the fact that under any circumstances, no matter how we measure it, we have serious trade problems that are going to have sizable long term consequences. I think that ought to be our primary focus.

Mr. MICA. My next question deals with the consequences. Mr. Lewis testified that for the first time since 1987, we've seen this huge explosion of, I think you've described it, in 1987 a different situation but in 1998 we ended up with not only——

Mr. LEWIS. A negative trade, $1 billion swing in our——

Mr. MICA. Right. The drop, or the increase in our trade deficit but a decrease in exports. What's going to happen if that continues? You can both comment. You are the economist, we want to give you multiple answers.

Dr. CHIMERINE. I don't know if that's good or bad, Mr. Chairman, but I'll answer it. Clearly over the last 30 or 40 years, in fact, probably the entire post-war period, world trade has grown at a rate faster than overall economic growth, probably close to double the rate of GDP growth on a global basis.

So there has been a consistent trend where both the level of exports and the level of imports in most countries, including the United States, have been rising relative to our GDP. That's even happened in prior recessions.

What happened in prior recessions, particularly overseas recessions, is that the trend in exports continued but it was temporarily dampened by the recessionary conditions in some of our trading partner countries. But that wasn't large enough to completely obliterate the trend, it just slowed the process.

Now we have such extraordinarily depressed conditions in Asia, which was the most rapid growth region of the world, and it's spreading to other parts of the world, as you yourself mentioned, particularly Latin America. Those pressures have been so huge that we actually have negative growth in exports. But as Howard mentioned, it's a relatively small decline, which tells you how powerful the upward movement, the upward trend is, given how serious the economic recessions are currently in other parts of the world.

With respect to the increase in the trade deficit over the last several years, the last year and a half in particular, while some of it is coming on the import side, for reasons Barry Solarz mentioned, clearly the export part of the equation is being dramatically dampened by overseas economic conditions. When you add that to what was already a baseline $100 or $150 billion a year trade deficit, we're already up to $250 or close to $300 billion.

So, clearly, the drop off in exports is troubling. Some of it, hopefully, is temporary as a result of the recessionary conditions overseas.

Mr. MICA. Did you want to respond, Mr. Lewis?

Mr. LEWIS. Yes, I think two points. One is something that Larry brought up in his testimony, the impact of this if we continue to see this lack of growth in exports. The impact is that right now the economy is being carried by consumer spending, construction, and so on. That's not going to go on forever. At some point, this important source of growth that we've seen in the past is going to really—or the lack of it is going to really hit home. So that would be the sort of big macro economic point on exports.

If I could just comment. I would be glad to submit the report on the under counting of U.S. exports. It seems to be an ideal topic for this subcommittee. But just to give you one illustration of why this is taking place, the Government doesn't actually count exports under $2,500. They use a model that is either 10 or 15 years old, I forget, and basically try to estimate how much is happening.

Well, I don't know how many Fed Ex trucks and UPS trucks I probably passed in the taxi cab on the way up here, but they are an illustration of exactly why we have this problem. It's that business and the way we do business around the world has vastly changed. Just-in-time inventory means that you have millions of shipments under this threshold level of $2,500.

It's the way people do business now. It's the type of thing where there are clearly, as Larry points out, really big problems we need to deal with. But we also should get the numbers right so that we know what's going on. I'd be glad to submit this report if it would be of interest to the committee?

Mr. MICA. I think it would be of interest, and we would be glad to make it a part of the record, without objection. I want to be fair to my colleagues. I'd like to yield to Mr. Kucinich.

[The information referred to follows:]

U.S. Census Bureau the Official Statistics

Understatement of Export Merchandise Trade Data

Prepared by
Foreign Trade Division
U.S. Bureau of the Census
January 1997

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Summary

Comparison studies with partner countries, port audits and information from those involved in exports have raised two significant questions regarding the U.S. merchandise export statistics: "How complete are the export data?" and "What can done to improve them?"

Merchandise exports, which accounted for just 3.9 percent of gross domestic product (GDP) in 1960, now account for 8 percent of GDP. However, based upon comparisons with partner country data, port audits, other studies and information from those familiar with export trade, the Census Bureau believes that merchandise exports are understated. Our best estimate is that the understatement ranges from 3 to 7 percent of the published export value, but could be as high as 10 percent. We do not have adequate information, however, to develop estimates of understatement by country or by product area.

There is no evidence of significant errors in the import data. Thus, the estimated export undercount means that the trade deficit could be overstated by as much as $58 billion (over 40 percent) in 1995. We do not adjust the export value because the information on understatement is not sufficiently accurate.

The Census Bureau has identified four major causes of error in the merchandise export statistics:

- underestimation of low valued transactions;
- failure of exporters to file the required documentation;
- missing or incomplete information on the documents that are filed; and
- undervaluation of export shipments in response to foreign quotas or tariffs.

To address these problems, several actions are proposed:

- full implementation of the Automated Export System,
- increased outreach and education,
- increased Customs enforcement of export filing requirements, and
- improved coverage of low valued transactions.

Understatement of Export Merchandise Trade Data

Based upon a variety of studies and anecdotal evidence, the U.S. Census Bureau, which compiles and publishes the merchandise trade statistics, believes that the value of exports is understated. From the information available, however, it is not possible to develop a single, reliable estimate of the export understatement. The Census Bureau has used several approaches to estimate the export understatement, including comparisons with partner country data, port audits, and other studies/observations. Based upon these studies, we estimate that export understatement is most likely in the 3 to 7 percent range, but could be as high as 10 percent. The studies upon which this estimate is based are detailed in the appendix.

Since 1960, the significance of exports to the U.S. economy has increased substantially. In 1995, exports of goods accounted for 8 percent of U.S. gross domestic product, up from 3.9 percent in 1960. If our most conservative estimate of 3 percent understatement is correct, the merchandise trade deficit for 1995 would be overstated by about $17 billion (more than 10%). If our worst case estimate of 10 percent understatement is correct, the trade deficit would be overstated by nearly $58 billion (more than 40%).

Part of the increase in exports is a result of changes in trade patterns in recent years. More, and quite often smaller, U.S. companies have gotten involved in international trade. For example, in the last decade, Mexico has significantly reduced its tariff and nontariff barriers to trade, and encouraged processing and assembly operations in its maquiladora zones. Many of the top exporters, in terms of number of documents filed, are now located along the southern border of the United States. Many industries have established operations close to the U.S. - Mexico border. This permits more, smaller shipments to satisfy "just-in-time" delivery demands. This has increased the importance of low valued trade.

In addition, the easing of trade barriers and the ease of shipment by inexpensive international air parcel companies has made it economically feasible for smaller companies to export worldwide.

The trade statistics are an integral part of the gross domestic product compiled by the Bureau of Economic Analysis. Other major users include the Federal Reserve Board, the Council of Economic Advisors, the International Trade Commission, the International Trade Administration, the U.S. Trade Representative, the Maritime Administration, and the Army Corps of Engineers. In addition, many private industry and academic users depend upon these data to perform market studies, analyze competition, and develop trade routes, among other uses.

Reasons for Understatement

We have identified four basic reasons for the understatement of U.S. exports, which are compounded by the changing patterns of trade mentioned above: 1) underestimation of low value transactions, 2) failure to file, 3) missing or incomplete information on filed documents, and 4) undervaluation in reported information.

Low Value Underestimation

It appears that our estimates of low value trade are too low. Exporters are not required to report transactions valued less than $2,500. Instead, Census estimates the value of these transactions based upon historical patterns of trade. However, the data upon which these factors are based is now very old and does not reflect recent shifts in trade patterns. We have not collected data on transactions valued below $1,000 in over a decade. Information on transactions valued between $1,500 and $2,500 have not been reported since October 1989. We have little information on which to accurately assess the effects of recent changes in trade patterns. Companies involved in air cargo trade tell us that our estimates significantly understate the proportion of low valued transactions in U.S. exports.

We have examined the issue in our reconciliation studies and found that underestimation of low value trade accounted for up to 3 percent of the reported value of U.S. exports to those countries. However, this estimate is very rough since trading partners can define their reporting codes differently than the United States, thus creating more or less low valued trade relative to the United States. We were only able to obtain this information from three trading partners--Australia, Korea and Mexico. The underestimation appears to differ significantly from country to country. So, while these comparisons support our belief that we underestimate low value trade, they do not provide a basis firm enough for correcting our estimates.

Failure to File

Failure to file the required export documentation has been a longstanding problem, particularly for overland and parcel trade. As noted above, it can be very difficult to collect paper documentation for overland truck and rail shipments. In addition, smaller exporters may be less knowledgeable of reporting requirements and more likely to see those requirements as a burden. And, although we have not found any firm evidence of this, we think that some exporters may be under the false impression that the passage of the North American Free Trade Agreement eliminated reporting requirements.

Missing or Incomplete Information

A 1992 analysis of one month's export reporting showed that roughly half of all paper documents contained at least one error. Most of these errors involve missing or invalid commodity classification codes, and missing or incorrect quantities or shipping weights.

These errors have a negligible effect on the reported export values or the balance of trade, but can significantly affect detailed commodity and transportation analyses. A 1995 joint Census/Customs review of selected vessel manifests suggests that for this segment of trade the error rate may be as high as 70 percent.

Undervaluation of Reported Information

Finally, in some cases there appears to be some intentional misreporting. The 1989 port audit of air shipments showed what appeared to be deliberate misclassification and undervaluation of a small percentage of export shipments out of Miami to Central and South America. These practices were intended to circumvent high tariffs or quotas in the countries of destination. The audits, however, uncovered no evidence of this practice at the other three airports studied.

Proposed Solutions

No single solution will resolve all of these concerns. Instead Census proposes the following combination of approaches: 1) full implementation of the Automated Export System (AES), 2) continued outreach and education efforts by both the Census Bureau and the Customs Service, 3) increased Customs efforts to ensure compliance with reporting requirements, and 4) expanded coverage of low valued shipments. Several of these efforts are currently underway, others will require either additional resources or regulatory changes.

Automated Export System

The single most important step that can be taken to improve export coverage is full implementation by the Customs Service of the AES, a new Customs/Census program designed to permit direct electronic submission of export documentation to the Customs Service. The AES will improve the export data in several ways. First, it will eliminate the logistics problems of collecting paper documents, particularly from trucks and trains. Second, it will allow editing of the data as they are received, so that incomplete or incorrect information can be corrected by the reporting party.

In addition to the statistical benefits, the AES benefits exporters and their agents by simplifying the export reporting process. In fact, because the system is designed to meet the reporting requirements of most federal agencies, it should reduce total reporting burden.

Several of our major trading partners already get most or all of their export documentation electronically, often with exceptions for small filers or small ports. These include Mexico (mandatory electronic filing), Japan (largely electronic except for small brokers without terminals), Korea (largely electronic filing). Roughly 80 percent of Canada's exports are to the United States, so it receives the data for these transactions electronically through the data exchange.

There are several private service company initiatives underway to facilitate AES reporting, including at least one that permits small companies to complete electronic forms and submit them to a private service center via the Internet.

At present, however, the Census Bureau and the Customs Service are shouldering a double cost burden. They must pay the costs of developing, expanding and maintaining the AES system, while continuing to pay for handling and processing large numbers of paper documents.

Currently, the AES is still in its initial implementation period and accounts for less than one percent of export records. The Census Bureau expects to spend $3.7 million in FY1997 to review and key the information from the paper export documents. Most of this information is already stored in the computer systems of exporters, freight forwarders and carriers.

Outreach and Education

Outreach to and education of the exporting community are essential to improving the quality of the export statistics. The Census Bureau has made several such efforts. From 1991 through 1993, an intensive exporter education program was conducted that involved contacting exporters with frequent reporting errors to educate them as to proper filing procedures. This program was discontinued in 1993 due to budget cutbacks. In 1995 and 1996, the Customs Service and the Census Bureau have conducted many seminars and meetings with the export community. Initially these programs concentrated mostly on explaining and promoting the Automated Export System. More recently, the agencies have launched an Outbound Compliance program to increase, first through education and eventually through enforcement, compliance with export reporting requirements. These programs, again, are very costly and must be maintained. Otherwise, the reporting improvements are quickly lost.

Enforcement

Additional enforcement efforts are essential to improved export statistics. Over the years, the Customs Service has not stringently enforced export reporting requirements, since no taxes or tariffs were involved. While the AES system will eliminate the undercoverage that occurs because of logistical problems (for example, where the exporter prepared the proper documents but the truck driver did not submit them), it will do nothing to ensure compliance with reporting requirements from those companies that are either unaware of the reporting requirements or who intentionally violate them.

The Customs Service, with the assistance of the Census Bureau, has begun an effort to increase "outbound compliance." This program is starting with voluntary compliance efforts involving educating exporters, forwarders and carriers regarding their responsibilities. Later, enforcement actions are planned to ensure compliance. It is essential that these efforts be continued. Continued export understatement can be expected until there is a reasonable expectation on the part of the export community that noncompliance will be penalized.

One planned feature of the AES system would aid in ensuring proper reporting. This feature would involve matching of the electronic data for exports and for air and vessel manifests. This will allow Customs to identify shipments for which no export documentation was filed. Currently, all such matching must be done against paper manifests, which is very time consuming and expensive.

Improve Low Value Coverage

As noted earlier, it appears that we are underestimating the aggregate value of low valued transactions. The current minimum reporting threshold for exports has two main purposes--to reduce the reporting burden on small exporters and to reduce government processing costs. With electronic reporting, there is often no benefit to reporting companies in eliminating the lower valued transactions.

One feature requested by the export community under AES was permission to report at the level at which their company records are kept, instead of aggregating by product as is now required. This was approved, provided the companies report all transactions, regardless of value. If most companies choose this option, it should provide the information needed to improve our estimates of low value trade once AES participation expands.

Conclusion

The trade statistics significantly understate the value of U.S. exports. The major causes of this understatement are changing trade patterns, which have increased the number of companies exporting, including many small companies: the boom in the small package/air courier trade, which has increased the proportion of shipments below the reporting threshold, failure of some companies to file, reporting errors and intentional fraud. If nothing is done to improve export reporting, the understatement of exports will increase. In addition, the escalating costs of processing large quantities of paper documents could force an increase in the reporting threshold, further reducing export coverage.

However, there are several actions that can and should be taken to improve coverage, including full implementation of the Automated Export System, increased outreach and education programs, greater Customs enforcement of reporting requirements, and improved coverage of low valued transactions. In addition, mandatory electronic filing, with exceptions for small exporters, should be considered as a way to significantly improve accuracy and reduce processing costs.

Appendix - Studies of Export Undercoverage

I. Comparisons with Partner Country Data

The most extensively used approach to estimate export understatement is to compare U.S. trade data with that of our major trading partners. We have undertaken several studies each with Japan, Korea, Australia and the European Union. Through these studies, we attempt to identify and quantify the reasons behind the discrepancies between the trade data published by the United States and its major trading partners. Some of the discrepancies result from legitimate conceptual differences. Working with the partner country statistical agency, we further analyze the discrepancies and adjust for as many conceptual and other differences as possible. However, since the resulting "residual discrepancy" between the final adjusted values for the United States and the partner country may still contain the effects of conceptual differences that we either could not identify or could not quantify, it provides only a rough estimate of the export undercount. In the various reconciliation studies, the combined effect of proven nonreporting, underestimation of low value trade, and unresolved discrepancies ranged from 3 to 9 percent of the reported U.S. export value, with most of the studies falling in the 3 - 7 percent range.

Exports to Canada and Mexico are special cases. There is virtually no underreporting of exports to Canada. Since 1990, under a bilateral agreement, the United States and Canada have each based their export statistics upon the partner country's import data. Before this agreement, however, the understatement of U.S. exports to Canada was estimated to be as high as 20 percent. This high undercount, in large part, reflected the difficulties of collecting data on overland shipments moving across this open border.

While Census suspects that the underreporting of exports to Mexico is greater than that to overseas partners, it does not believe it to be as high as that experienced with Canada before the data exchange. One reason is that increased automated reporting of exports has eliminated some of the errors resulting from the careless handling of paper documents by truck drivers and others at the border crossings.

From 1991 - 1994 the discrepancy between published U.S. exports and Mexican imports ranged between 8 and 12 percent. However, for 1995 and 1996 (through July), the discrepancy has increased to nearly 17 percent. However, it is unlikely that these discrepancies reflect the true underreporting in U.S. exports. Based upon discussions with Mexican officials, Census believes that the discrepancies reflect both an understatement of U.S. exports as well as an overstatement of Mexican imports from the United States. Mexican officials believe that foreign goods, particularly those imported for use in maquiladora and automotive operations, may be incorrectly attributed to the United States. The Census Bureau is currently working with several Mexican agencies to further investigate the discrepancy.

II. Port Audits

In 1988 and 1989, Census and the U.S. Customs Service conducted spot audits at four major airports. The audit teams assessed the compliance with export filing requirements at the time of export and looked for missing export documents. These audits estimated the export understatement at between 2 and 8 percent. Although the agencies originally planned additional audits at vessel and overland ports, these plans were not carried out due to the high cost of conducting these audits.

III. Other Observations

Census and Customs have frequent contact with carriers, freight forwarders, exporters and others with knowledge of the export trade. In addition, the agencies have conducted occasional checks of carrier manifests and export document filing compliance. Although information gathered from these sources is inexact and often anecdotal, it cannot be ignored. These sources indicate that export understatement may be somewhat higher than the partner studies and port audits indicated, particularly in certain situations, most notably the international undervaluation of exports to countries with high import duties.

Last modified: 12 March 1997

Census Home

Mr. KUCINICH. Thank you very much, Mr. Chairman. Thank you to all the panelists for your participation. I've read your testimony. It's critical for this discussion that the chair has facilitated.

For Mr. Solarz, you've correctly said that foreign steel exporters have violated U.S. trade law. Preliminary determination has been made, as you know, by the Department of Commerce, but I'd like you to comment on the effect of devaluation of foreign currencies and what that's had on making cheaper steel made in Korea, Brazil, Japan and Russia.

First of all, what I'd like to know is this: if Korea, Brazil, Russia, Japan, did not illegally subsidize their steel, wouldn't it be true that a devaluation of the currency of those nations by 60 or 80 percent would cause their steel to be able to greatly underprice American steel?

Mr. SOLARZ. It's actually a slightly more complicated question than maybe even you are assuming in asking it. I'll give you one example which is Russia, where nobody can figure out what the costs and what the prices are, and the workers aren't paid for months at a time. You have trading companies going in there and taking 10 cents on the dollar, taking steel by the boat load from that country and essentially dumping it at prices that haven't been seen in the U.S. market in decades.

Russia came into the U.S. market as a price leader. What then happened was that the Japanese came in and the Japanese announced that "We will meet the Russian prices. And steel consumers, you can have Japanese quality at Russian prices," which broke the back of this market and essentially created anarchy in it.

Now, we do have some experience with this issue of the relationship between exchange rate changes and unfair trade case findings. However, it might be better to put this question to Mr. Copps. After all, this was an issue at the very beginning when cases were filed against Japan, which at the time had a weaker currency against the dollar than it has now. A lot of people were expressing the point of view that with the yen to dollar exchange rate, it would be very difficult to find a significant dumping margin vis a vis Japan.

But as we've seen in the recent preliminary margin determinations by the Department of Commerce, significant dumping margins were found in the case of Japan. Russia, of course, is a very different situation because of its non-market economy nature. The Department of Commerce has to look to a surrogate free market producer in order to come up with dumping comparisons.

Mr. KUCINICH. Well, let me do a followup question. Isn't it true that export-led growth policies are helped by devalued currencies because exports are made cheaper when the currency is devalued?

Mr. SOLARZ. Absolutely. We and others at this table have expressed concerns about the exchange rate issue. I know at least two of us at this table, if not three, have mentioned the term "currency manipulation." I believe there has been a long history——

Mr. KUCINICH. I saw that in your testimony.

Mr. SOLARZ [continuing]. There has been a long history of that certainly in the case of South Korea and other countries as well. We did express, in both the oral and written testimony, significant concerns about the position that the IMF took with respect to a number of countries in crisis, at least at the beginning, with these really counterproductive austerity measures——

Mr. KUCINICH. Mr. Chairman, Mr. Solarz just put his finger on what I think is part of the core problem here. Would you say it's true then that these so called structural adjustment policies and austerity mechanisms promoted by these international financial institutions such as the IMF were meant to promote or they lead to export-led growth.

Mr. SOLARZ. Yes, Congressman Kucinich. We and many other manufacturers have expressed concerns about this and the agricultural sector probably did as well. When we expressed our concerns about this, we did it in the context of a supporter of the IMF aid packages.

We were a supporter of the IMF aid package for South Korea, for example, and actually saw in that aid package the possible seeds for the first time in decades of eliminating some of those structural barriers and anti-competitive practices in the South Korean economy that United States trade policy for the last several decades has had no success at all in chipping away at.

Mr. KUCINICH. I understand. There is a conundrum here and I just wondered, you know, it seems to be true that the U.S. trade deficit, at least the recent surge in imported steel, could be aggravated by export-led growth policies promoted by the IMF? You know, we're looking at the same mechanisms here. Would you agree with that?

Mr. SOLARZ. Yes. We would agree that in this kind of environment it certainly made things worse for our industry and it really does no favor for the county in crisis either because it is our view, and I know that Dr. Chimerine shares it, that these countries descended into crisis essentially because they followed that "Japan, Inc." model of over-investing and over-exporting, and they all turned to exporting at the same time, and the whole thing was not sustainable for the long run.

Mr. KUCINICH. So as we look at this, would you say that export-led growth policies promoted by the IMF can cost the United States in the form of import surges and trade deficits?

Mr. SOLARZ. Yes.

Mr. KUCINICH. And would you recommend to Congress—and, Mr. Chairman, this is how, I mean, this hearing is so important—before it gives the IMF more funding as it did last year, that Congress demand that the IMF stop promoting export-led growth at the expense of U.S. manufacturing?

Mr. SOLARZ. We certainly felt that the IMF should have put greater stress on trying to rebuild domestic demand in the countries in crisis. Just as we believe that——

Mr. KUCINICH. Instead of propelling export-led growth.

Mr. SOLARZ. Absolutely. Just as we believe that ultimately the only long term solution for the Russian economy is to rebuild domestic demand. I wish I could show you now a chart that would show what domestic steel production and consumption was around 1990 in the former Soviet Union.

You had about 165 million tons of production and about 170 metric tons of consumption. Today, you are looking, in Russia alone, steel consumption in the order of 17 million tons. There has been a complete collapse of that economy and domestic steel demand, and ultimately, to rebuild it has got to be the solution.

Mr. KUCINICH. Mr. Chairman, here you see in this one panel you know American manufacturing which we're very proud of, which has been the mainstay of this country's growth in so many ways, through two world wars and more, and the steel industry which has been the core of that along with automotive and aerospace, and of course this part of agriculture, the fruit and vegetable industry, and they all have been in trouble because of these trade policies.

Each testimony presented here by the gentlemen has been very valuable and it points out the importance of this hearing. I want to tell the chairman how much I appreciate that he has taken the time to address this issue.

Mr. MICA. Thank you.

Dr. CHIMERINE. Mr. Chairman, can I make a comment?

Mr. MICA. Yes, go ahead.

Dr. CHIMERINE. I think several of us have pointed this out already. When the history of this recent crisis, the economic and financial crisis in Asia is written, I think it will become clear that the fundamental cause of the crisis is the way these economies have been structured, or the economic strategy they've had in place in some cases for several decades and others for 10 or 15 years which, as Congressman Kucinich mentioned, is essentially to structure their economies to generate export-led growth.

They are all trying to copy the Japanese model in one way or another. The cause of the crisis in my judgment is that not everybody can grow by exporting at the same time. Somebody has to buy something and it can't always just be us. They are all targeting the U.S. market. When Japan did it by itself, it was successful. There isn't enough in the United States to support everybody at the same time so it led to overcapacity and over investment, and so forth.

Where the IMF has entered, in my judgment, is over the last 18 months in the way they addressed the crisis. They made it worse by insisting on huge austerity measures as a condition for the financing programs they put in place, which created more downward pressure on economies that were already collapsing, and which No. 1 has aggravated the global over capacity problem in steel and just about everything else.

Second, because their domestic economy has been squeezed down even further by IMF insistence on high interest rates, and tax increases, and whatever, it's forced them even more to look to exports for growth. Now luckily, a little too late in my opinion, the IMF has backed off and is now trying to be more of an instrument of growth in that region instead of austerity.

But what we should have insisted on when we debated the IMF funding issue here in the United States was, No. 1, that they back away from austerity and, No. 2, that they insist on meaningful long term reforms that will give us more access to those markets and move them away from just exporting their way to economic growth.

Now, again, this is gradually happening but had it been recognized sooner, I think the crisis would have been far less severe than turned out to be. And it wouldn't have spread as much to other parts of the world, and some of the negative effects on U.S.

industries and U.S. trade probably would have been considerably less.

Mr. KUCINICH. Mr. Chairman, if you would yield just for a second, and think about this in these terms. When one of our constituents, who is perhaps a steel worker, gets a notice at work telling him that he's laid off in a steel mill that has invested $40 to $50 million or more in improving its ability to produce but has already had reductions in work force, but everybody is ready to go and sell their product, and then I mean you start to see how this whole system kind of unravels.

Mr. MICA. If you want to see your constituent unravel, tell him that his tax dollars have gone to Washington to support policies that help unravel his economic status.

Mr. KUCINICH. Exactly.

Mr. MICA. And that would upset him or her. I appreciate the gentleman's comments. I would like to recognize the gentleman from Massachusetts, Mr. Tierney.

Mr. TIERNEY. Thank you, Mr. Chairman, for your remarks and Mr. Kucinich yours. Members of the panel, thank you for joining us and sharing with us your views today. I would like to shift gears just a little bit, if I could, and talk about offsets.

I notice, Mr. Chimerine, in your testimony you alluded to the impact that the requirement of some governments that we shift technology to them in return for our ability to sell over there, causes us some pain, not only the technology but in the aerospace industry in particular, shipping and training of labor in order to build the project—sometimes building a facility in another country for them and that's only with regard to the direct offsets, we talk about the indirect offsets and the havoc that's been reaping.

You made a comment on page 13 of your testimony that I thought was interesting. One of the things you said we had to do was that the U.S. Government had to prevent foreign countries from insisting on technological transfers as a condition for selling in their markets. How do we do that?

Dr. CHIMERINE. That's a good question.

Mr. TIERNEY. No, no, no. You've got to give us answers here.

Dr. CHIMERINE. Since I've dominated the time up here, I'm going to suggest you ask my three colleagues. And all of them, quite seriously, are probably better able to be more specific on that than I am. But I find it an extremely serious problem, particularly with China. China is very clever, as all of us have mentioned, or several of us. They insist that you shift some production to those markets as a condition of selling there. They force you to take on partners, they force you to transfer technology.

I don't know the specific best way to deal with this, but I must tell you that increasingly I've become of the opinion, I'm a free trader, I believe strongly in two-way free trade, but———

Mr. TIERNEY. But you are fast becoming a fair trader, right?

Dr. CHIMERINE. No, but the problem is that we have one-way free trade. And the reason support for free trade in this country is eroding despite the strong economy, is I think most people, maybe not the academic economics community, but I think most other people, realize this is not right, it's not fair, and it's not in our national interest.

I'm becoming increasingly of the opinion, like we're now doing in the case of, you know, bananas, and the beef hormone situation with Europe, that in order to bring about equal access overseas, to stop the unfair trade practices you are talking about, we're going to have to limit access to our market. That's the only thing they seem to understand.

And whether you put offsets in, or strengthen anti-dumping, negotiate individual trade agreements with the Japanese or others, which we don't even have the staff at USTR and Commerce to monitor and enforce, I'm not sure it's even worth it any more. I think the only thing that seems to work is when we limit access to our market to force them to back away from some of the trade practices that are onerous.

But whether that's something we could do with offsets, or tightening anti-dumping laws, or all of these things, all of which I support, I don't know the precise best way to do it nor do I know whether they are going to really work anymore.

Mr. TIERNEY. I would like to share that with the rest of the panel since——

Mr. LEWIS. I would like to make one comment about how to deal with this problem of basically trade-related investment measures. You want to invest here, you've got to bring over such and such technology, you've got to export so much out of this country, et cetera. I mean that's been going on a long time, it's been going on in Mexico.

In fact, I think one of the stronger points of NAFTA was the TRIMS provision which prohibits the use of trade-related investment measures. If we could have a similar strong trade-related investment measures around the world, we probably would begin to address your problem.

Mr. TIERNEY. Of course we exempted aerospace from some of the agreements——

Mr. LEWIS. And I think that too we've got to distinguish between offsets in the military area and offsets in the commercial area. I was primarily talking about what goes on in the commercial area. But I think it's a very serious problem. The other point that I'd like to just touch on here, and again it seems to me very relevant to this subcommittee, and Mr. Brown and Mr. Solarz raised it, and that's implementation of trade agreements.

Basically, we go out and negotiate these treaties over 8, 10 years. Everybody is exhausted at the end of them. We drag back here, we go through a big fight in Congress, we get it ratified, everybody is collapsing, and then we go onto the next one. I'm kidding around a little bit here, but I think the need to pay attention to how these things are implemented, not only by the United States, but also how we could strengthen the international trade systems monitoring of the implementation.

I've recently become more and more fascinated with this question after talking with some colleagues who simply have discovered in certain countries tariffs that should have been reduced weren't reduced, simply because nobody made them, nobody checked.

Now, admittedly, you can't go around the world checking a zillion tariffs, but there are certainly ways that you can do this in terms of, at the risk of sounding boring, standard accounting procedures.

You don't go in when you are doing an audit and count every single sale that ever took place. You take sampling and you examine.

So if you go in and you find out that country "X" has not reduced their tariff in 500 out of 1,000 cases, then you've probably got a problem. And the implementation is really critical. And I know the Department of Commerce has been taking some steps to strengthen their work in the trade compliance area here that I think this subcommittee should probably look at. Thank you.

Mr. TIERNEY. Mr. Solarz, so you have any comments you want to share on that issue. I'm not forcing you to do it, but if you had something I didn't want to prevent you from doing it.

Mr. SOLARZ. Well, I certainly agree with the comment made about ultimately, for better or worse, the U.S. market, this wonderful large market, is a point of leverage. But in making that comment, I would not suggest at all that we need to do anything that would in any way violate our WTO or international commitments.

What we are saying in our testimony is, we've got laws on the books, they can be improved, and they can be improved in ways that are consistent with existing international trade rules. And one of the big problems is that these rules and laws in the United States are not always strictly enforced.

And, again, the most recent example of our concern in this regard are these agreements on steel, these bilateral agreements on steel with respect to Russia. Yes, the Department of Commerce talks about significant declines, tremendous declines from 1998 levels, in terms of these agreements.

But we would point out and so would the petitioners, both the unions and the companies that filed the Hot Roll Case against Russia, that Russia currently, and you see it with these preliminary anti-dumping margins, is in no position to be selling any of this steel in the United States market. It cannot sell this steel at a competitive fair price consistent with our laws and international trade rules.

Unfortunately, for foreign policy reasons, our Government has decided that the law in this case was not good enough in terms of application of anti-dumping law, and so they took advantage of another aspect of the law and have announced this agreement to at least provide them some guaranteed market for dumped, and I will underline again "dumped" steel.

And that's one way, Mr. Chairman, that we can reduce the trade deficit—and that is to prevent future occurrences of suspension agreements in trade cases over the objection and in this case over the strong objection of U.S. petitioners.

Mr. TIERNEY. Let me get back to the offsets for 1 second, if I may, Mr. Chairman? The comment was made that we have to take some action, that maybe we have to use the fact that we are a big market to do that. Whenever I mention that to the aerospace industry types they get apoplectic.

Mr. SOLARZ. I know.

Mr. TIERNEY. You can't do this, you go down the line. And yet they talk about being in a prisoner's dilemma. That they don't really want to do the offset business but, my God, these companies demand it. Negotiations haven't gotten us very far, frankly.

It's the European nations, the Netherlands, and countries like that are probably more problematic in this area than the Asian countries. So if we're not going to have much success at negotiating, do we have to do something a little bit more harsh? Do we have to move in that direction? What do we say to these industrialists who want to keep telling us about their prisoner's dilemma but don't really want to make any other recommendations?

Dr. CHIMERINE. Well, I think obviously many of them are concerned. I'm sure in the case of commercial aircraft, that our major aircraft manufacturer worries that if we push this too hard the business will go to Airbus because they don't fight them as hard on technology transfer and other issues, there is that risk. And this is probably why we haven't addressed the issue.

Every time we do something like this, somebody objects because they feel they are going to be hurt by it or lose something by it. For example, there are steel users in this country who are fighting strengthening the dumping laws to help the steel industry or other measures that would help the steel industry.

Mr. TIERNEY. Do we have something to counter that with, do we have——

Dr. CHIMERINE. Well, you know to me it really comes down to what's in the national interest. And over the long term, we have to address the issue of the trade deficit. It's going off the charts, it's going to cause serious problems. As my colleagues mentioned, it already affects the composition of our output. We lose high paying jobs, even when the economy is strong, and in the long term it's probably going to weaken the economy. To me that has to be the overriding objective.

And if somebody gets hurt in the short term as a result of the strong measures, if it strengthens the economy in the long run, we're all better off. But it's a very difficult political issue, and if it was easy we'd have done it by now. I don't have any brilliant new insights, unfortunately.

Mr. TIERNEY. I want to thank all of the panel members, and thank you, Mr. Chairman.

Mr. MICA. Thank you. One of the problems we seem to have is that we no longer have clear U.S. interests in the various industries or activities. U.S. interests have been plummeted by foreign interests and have become part and parcel to the foreign interests—whether it's Florida growers, or I remember the days in which we had pure Florida orange juice or fruit and vegetable operations.

Now those folks are investing overseas and they no longer are interested in preserving U.S. interests. Steel has now become internationalized. In just about every activity, we see some U.S. investments, and there is no longer the clear outcry for any action. If you take some action, you don't have the support for sustaining or following through with it, which is part of the problem.

I think the testimony of this panel boils down to three areas—we need tougher trade negotiation, we need tougher enforcement of existing laws on trade, and then enhanced promotion and support for U.S. activities. Plus, I think we may need to revisit some of the policies that now finance international financial organizations that undo our position, which is an interesting new phenomena.

Dr. CHIMERINE. Mr. Chairman, can I make one other point?

Mr. MICA. Yes.

Dr. CHIMERINE. I think there is one other issue that all of us here would agree with, and that's tightening the WTO.

Mr. MICA. China, if you look at this chart up here the second one you can't see, China is now No. 2 after Japan. They are part of the problem and they are also asking for admission into WTO. Do you want to comment?

Dr. CHIMERINE. Yes. My concern really is that a lot of the trade practices that everyone here today mentioned, including you, Mr. Chairman, and Congressman Tierney and others on the panel, are really not under the WTO's jurisdiction. I mean, they are good at looking at tariffs, but they've got very limited jurisdiction over some of these other unfair trade practices. That has to be changed.

And, second, in my opinion, there has to be a mechanism so that if the WTO finds Europe or somebody else in violation of WTO rules, there are strong penalties imposed by the WTO. Right now, it's probably not working toward U.S. interests because it doesn't address a lot of these issues, it doesn't have the power. The Europeans are now ignoring the findings. So I think we ought to work in that direction, in addition to everything else.

And, last, to your point, and I know Howard mentioned this, and I guess I did too, we need to beef up our trade monitoring and enforcement group here in the United States. We negotiate all these trade agreements. I can remember all the agreements we negotiated with Japan on an industry by industry basis as part of the framework talks.

They haven't done half or more of the things that they promised to do. And nobody seems to monitor them, nobody seems to do anything about it. So beefing up that aspect, which is not expensive, would be a very good starting point, I think.

Mr. TIERNEY. I think the chairman covered this, thank you.

Mr. MICA. I want to thank you. This is the first of our hearings to look at this problem. We appreciate your providing us with testimony and look forward to working with you as we pursue this matter, we think it's very important. This panel is excused.

I'd like to call our last panel. We have two people testifying, Mr. Michael J. Copps, Assistant Secretary for Trade Development in the Department of Commerce and Mr. Johnnie E. Frazier, Acting Inspector General of the Department of Commerce.

We're pleased to have both of you gentlemen join us, and hopefully respond to the topic that we have at hand that's so important, dealing with the record trade deficit the United States is experiencing. As I mentioned to our other panelists, this is an investigations and oversight subcommittee of Congress and we do swear in our witnesses.

So, if you wouldn't mind standing, please raise your right hands?

[Witnesses sworn.]

Mr. MICA. Thank you. We welcome both of you. Let the record reflect both of the witnesses answered in the affirmative. We're pleased, again, to have you join us, to have your testimony. And we do have a policy of allowing lengthy statements being submitted for the record.

We ask you that you try to use your open time of 5 minutes, we give a little where there are only two witnesses on a panel, and we will put lengthy statements in the record. Mr. Copps, you are recognized.

STATEMENTS OF MICHAEL J. COPPS, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE; AND JOHNNIE E. FRAZIER, ACTING INSPECTOR GENERAL, DEPARTMENT OF COMMERCE

Mr. COPPS. Thank you very much for inviting me here today to talk about the compelling necessity to encourage American exports. It's always good to come home, and as someone who worked on Capitol Hill for nearly 15 years I'm grateful for the opportunity to be with you. I share your concern about the level of the trade deficit for 1998, and the prospect that it will go even higher this year.

My job is not so much to analyze trade deficits as to do something about them. My job is to work day in day out with the private sector to grow American exports in the global marketplace. I spend my time not debating whether America should be part of the global economy—that decision was made irreversibly long ago—but working to ensure that America does well rather than poorly as a participant in that global economy.

Mr. Chairman, my prepared remarks do delve briefly into the trade deficit problem, and I ask permission at this time to include that statement at the conclusion of these remarks.

Mr. MICA. Without objection, so ordered.

Mr. COPPS. But let me use these precious few minutes I have to tell you about how we at the International Trade Administration at the Department of Commerce are trying to get that deficit down. Trade promotion is an effective tool to shrink the deficit. Can it do it by itself? I think I prefer to let the economists debate that one.

What I do know is that if we as a Nation can mobilize our resources to take advantage of the opportunities of world commerce, that deficit will shrink significantly. And I would deem that a substantial contribution to the Nation's well being. In its early days the Clinton administration developed and began implementing a coordinated National Export Strategy in pursuit of increased exports.

The National Export Strategy is continuously updated by the interagency Trade Promotion Coordination Committee which was given new life and vitality by the administration to unify previously fragmented and duplicative Government export programs. Secretary of Commerce, William Daley chairs this important group.

The TPCC combines the resources of some 20 cabinet, independent, and White House organizations to initiate creative export promotion programs. This effort is not just desirable, it is imperative to counter the aggressive export promotion programs of other countries, programs targeted to put U.S. exporters at significant disadvantage and to put U.S. workers out of jobs.

The Department of Commerce is the lead agency in carrying out most of the export promotion elements of the strategy with the notable exception of the large agricultural export program. Commerce's activities are relatively low in cost because we rely heavily on the expertise of the ITA country and industry experts in advising, assisting and advocating for our exporters, but they are important and critical nevertheless.

Our export promotion strategy aims to match the aggressiveness of our competition, and it is marked by personal involvement at the highest level. In fact, I'm appearing before you because my boss, Secretary of Commerce Daley is in Korea today on one leg of a trade mission through Asia. And my immediate superior, Under Secretary for International Trade, David Aaron, is similarly engaged in Central America. Their mission objective is to advocate on behalf of U.S. business.

These are just two of a number of missions either completed or planned during this year, and designed both to promote exports and to remove impediments to our exports. Secretary Daley has been to 35 countries championing U.S. business in the 2 years that he has been our Secretary of Commerce.

Let me take just a moment to provide a broad overview of the Department of Commerce's International Trade Administration because I believe we are well organized to play the lead role in implementing the Nation's National Export Strategy. I often liken ITA to four legs on a table. One leg is our United States and Foreign Commercial Service, a globe spanning operation of 1,400 employees dedicated to helping U.S. business, particularly small or medium-size business, export.

Here at home the Commercial Service has 105 Export Assistance Centers counseling U.S. firms on the steps needed to enter the export market and to succeed in it. These are one-stop shops. That is, they offer access not only to the resources of the Department of Commerce but to those of the Small Business Administration, the U.S. Export-Import Bank, and a range of other U.S. Government agencies. And they work with and are often located near State and private groups charged with the same mission.

Overseas the Commercial Service has 140 international field offices. The commercial officers stationed abroad advise U.S. companies on opportunities, help them with project bidding, arrange meetings, provide interpreters, collect valuable market information. Last year the Export Assistance Centers helped to bring about export sales worth nearly $2 billion.

My shop is Trade Development a second leg of the ITA table. And it's a unique place in our Government that deals every day with the private sector—with U.S. companies and trade associations—to identify opportunities for the full range of U.S. businesses. We make sure that America is putting its best foot forward. We deploy the coordinated strength of the private and public sectors in a world where other countries learned that lesson long ago. Our industry expertise spans the gamut from basic industries to high tech.

And we're also the home of the Advocacy Center. And I'm proud of that Advocacy Center because advocacy is really a hallmark of the administration's National Export Strategy. Your government and mine, far more than ever before, is directly and aggressively advocating on behalf of U.S. business. There is not a time when the President, the Vice President, or a Cabinet member goes out of the country to meet a foreign potentate or trade minister, or whatever, that that Cabinet member doesn't have in his or her briefcase a list of specific U.S. business projects, commercial projects, that they are expected to advocate for when they get there.

The Advocacy Center works with the Government agencies and the private sector to get its job done. This is a startling change in attitude, and I don't say that as a partisan statement because I've been in this town long enough, and I've watched enough administrations of both parties come and go, standing blithely off on the sidelines while leaders from other countries aggressively promoted their home products and walked off with the contracts and walked off with the jobs too. U.S. business suffered and U.S. jobs were lost. That doesn't happen any more.

And over the 5 years that we've had our little Advocacy Center down at the Department of Commerce, we can count some 420 competitions in which our efforts assisted—and business will acknowledge our efforts assisted—their successful winning of the contracts. Those awards translated into $60 billion of U.S. content and support, probably somewhere on the order of 800,000 U.S. jobs. It seems to me that in this time of soaring trade deficits, advocacy is more important than ever and we ought to be putting more effort into advocacy.

We also have in Trade Development, where I work, the Trade Information Center, that's the 1–800–USA trade number where small and medium-size businesses can call to take the first step in accessing the global economy. We've received 85,000 telephone calls last year, 90 percent of them from small business. We had 475,000 inquiries.

Market Access and compliance is another leg of the ITA table. And this follows up the discussion you just had with the private sector because this is where we are trying to focus on identifying and eliminating trade barriers, and in making sure that we have compliance with our trade agreements. And this is really the high priority of Secretary Daley and Under Secretary Aaron.

Whenever we discover restrictions on our access to a foreign market, we try to move aggressively. We have a new Trade Compliance Center in ITA. We have put together a far reaching data base so that there will be a place where all the trade agreements are available for business. And if a business has a complaint, or a trade association, or has knowledge of where a trade agreement is not being adequately enforced, then they work with the Trade Compliance Center.

We work to try to solve those problems. And if enforcement becomes necessary, we coordinate with USTR. Now, this is a relatively new effort in the past couple of years, but as I said I know of no higher priority that the Secretary and Under Secretary Aaron have.

The Market Access and Compliance Center also, let me just mention for 1 minute, has a regional focus. Where our Trade Development has a sector focus. Trade Development deals with different business sectors. Market Access and Compliance has a regional focus so they have specific commercial knowledge on Russia, China, Latin America, Europe, what have you.

Then the fourth and final leg of the ITA table—and these legs are all necessary to support ITA—is the Import Administration. The Import Administration enforces laws and agreements to prevent unfairly traded imports. The most prominent recent example has been the determination that certain countries were dumping rolled steel products and a countervailing duty should be imposed to safeguard the U.S. steel industry. That's a high visibility issue. Secretary Daley was up here the day before he left on his trip testifying before Congress as he has done many, many times before.

At the core of the National Export Strategy is a commitment to involve particularly America's small and medium-sized businesses in exporting. We are part of a global economy, as I said before. We're not going to make a decision whether we're a part of it. That decision was made for us. The decision is: do we get in there and participate well or do we drop the ball and participate poorly?

SMEs are the locomotive of this country in creating jobs, in creating opportunity. And if our future is indeed in that global marketplace, we have to make darn sure the small and medium-sized enterprises are given the tools to go there and compete. Some of the most dynamic exporters we have in this country, and about 30 percent of our goods overseas are accounted for by SMEs, are the SME exporters really pushing the edge of the envelope in accessing foreign countries.

Let me conclude with just a quick comment, talking up public sector and private sector partnering. I want to talk that up because it works. I've worked in the public sector for close to 20 years. I've worked in the private sector running a Washington office for a major corporation and as a senior official of a trade association. Having worked in the private sector, I know that the private sector cannot get the job of trade development done alone in a world where investment climate and procurement decisions and all the rest are made by government. Government has to be part of the equation.

Having worked in Government for a number of years, I know that Government can't solve the problems alone. You need the innovation, the creativity and the expertise of the private sector. The reason I came back to Government and joined this administration 5 years ago was to bring the public sector and the private sector partners together in some innovative and creative ways, get everybody around the table, leverage off one another's strengths, so that when decisions are made overseas about business deals and trade agreements that everybody is there, everybody has an input, and that the strategic decisions of the United States are informed by a good strong commercial perspective.

I hope you can tell I feel very strongly about that because I do. I'm a true believer that the only way this country is going to prosper and progress in the global economy is by using all of our resources. And I include in that the active cooperation with Capitol Hill, the executive branch, the States, the local governments and the private sector too.

I could go on. You've already been very generous in according me this much time. So why don't I cease and desist at this point, but I will look forward to having some further discussion with you in a couple of minutes. Thank you.

Mr. MICA. Thank you. We will defer questions until after we've heard from Mr. Frazier, the Acting Inspector General of the Department of Commerce. He will probably be commenting on the report released, I believe last week, on the International Trade Administration and it's efforts to improve and be better prepared for export challenges of the 21st century. Mr. Frazier you are welcomed and recognized.

[The prepared statement of Mr. Copps follows:]

TESTIMONY OF MICHAEL J. COPPS
ASSISTANT SECRETARY OF COMMERCE FOR TRADE DEVELOPMENT
BEFORE THE
HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES
MARCH 25, 1999

Mr. Chairman, members of the Subcommittee, thank you for inviting me here today to talk about the compelling necessity to encourage American exports. It is always good to "come home," and as someone who worked on Capitol Hill for nearly 15 years, I am grateful for the opportunity to be with you.

I share your concern about the level of the trade deficit for 1998, and the prospect that it will go even higher this year. My job is not so much to analyze trade deficits as to do something about them. So while I will not be focusing my primary attention this afternoon on analyzing the deficit, permit me a few brief comments on the deficit itself.

First, the overall economic situation of this country is positive -- very positive. Indeed, the United States is virtually the only country whose economy has remained strong over the past two years. Our GDP grew four percent last year, compared to a worldwide average of 2 percent.

Our continued economic growth, coupled with the economic stagnation that grips most of the globe, provides a necessary and instructive backdrop for any analysis of the trade deficit. Because of our sustained economic growth, the United States has become the market of choice for the rest of the world. We are the only stable, receptive market of any size in the world. Conversely, other major markets are recessionary, or at least weakened, and so we are able to sell them fewer of our goods and services. Our imports rose five percent, our exports dropped 1 percent last year. Hence the deficit increase.

The key problem in our trade today is the plunging level of U.S. exports to Asia. Our exports to the rest of the world grew 4 percent last year, but to Asia they fell 15 percent. That drop represented the loss of almost $26 billion of U.S. exports.

It is, however, a mistake to blame all our deficit on the recent economic crisis in Asia. Longer term forces are also at work -- including the continued existence of trade barriers that have held back U.S. export opportunities. Surprising though it may now seem, from 1894 to 1970 the United States had an unbroken string of trade surpluses. Most of our trade growth, and most of our deficit occurred in the last ten years. Nearly 80 percent of the deficit was with Asia -- and fully 40 percent was with one country, Japan.

Half our global deficit is with Japan and China. While concrete progress has been made in some areas with Japan, such as medical technology, semiconductors, and banking and securities, there are real problems in other areas such as construction and flat glass. Last year, our $64 billion bilateral deficit was near record levels. The trade problem with Japan cannot be explained away simply by pointing to the current Japanese recession. A major reason has been, and remains, lack of market access.

Japan is in a serious recession. The Japanese Government has formulated an economic recovery program, and we deeply hope it works. But recession is no reason for Japan not to live up to its trade obligations to further open and deregulate its market, or to do its part to absorb imports from recovering nations. It is a responsibility Japan must meet. Things must change. Japan must accelerate its structural reform program, fix its financial sector, and open its domestic market to greater competition.

Our trade efforts must also address the unacceptable discrepancy between China's exports to the United States that have grown at an average annual rate of 25 percent for twelve years and China's imports from the United States that have grown at an annual rate of only 10 percent -- resulting in a $57 billion U.S. trade deficit last year, second only to our deficit with Japan. The best solution to these problems would be a commitment by the Chinese to WTO accession on a commercially meaningful basis. But while we continue on this process, we must push for the full measure of the trade rights for which we have already bargained, and press for meaningful increases in market access.

You are correct in concluding that effective trade promotion is a tool to shrink the deficit. Since its beginnings, the Clinton Administration has followed a coordinated National Export Strategy in pursuit of increased exports. The National Export Strategy is developed by the interagency Trade Promotion Coordinating Committee, which was given new life and vitality by the Clinton Administration to unify previously fragmented and duplicative government export programs. Secretary of Commerce William Daley chairs this important group. The TPCC combines the resources of some 20 Cabinet, independent and White House organizations to initiate new export promotion programs. This is necessary to counter the aggressive export promotion programs of other countries, programs targeted to put U.S. exporters at significant disadvantage.

The Commerce Department is the lead agency in carrying out most of the export promotion elements of the Strategy, with the notable exception of the large agricultural export program. Commerce's activities are relatively low in cost, because we rely heavily on the expertise of the ITA country and industry experts in advising, assisting and advocating for our exporters.

Our export promotion strategy aims to match the aggressiveness of our competition, and is marked by personal involvement at the highest level. In fact, I am appearing before you in part because Secretary of Commerce William Daley is in Korea today on one leg of a trade mission through Asia; and Under Secretary for International Trade David Aaron is similarly engaged in Central America. Their mission objective is to advocate in behalf of American business. These are just two of a number of missions either completed or planned during this year; and designed both to promote exports and to remove impediments to our exports. Secretary Daley has been to 35 countries, championing U.S. business at every stop, in the two years that he has been our Secretary of Commerce.

Let me spend just a moment to provide a broad overview of the Commerce Department's International Trade Administration, because I believe we are well-organized to play the lead role in implementing the nation's National Export Strategy. I often liken our organization to four legs holding up a table.

One leg is our U.S. and Foreign Commercial Service -- a globe-spanning operation of 1400 employees dedicated to helping U.S. businesses, particularly small and medium-sized businesses, export. Here at home, the Commercial Service's 105 Export Assistance Centers counsel U.S. firms on the steps needed to enter the export market and to succeed in it. These are "one-stop shops" -- that is, they offer access not only to the resources of the Department of Commerce, but to those of the Small Business Administration, the U.S. Export-Import Bank, and a range of other U.S. government agencies. They work with, and often are located near, state and private groups with the same mission.

Overseas, the Commercial Service has 140 international field offices, strategically located in markets that account for 95 percent of American exports. The commercial officers stationed abroad advise U.S. companies on opportunities; help them in project bidding and trade disputes; collect valuable market information; set up meetings with foreign government and business officials whose decisions may be key to the success of a proposed venture; and even locate distributors and other contacts. Last year, the Export Assistance Centers helped to bring about export sales worth nearly $2 billion.

My shop, Trade Development, is that unique place in our government that deals day-in, day-out with the private sector -- with U.S. companies and trade associations -- to identify opportunities for the full range of U.S. businesses and to develop and implement strategies to grow U.S. exports. We make sure that America is putting its best foot forward -- the coordinated strength of the private and public sectors -- in a world where other countries seemed to learn this lesson before we did.

Trade Development's industry expertise, found nowhere else in government, covers the spectrum from basic industries to high tech to services and e-commerce. We are also home to the Advocacy Center, which is really a hallmark of the National export Strategy. Your government and mine, far more than ever before, is directly and aggressively advocating for U.S. exports in the face of foreign government competition. This Administration realized early-on that the international business lost to American firms was far too important to write-off and that our traditional non-interventionist policy was equivalent to unilateral disarmament in the global competition. The job of our Advocacy Center is to deploy the power and prestige of the U.S. government to help U.S. businesses win contracts overseas.

The Center works day-in and day-out with the private sector and with the other agencies of the TPCC to ensure that American firms have full support in their bids on global competitions. Make no mistake: The Advocacy Center represents a dramatic change in attitude.

For years, Administration after Administration stood blithely off on the sidelines while government leaders from other nations aggressively promoted their home companies and walked off with the deals. U.S. business suffered; U.S. jobs were lost. No more. Nowadays, from the

President on down through the Cabinet and ambassadors, everyone is hitting the advocacy road, and the results are plain to see. Over the five years of its existence, the Advocacy Center counts some 420 competitions in which our efforts assisted U.S. bidders to win contract awards. These awards represent $60 billion in U.S. content and they support more than 750,000 U.S. jobs. In this time of soaring trade deficits, deploying the strongest possible advocacy effort makes more sense than ever.

We also have in Trade Development the Trade Information Center, to improve small companies' access to both general and country-specific counseling and information. The TIC features both an 800 number and newly-upgraded websites. During FY 1998, TIC trade specialists responded personally to about 85,000 telephone, e-mail, letter, fax or visitor inquiries, 86 percent of which were from small businesses.

Market Access and Compliance is another leg of the ITA table. This is where the Department focuses on identifying and eliminating trade barriers. Its mission is to see that market obstacles holding back U.S. exports are removed, and that the benefits of U.S. trade agreements are actually made available to U.S. firms and workers. Its regional and country focus on barriers is unique in the U.S. government, and its understanding of the policies and nuances of foreign barriers is an essential component of the National Export Strategy.

A cardinal tenet of the National Export Strategy is that trade agreements exist to be observed and enforced. This Administration is proud of the more than 240 trade agreements it has negotiated -- but the success of these agreements hinges upon their implementation. The Administration has made it very clear that as long as our markets are open to others, their markets must be open to us. We have made it abundantly clear that we will not stand by and allow U.S. workers, communities and companies to bear the brunt of other nations' unfair trade practices.

While non-compliance with trade agreements may not be the primary reason for the trade deficit, we cannot -- we will not -- allow non-compliance to be even a factor in deterioration of the trade balance.

Secretary Daley and Under secretary Aaron have made compliance with trade agreements their high priority. Whenever we discover restrictions to our access to a foreign market, the Administration moves aggressively. Our new Trade Compliance Center at Commerce is charged with tracking our trading partners' compliance. The TCC works closely and carefully with the Department's industry analysts and country specialists, as well as with the Trade Enforcement Unit at the office of the U.S. Trade Representative, and with numerous industries. We try to achieve trade compliance and market access short of dispute settlement wherever possible, and we strongly support USTR efforts when dispute settlement cases become necessary. Nor do we hesitate to seek enforcement either through the World Trade Organization or through the use of U.S. trade laws.

The fourth leg of the ITA table is the Import Administration, and its purpose is to keep the table -- the playing field of international commerce -- level for America's industries. IA enforces laws and agreements to prevent unfairly traded imports. The most prominent recent example has been the determination that certain countries were dumping rolled steel products, and that countervailing duties should be imposed to protect the U.S. steel industry.

The Import Administration not only makes those determinations, but assists domestic industries, especially small businesses, in determining whether there is sufficient evidence to petition for antidumping and countervailing duty investigations. IA also works with the USTR in negotiating fair and transparent international rules for such investigations; participates in negotiations to promote fair trade in specific sectors such as steel, aircraft and shipbuilding; and implements the laws concerning foreign trade zones.

At the core of the National Export Strategy, and at the heart of ITA's organization, is a commitment to involve America's small and medium-sized businesses in the world of global commerce. Small and medium-sized firms are central to building economic opportunity, and involving them more in global commerce is central to our strategy. This is as it should be. SMEs are the lead engine in creating jobs, and if America's future is in the global marketplace, we must make sure that our small businesses are competing and prospering in that marketplace. Small and medium-sized businesses have seen their exports grow impressively in recent years -- they have more than doubled, to over $135 billion. Nearly 30 million of our fellow citizens work for firms that export. But there is clearly the potential to export much, much more. We know that America is destined to live in a world of global business. It is not a question of whether we will participate or not. It is a question of whether we will do it well or poorly.

Our commercial officers, our industry specialists, our mission organizers and trade promoters, our advocates, our Trade Information specialists, our compliance experts are, all of them, dedicated to this important mission of growing exports for America's small business exporters and the millions of workers dependent upon these firms for their livelihood.

Through the Trade Promotion Coordinating Committee, we have been working together with other agencies to respond quickly to market developments, increase our outreach to SMEs and promote and foster e-commerce. One example is the TPCC's work to help U.S. exporters take advantage of new opportunities created by the Euro. Our closer cooperation with the states through the National Governors' Association is also a TPCC initiative.

More than half of the U.S. companies that have received direct support from the Advocacy Center that I described earlier are small or medium-sized businesses. Hundreds more have benefited from its services as subcontractors and suppliers on large-scale infrastructure projects.

As part of the FY 2000 budget, the President has announced a new initiative to expand and enhance the Administration's export promotion efforts aimed in large measure at small and medium-sized businesses.. This $108 million interagency initiative will generate $1.8 billion in new U.S. manufacturing exports and sustain 16,000 high-wage U.S. manufacturing jobs. There are several components, among them:.

- Increased number of Commercial Service officers in key overseas markets.
- Additional Commerce Department trade missions, focused on the manufacturing sector.
- Expansion of U.S. efforts to establish a commercial infrastructure in developing countries to make it easier and cheaper for U.S. exporters to sell their products in developing markets.
- A 10 percent increase in funding for the U.S. Export-Import Bank. Ex-Im Bank will use the money to help meet the demand for financing capital equipment and aircraft exports in developing markets, expand insurance and guarantee programs to keep U.S. products flowing to emerging markets and expand environmental technology exports.
- Increased funding for Trade Development Agency studies of opportunities for U.S. firms in major foreign infrastructure projects and new Overseas Private Investment Corporation risk insurance to support export-generating projects.
- Support for greater participation by U.S. industry and government on international standard-setting bodies, promotion of U.S. standards for exports and transparent commercial transactions. U.S. exporters continue to face intense and well-funded efforts by foreign governments to promote their own standards and product certification processes, particularly in developing markets. This creates barriers to market entry for U.S. products. Two Commerce Department agencies -- ITA and NIST -- will work on this initiative to make it easier and cheaper for U.S. exporters to sell to these emerging markets.

There are so many other initiatives I could talk about. For example, we have inaugurated programs to help U.S. companies take advantage of the rapid growth and evolution of Internet-based electronic commerce. These opportunities are not limited to U.S. multinationals, but extend to small and medium-sized U.S. firms, as well.

Our Trade Development organization is working on two fronts to help SMEs use e-commerce to expand U.S. exports. We have several trade promotion initiatives in development to help SME's, especially in gaining name recognition for their web sites. We are also working on reducing policy and regulatory barriers to e-commerce trade. For example, by encouraging U.S. industry to develop principles for safeguarding customer privacy, we expect to avoid a major trade conflict with the European Union. We are also studying foreign policies toward consumer protection, payment mechanisms, taxation and other regulatory issues that may create barriers to the growth of e-commerce internationally.

Time precludes my going on, but I think you get the flavor. I hope you can tell that I am an enthusiast, a true believer, in what we are doing. We do have a strategy -- a National Export Strategy -- and we are implementing it in a way that makes sense and makes progress. Surely I am not here to suggest that the implementation is perfect, nor, perhaps, is our organizational structure. We depend on my colleague, Mr. Frazier, on the oversight of Subcommittees such as this, and on the creative input of our private sector partners, to critique both our performance and organization.

Such insights are valuable, but in the meantime, we are, as Teddy Roosevelt said, in the arena -- preparing the way for U.S. businesses as they venture out into the world, always looking to reach agreement, but ready to protect and fight for their interests if necessary -- and winning more than our share of confrontations.

I believe we have, in all, mounted a strong, vigorous and effective program. We are a committed group of people doing an effective job -- day by day, month by month and year by year -- of advancing the cause of U.S. commerce in that world arena.

I thank the Chairman and the Members of the Subcommittee for their attention, and I would be pleased to respond to your questions.

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ORAL TESTIMONY OF MICHAEL J. COPPS
ASSISTANT SECRETARY OF COMMERCE FOR TRADE DEVELOPMENT
BEFORE THE
HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY AND HUMAN RESOURCES
MARCH 25, 1999

Mr. Chairman, members of the Subcommittee, thank you for inviting me here today to talk about the compelling necessity to encourage American exports. It is always good to "come home," and as someone who worked on Capitol Hill for nearly 15 years, I am grateful for the opportunity to be with you.

I share your concern about the level of the trade deficit for 1998, and the prospect that it will go even higher this year. But my job is not so much to analyze trade deficits as to do something about them. My job is to work, day-in, day-out, with the private sector to grow American exports in the global marketplace. I spend my time not debating whether America should be a part of the global economy -- that decision was made, irreversibly, long ago -- but working to ensure that America does well rather than poorly as a participant in that global economy.

Mr. Chairman, my prepared remarks do delve briefly into the trade deficit problem, and I ask permission at this time to include that statement as part of my remarks. But let me use these precious few minutes I have to tell you about how we at the International Trade Administration of the Department of Commerce are trying to get that deficit down.

Trade promotion is an effective tool to shrink the deficit. Can it do it by itself? I prefer to let the economists debate that one. What I do know is that if we as a nation can mobilize our resources to take advantage of the opportunities of world commerce, that deficit will shrink significantly and I would deem that a substantial contribution to the nation's well-being.

In its early days, the Clinton Administration developed and began implementing a coordinated National Export Strategy in pursuit of increased exports. The National Export Strategy is continuously updated by the interagency Trade Promotion Coordinating Committee, which was given new life and vitality by the Clinton Administration to unify previously fragmented and duplicative government export programs. Secretary of Commerce William Daley chairs this important group. The TPCC combines the resources of some 20 Cabinet, independent and White House organizations to initiate new export promotion programs. This effort is not just desirable, it is imperative to counter the aggressive export promotion programs of other countries, programs targeted to put U.S. exporters at significant disadvantage and U.S. workers out of jobs.

The Commerce Department is the lead agency in carrying out most of the export promotion elements of the Strategy, with the notable exception of the large agricultural export program. Commerce's activities are relatively low in cost, because we rely heavily on the expertise of the ITA country and industry experts in advising, assisting and advocating for our exporters, but they are important and critical nevertheless..

Our export promotion strategy aims to match the aggressiveness of our competition, and is marked by personal involvement at the highest level. In fact, I am appearing before you in part because Secretary of Commerce William Daley is in Korea today on one leg of a trade mission through Asia; and Under Secretary for International Trade David Aaron is similarly engaged in Central America. Their mission objective is to advocate in behalf of American business. These are just two of a number of missions either completed or planned during this year; and designed both to promote exports and to remove impediments to our exports. Secretary Daley has been to 35 countries, championing U.S. business at every stop, in the two years that he has been our Secretary of Commerce.

Let me spend just a moment to provide a broad overview of the Commerce Department's International Trade Administration, because I believe we are well-organized to play the lead role in implementing the nation's National Export Strategy. I often liken our organization to four legs holding up a table.

One leg is our U.S. and Foreign Commercial Service -- a globe-spanning operation of 1400 employees dedicated to helping U.S. businesses, particularly small and medium-sized businesses, export. Here at home, the Commercial Service's 105 Export Assistance Centers counsel U.S. firms on the steps needed to enter the export market and to succeed in it. These are "one-stop shops" – that is, they offer access not only to the resources of the Department of Commerce, but to those of the Small Business Administration, the U.S. Export-Import Bank, and a range of other U.S. government agencies. They work with, and often are located near, state and private groups with the same mission.

Overseas, the Commercial Service has 140 international field offices, strategically located in markets that account for 95 percent of American exports. The commercial officers stationed abroad advise U.S. companies on opportunities; help them in project bidding and trade disputes; collect valuable market information; set up meetings with foreign government and business officials whose decisions may be key to the success of a proposed venture; and even locate distributors and other contacts. Last year, the Export Assistance Centers helped to bring about export sales worth nearly $2 billion.

My shop, Trade Development -- a second leg of the ITA table -- is a unique place in our government that deals day-in, day-out with the private sector -- with U.S. companies and trade associations -- to identify opportunities for the full range of U.S. businesses and to develop and implement strategies to grow U.S. exports. We make sure that America is putting its best foot forward -- the coordinated strength of the private and public sectors -- in a world where other countries seemed to learn this lesson long before we did.

Trade Development's industry expertise, found nowhere else in government, covers the spectrum from basic industries to high tech to services and e-commerce. We are also home to the Advocacy Center, which is really a hallmark of the National Export Strategy. Your government and mine, far more than ever before, is directly and aggressively advocating for U.S. exports in the face of foreign government competition. This Administration realized early-on that the international business lost to American firms was far too important to write-off and that our traditional non-interventionist policy was equivalent to unilateral disarmament in the global competition. The job of our Advocacy Center is to deploy the power and prestige of the U.S. government to help U.S. businesses win contracts overseas. The Center works continuously with the private sector and with the other agencies of the TPCC to ensure that American firms have full support in their bids on global competitions.

Make no mistake: the Advocacy Center represents a dramatic change in attitude. For years, Administration after Administration stood blithely off on the sidelines while government leaders from other nations aggressively promoted their home companies and walked off with the deals. U.S. business suffered; U.S. jobs were lost. No more. Nowadays, from the President on down through the Cabinet and ambassadors, everyone is hitting the advocacy road, and the results are plain to see. Over the five years of its existence, the Advocacy Center counts some 420 competitions in which our efforts assisted U.S. bidders to win contract awards. These awards represent $60 billion in U.S. content and they support some 750,000 U.S. jobs. In this time of soaring trade deficits, deploying the strongest possible advocacy effort makes more sense than ever. Again, it's not just desirable -- it's essential.

We also have in Trade Development the Trade Information Center, to improve small companies' access to both general and country-specific counseling and information. The TIC features both an 800 number and newly-upgraded websites. During FY 1998, TIC trade specialists responded personally to about 85,000 telephone, e-mail, letter, fax or visitor inquiries, 86 percent of which were from small businesses, and we responded to nearly half a million inquiries.

Market Access and Compliance is another leg of the ITA table. This is where the Department focuses on identifying and eliminating trade barriers. Its mission is to see that market obstacles holding back U.S. exports are removed, and that the benefits of U.S. trade agreements are actually made available to U.S. firms and workers. Its regional and country focus on barriers is unique in the U.S. government, and its understanding of the policies and nuances of foreign barriers is an essential component of the National Export Strategy.

A cardinal tenet of the National Export Strategy is that trade agreements exist to be observed and enforced. This Administration is proud of the more than 240 trade agreements it has negotiated -- but the success of these agreements hinges upon their implementation. The Administration has made it very clear that as long as our markets are open to others, their markets must be open to us. We have also made it abundantly clear that we will not stand by and allow U.S. workers, communities and companies to bear the brunt of other nations' unfair trade practices.

While non-compliance with trade agreements may not be the primary reason for the trade deficit, we cannot -- we will not -- allow non-compliance to be even a factor in deterioration of the trade balance.

Secretary Daley and Under Secretary Aaron have made compliance with trade agreements their high priority. Whenever we discover restrictions on our access to a foreign market, the Administration moves aggressively. Our new Trade Compliance Center at Commerce is charged with tracking our trading partners' compliance. The TCC works closely and carefully with the Department's industry analysts and country specialists, as well as with the Trade Enforcement Unit at the office of the U.S. Trade Representative, and with numerous industries. We try to achieve trade compliance and market access short of dispute settlement wherever possible, and we strongly support USTR efforts when dispute settlement cases become necessary. Nor do we hesitate to seek enforcement either through the World Trade Organization or through the use of U.S. trade laws.

The fourth leg of the ITA table is the Import Administration, and its purpose is to keep the table -- the playing field of international commerce -- level for America's industries. IA enforces laws and agreements to prevent unfairly traded imports. The most prominent recent example has been the determination that certain countries were dumping rolled steel products, and that countervailing duties should be imposed to safeguard the U.S. steel industry.

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Our commercial officers, our industry specialists, our mission organizers and trade promoters, our advocates, our Trade Information specialists, our compliance experts are, all of them, dedicated to this important mission of growing exports for America's small business exporters and the millions of workers dependent upon these firms for their livelihood. More than half of the U.S. companies that have received direct support from the Advocacy Center that I described earlier are small or medium-sized businesses. Hundreds more have benefited from its services as subcontractors and suppliers on large-scale infrastructure projects.

Mr. Chairman, I want to "talk up" public sector-private sector partnering. I want to talk it up because it works. Neither sector can get the job of trade development done alone. I have worked in the private sector, running a Washington office for a major U.S. business, and I have worked as a senior executive of a major trade association, and I know that the private sector cannot open the doors of global commerce by itself in a world where market access and procurement decisions and commercial climates are so often determined by governments, and wherein our competitors combine all their resources, public and private, to win the competition. But I've also worked in government and I know that without the innovation and expertise and creativity that reside in the private sector, government can't get the job done alone either. I am a believer that if we are to develop America's tremendous trade potential, it will be because we find more creative ways to work together and to leverage off each other's particular strengths and access. My job is to work with the private sector to make it happen.

There are many opportunities out there, even given the troubled global financial climate we are encountering at the moment. And we -- this Administration, the TPCC, the Department of Commerce -- are developing new ways to accomplish our goals. In this era we can video-conference, we can use the Internet, we can help U.S. exporters understand and take advantage of such developments as the creation of the Euro. We can, and we are, cooperating more closely than ever with the states' export efforts through involving the National Governors' Association in our TPCC activities.

As part of the FY 2000 budget, the President has announced other new initiatives to expand and enhance the Administration's export promotion efforts aimed in large measure at small and medium-sized businesses. This $108 million interagency initiative will generate $1.8 billion in new U.S. manufacturing exports and sustain 16,000 high-wage U.S. manufacturing jobs. There are several components, among them:.

- Increased number of Commercial Service officers in key overseas markets.
- Additional Commerce Department trade missions, focused on the manufacturing sector.
- Expansion of U.S. efforts to establish a commercial infrastructure in developing countries to make it easier and cheaper for U.S. exporters to sell their products in developing markets.

- A 10 percent increase in funding for the U.S. Export-Import Bank. Ex-Im Bank will use the money to help meet the demand for financing capital equipment and aircraft exports in developing markets, expand insurance and guarantee programs to keep U.S. products flowing to emerging markets and expand environmental technology exports.

- Increased funding for Trade Development Agency studies of opportunities for U.S. firms in major foreign infrastructure projects and new Overseas Private Investment Corporation risk insurance to support export-generating projects.

- Support for greater participation by U.S. industry and government on international standard-setting bodies, promotion of U.S. standards for exports and transparent commercial transactions. U.S. exporters continue to face intense and well-funded efforts by foreign governments to promote their own standards and product certification processes, particularly in developing markets. This creates barriers to market entry for U.S. products. Two Commerce Department agencies -- ITA and NIST -- will work on this initiative to make it easier and cheaper for U.S. exporters to sell to these emerging markets.

Time precludes my going on, but I think you get the flavor. I hope you can tell that I am a believer, a true believer, in what we are doing. We do have a strategy -- a National Export Strategy -- and we are implementing it in a way that makes sense and makes progress. Surely I am not here to suggest that the implementation is perfect, nor, perhaps, is our organizational structure. We depend on my colleague, Mr. Frazier, on the oversight of Subcommittees such as this, and on the creative input of our private sector partners, to critique both our performance and organization.

Such insights are valuable, but in the meantime, we are, as Teddy Roosevelt said, in the arena -- preparing the way for U.S. businesses as they venture out into the world, always looking to reach agreement, but ready to protect and fight for their interests if necessary -- and winning more than our share of confrontations.

I believe we have, in all, mounted a strong, vigorous and effective program. We are a committed group of people doing an effective job -- day by day, month by month and year by year -- of advancing the cause of U.S. commerce in the world arena. Working together, the Executive Branch, the Legislative Branch, our states, cities and localities, and the private sector, we can ensure America's continued place of global commercial leadership.

I thank the Chairman and the Members of the Subcommittee for your attention, and I would be pleased to respond to your questions.

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Mr. FRAZIER. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, I am pleased to be here this afternoon to discuss some of the Inspector General's work related to the effort by the Department of Commerce, primarily the International Trade Administration, to promote U.S. exports.

Much of our work within ITA has concentrated on the United States and Foreign Commercial Service, the Department's largest and most visible export promotion unit. My testimony will also include IG observations relevant to export promotion efforts by other parts of Commerce. And, finally, I will briefly highlight some of our observations on how certain trade promotion activities are or should be coordinated among various Federal agencies with trade promotion responsibilities.

International trade is vital to the health of our Nation's economy as reported in the Trade Promotion Coordinating Committee's 1997 export strategy, our exports support 11 million U.S. jobs. In 1998, the United States exported $931 billion in goods and services. However, the Nation's 1998 trade deficit, as reported by the census Bureau, was $469 billion. More recent figures suggest that the Nation's trade deficit continues to climb.

Obviously, there are many economic and other factors that have an impact on the trade deficit. While leaving that debate to expert economists, policymakers and others, I do believe that we in the Office of Inspector General have seen more than enough to convince us that notwithstanding some significant and lingering concerns, the Department of Commerce is aggressively promoting U.S. exports.

As we conduct our reviews of ITA operations and activities, we routinely ask questions geared to determining how ITA can more effectively and efficiently pursue its export promotion responsibilities. The answers we find are varied, sometimes complex, but always insightful. For example, one long standing concern of ours is that ITA's organizational structure, as it has been managed, has allowed fragmented and duplicative approaches to providing trade promotion services. Realizing the agency's organizational problems, both the previous and current Under Secretary have prepared reorganization proposals in response to these problems.

The United States and Foreign Commercial Service is the Department's principal and most visible promotional organization, with a global network of offices strategically located in more than 220 cities worldwide. It has long been clear to us that both congressional and executive branch officials recognize the need for the Department to concentrate its efforts on helping individual U.S. exporters, primarily the smaller ones.

This direction is clearly stated in the Trade Act of 1988. Given the specificity of the act's objectives, it is no surprise that much of our work is concentrated on how well United States and Foreign Commercial Service is fulfilling its trade promotion responsibilities.

One specific example, No. 4, and I'll point to the chart here [indicating visual aid on tripod] gets to the substance of what many U.S. firms need and want, actual trade leads and an introduction to key contacts in a foreign country. The United States and Foreign Commercial Service fulfills this requirement in a variety of ways, most notably through its gold key service, agent distributor services, and matchmaker program.

During our various reviews of United States and Foreign Commercial Service offices many clients have told us that these services are some of the most valuable export assistance services available. Other exporters have told us how these services can work better.

And, finally, although ITA is clearly the lead Commerce agency in the area of trade promotion, it is not the only Commerce agency that plays a role in the advancement of U.S. exports. For example, Commerce's National Institute of Standards and Technology plays a key role in ensuring that U.S. firms have a competitive opportunity, if not an advantage, in the global marketplace through its work on measurement and standards issues.

NIST currently has representatives in Saudi Arabia, Belgium, Mexico, Brazil, and India. Commerce also has the lead for the Government's Trade Promotion Coordinating Committee. The committee was first created in 1990. The Secretary of Commerce was designated as the chairman of the committee, which included senior level representatives from 18 Federal agencies, now expanded to 20.

The committee's mission is to ensure that the Federal Government is doing all that it can to help U.S. companies export. The committee has made some progress toward establishing a governmentwide strategy for export promotion activities.

In an earlier report on the Department's trade promotion efforts, we reported concerns about the lack of adequate interagency coordination. Since that review, the committee has established a secretariat to improve the coordination between the U.S. Government agencies on Federal trade promotion efforts.

We believe that the Coordinating Committee can be an effective tool for better addressing coordination problems between the foreign affairs agencies located in missions overseas, problems that we have too often seen. This completes my summary statement, and I'll be very glad to answer any questions you may have.

[The prepared statement of Mr. Frazier follows:]

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

STATEMENT BY

JOHNNIE E. FRAZIER
ACTING INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE

BEFORE THE
SUBCOMMITTEE ON CRIMINAL JUSTICE,
DRUG POLICY, AND HUMAN RESOURCES
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

MARCH 25, 1999

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss some of the Office of Inspector General's work related to the Department of Commerce's–particularly the International Trade Administration's–efforts to promote U.S. exports. Much of our work within ITA has concentrated on the U.S. and Foreign Commercial Service–the Department's largest, and most visible, export promotion unit. My testimony will also include OIG observations relevant to export promotion efforts by other parts of ITA and other agencies within the Department. And finally, I will briefly highlight some of our observations on how certain trade promotion activities are–or should be–coordinated among the various federal agencies with export promotion responsibilities.

International trade is vital to the health of our nation's economy. As reported in the Trade Promotion Coordinating Committee's (TPCC) 1997 National Export Strategy, exports support over 11 million U.S. jobs, including one in five manufacturing jobs. In 1998, the U.S. exported $931 billion in goods and services. However, the nation's 1998 trade

1998, the U.S. exported $931 billion in goods and services. However, the nation's 1998 trade deficit, as reported by the Census Bureau, was $169 billion, which resulted from a $248 billion deficit in goods and a $79 billion surplus in services. More recent figures suggest that the nation's trade deficit continues to climb.

Obviously, there are many macro- and micro-economic forces, as well as other factors, that have an impact on the trade deficit. While leaving that debate to the expert economists, policy-makers, and others, I do believe that we in the OIG have seen more than enough to convince us that–notwithstanding some significant and lingering concerns–the Department of Commerce, for its part, is aggressively promoting U.S. exports. Through our hundreds of interviews with U.S. exporters, countless meetings and discussions with representatives from private and public trade organizations, inspections of scores of US&FCS domestic and foreign offices, audits and evaluations of many ITA operations and activities, and coordinated and joint efforts with the General Accounting Office and other reviewers, we have observed that ITA has accomplished much in the area of export promotion. Foremost, we have found that U.S. firms and potential exporters, as well as representatives from various organizations, such as trade associations and state and local governments, are increasingly acknowledging ITA's efforts to help U.S. companies better compete in the global economy. ITA is doing this by (1) providing U.S. firms with an awareness of export opportunities, (2) offering a wider range of services and support at its domestic and overseas offices, and (3) pursuing an effective government-wide strategy for export promotion activities.

INTERNATIONAL TRADE ADMINISTRATION: COMMERCE'S PRIMARY TRADE AGENCY

The Commerce Department's International Trade Administration leads the federal government's efforts to promote and increase U.S. exports. Three units spearhead ITA's trade promotion efforts: Market Access and Compliance (MAC)[1], U.S. and Foreign Commercial Service (US&FCS), and Trade Development (TD). Import Administration (IA), ITA's fourth unit, primarily enforces laws and agreements to prevent unfairly traded imports into the United States.

MAC staff help U.S. businesses overcome barriers to international trade and investment. Country specialists for nearly 200 countries develop current and long-term market access strategies. MAC also provides information that enables U.S. firms to benefit from trade agreements that the United States has concluded in recent years. **US&FCS** is a global network of business specialists assisting U.S. exporters in more than 220 cities located worldwide in the United States and in 78 foreign countries. Markets in the countries where US&FCS staff are posted reportedly represent more than 95 percent of the world market for U.S. exports. In the United States, US&FCS operates a "hub-and-spoke" network of 100 Export Assistance Centers, which offer companies a range of export facilitation services. (There will be an expanded discussion of US&FCS in a later section of this testimony.) **TD** industry specialists work with manufacturing and service industry associations and firms to identify trade opportunities and obstacles by product or service, industry sector, and market. To assist U.S. businesses in their export efforts, TD supports trade missions, trade fairs, and marketing seminars. Industry specialists are organized into six major sectors: Technology and Aerospace Industries; Basic Industries;

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[1]Formerly known as "International Economic Policy."

Textiles, Apparel, and Consumer Goods Industries; Tourism Industries; Service Industries; and Environmental Technologies Exports. Also housed within TD is the Advocacy Center.

Effective advocacy in support of U.S. exporters and U.S. trade interests is extremely important. Before the National Export Strategy was developed, however, high-level advocacy efforts tended to be somewhat *ad hoc*. ITA has since established an Advocacy Center, with specific goals to institutionalize ITA's advocacy process and conduct its advocacy efforts in a more organized and coordinated manner. In January 1997, we completed a review of the Advocacy Center to determine whether its resources were being used in the most effective, efficient, and economical manner. During the early part of our review, we found that the Department claimed that as a result of its efforts during fiscal years 1995 and 1996, it had contributed to the potential export of about $36 billion of goods and services. Unfortunately, at the time of our review, much of the documentation for the claimed exports was lacking. We recommended corrective actions, and are pleased to report that substantial improvements were made. As a result, the Center was able to provide at least minimal documentation for the vast majority of claims made for exports supported during the two years under review.

The Advocacy Center has received praise from U.S. businesses for its responsiveness and resourcefulness. Nevertheless, we have encouraged ITA managers to continuously assess the impact of advocacy activities by asking: (1) What constitutes an advocacy success? (2) At what point should a success be claimed? and (3) What role did the U.S. government play? As a result of our 1997 review and subsequent inquiries, we believe that ITA has taken a more conservative approach in determining an advocacy success. An advocacy success is now defined as "Assisting a company—or companies—in a significant manner and to such a degree that after a requesting company is awarded a procurement or contract—which will result in U.S. exports of goods or services—the company is willing to acknowledge the USG assistance as integral to its success." ITA now seeks confirmation of successes from the U.S. company assisted, particularly the value of the U.S. content and the number of jobs supported or created. In addition, Advocacy Center management scrutinizes advocacy successes claimed to determine whether they should be considered a success or not, taking into account factors such as the contractual commitment, the company's opinion of the buyer's commitment, and the degree to which advocacy was provided. Such efforts should go a long way toward providing insights–and perhaps more concrete evidence–to those who question whether the Department has in fact helped U.S. firms increase their exports.

The **IA** enforces laws and agreements to prevent unfairly traded imports and to safeguard jobs and the competitive strength of American industry. Unfair foreign pricing and government subsidies distort the free flow of goods and adversely affect American business in the global marketplace. IA plays an important role in improving U.S. businesses' competitive positions by administering U.S. antidumping and countervailing duty laws that provide a remedy to domestic industries injured by unfairly traded imports; participating in negotiations to promote fair trade in specific sectors, such as steel, aircraft, and shipbuilding; and implementing the laws concerning foreign trade zones.

As we conduct our reviews of ITA operations and activities, we frequently ask this question: How can ITA more effectively and efficiently pursue its export promotion responsibilities? While acknowledging that some improvements have been made in ITA's general management and coordination among its units, additional attention is still warranted in some key areas. As our recent evaluation highlights, some of the unresolved issues associated with ITA's management of its programs and operations can be traced to periodic voids in high-level leadership positions. Overwhelmingly, the ITA officials, managers, and employees that we interviewed spoke of these frequent periods when "acting" officials were in charge. Our recent observations parallel earlier findings by GAO and the OIG. Too often the Under Secretary position has been vacant and the Deputy Under Secretary has had to fill in, while attempting to concurrently perform his own job. Notwithstanding the frequent vacancies, we have recommended that ITA recognize the importance of effectively managing the agency, provide clear guidance and direction to each ITA unit to prevent overlap and duplication, and insist that adequate cooperation and coordination exist between ITA units.

One particular and, unfortunately, long-standing concern of ours is that ITA's organizational structure, as it has been managed, has encouraged a fragmented and often duplicative approach to providing trade promotion services. Realizing the agency's organizational problems, both the previous and the current Under Secretary have prepared reorganization proposals in response to these problems. While the reorganization proposals are reportedly under consideration, we have recommended that ITA, at a minimum, aim to (1) reduce overlapping administrative and programmatic functions, and (2) remove organizational barriers that inhibit internal coordination and cooperation. We have also provided ITA with a range of other observations and recommendations to improve its critical administrative and financial management operations.

U.S. AND FOREIGN COMMERCIAL SERVICE: ITA'S LARGEST AND MOST VISIBLE EXPORT PROMOTION UNIT

In 1993, we issued a major report detailing our assessment of Commerce's efforts to help U.S. firms meet the export challenges of the 1990s. This comprehensive review was conducted partially in response to the Omnibus Trade and Competitiveness Act of 1988. In recognition of the importance of the US&FCS role in support of the nation's export promotion efforts and the need for this role to be efficiently and effectively managed, the act specifically requires our office to conduct periodic reviews of Commercial Service operations and report our findings to the Congress. Through our work, we have conducted audits, inspections, and evaluations of various aspects of US&FCS, including:

(1) Inspections of domestic field offices;
(2) Reviews of individual overseas commercial posts;
(3) Audits of foreign service personnel system operations;
(4) Program evaluations of the US&FCS's Export Assistance Program in the early stages of its development; and
(5) Other reviews that have targeted a variety of management and programmatic issues.

By focusing much of our work on ITA's domestic and foreign field offices that work most directly with small and medium sized U.S. exporters, we have been able to monitor first-hand one critical performance measure–customer satisfaction. We have also noted concerns at individual field offices and overseas posts, some of which appear systemic and could affect the quality of US&FCS's products and services.

Just last week, we issued a report updating our earlier assessment of the Department's export promotion efforts and highlighting some of the other challenges facing Commerce managers as they continue to enhance their export promotion activities. (See Attachment for a listing of relevant reports issued since 1993.) In conducting both the 1993 study and our most recent review, we attempted to address two primary questions: (1) What is

US&FCS doing to meet the objectives established in the Omnibus Trade and Competitiveness Act of 1988? and (2) Are U.S. exporters, as well as potential exporters, being well served by the Department of Commerce?

It has long been clear to us that both congressional and executive branch officials have recognized the need for the Department of Commerce to concentrate its efforts on helping individual U.S. exporters be prepared to compete more effectively and successfully in the global marketplace. This direction is clearly stated in the Omnibus Trade and Competitiveness Act of 1988, which states, in pertinent part, that:

> *"The Commercial Service shall place primary emphasis on the promotion of exports of goods and services from the United States, particularly by small businesses and medium-sized businesses, and on the protection of United States business interests abroad by carrying out activities such as–*
>
> *(1) identifying the United States businesses with the potential to export goods and services and providing such businesses with advice and information on establishing export businesses;*
>
> *(2) providing United States exporters with information on economic conditions, market opportunities, the status of the intellectual property system in such country, and the legal and regulatory environment within foreign countries;*

(3) providing United States exporters with information and advice on the necessary adaptation of product design and marketing strategy to meet the differing cultural and technical requirements of foreign countries;

(4) providing United States exporters with actual leads and an introduction to contacts within foreign countries;

(5) assisting United States exporters in locating reliable sources of business services in foreign countries;

(6) assisting United States exporters in their dealings with foreign governments and enterprises owned by foreign governments; and

(7) assisting the coordination of the efforts of state and local agencies and private organizations which seek to promote United States business interests abroad so as to maximize their effectiveness and minimize the duplication of efforts."

Given the specificity of the Trade Act's objectives, it is no surprise that much of our work has concentrated on how well US&FCS is fulfilling its trade promotion responsibilities.

The Act, for example, directs that US&FCS should identify potential U.S. exporters and assist them in establishing export businesses. The Commercial Service publishes and disseminates guides on how to establish export businesses and trading companies. Through our review of individual ITA domestic and foreign field offices, we have seen that US&FCS offices also participate in "how to export" seminars with the Small

Business Administration, state and local agencies, and others. At the same time, US&FCS has determined from experience and a strategic study that it should concentrate its limited resources on identifying and assisting small and medium sized export-ready firms.

Another key provision of the Act directs that US&FCS provide U.S. businesses with market-specific research information. We have found that US&FCS collects and disseminates a vast amount of trade-related information to help U.S. firms and exporters. The National Trade Data Bank is one tool used by US&FCS to disseminate valuable trade information to U.S. firms in weighing the export opportunities and risks associated with a particular market. Additionally, US&FCS prepares assessments of the host country's economy and future prospects. Much of this information is published in US&FCS country commercial guides, which contain comprehensive trade-related information. Likewise, its International Market Insights reports on upcoming opportunities in specific foreign markets and its Industry Sector Analyses are available to provide in-depth, structured reports on a broad range of industries.

A third objective states that US&FCS should provide information on adapting products and marketing strategies to each country's unique requirements. US&FCS does this in a variety of ways, including conducting seminars and briefings, providing individual counseling, responding to direct company inquiries, issuing periodicals, and conducting customized market research. Our recent overseas inspections have frequently shown that the overseas posts are most helpful in responding to individual requests for specific information. Through its Customized Market Analyses service, for example, the US&FCS can provide clients with candid assessments of how their products or services will likely sell in a given market.

Another specific objective, number four, really gets to the substance of what many U.S. firms need and want: actual trade leads and an introduction to key contacts in a foreign country. US&FCS fulfills this requirement in a variety of ways, most notably through its Gold Key Service, Agent/Distributor Service, Matchmaker Program, and International Buyer Program. During various OIG inspections of the U.S. Export Assistance Centers and at overseas FCS posts, many clients have told us that the Gold Key Service is one of the most valuable export assistance products or services available. With this service, US&FCS trade specialists in a target country will match U.S. exporters with carefully prescreened contacts with similar interests and objectives.

A fifth objective of the 1988 Act asks the US&FCS to help U.S. exporters find business services in foreign countries. Commerce foreign service officers, assisted by a corps of knowledgeable foreign service nationals, are generally effective in developing contacts with local providers of business services, such as translations, banking support, legal support, customs facilitations, and conference facility assistance. Additionally, US&FCS's commercial centers overseas provide short-term office space and business services to U.S. businesses at selected locations.

A sixth objective calls for the US&FCS to "advocate" on behalf of U.S. firms before host government officials. Commercial specialists overseas develop working relationships with foreign governments as a matter of course. They also have contact with ministers of commerce and other local government officials. Additionally, with the added attention that is sometimes given to export promotion by other U.S. government agencies, such as Agriculture, USAID, and State, overseas embassies often help U.S. businesses by directing them to the appropriate host-country contacts.

And finally, a seventh objective looks to leverage US&FCS efforts by encouraging the effective use of public and private sector partnerships. This objective is carried out in part by US&FCS's domestic network of export assistance centers. Some of the centers collocate US&FCS trade specialists with representatives from the Small Business Administration and Export-Import Bank. We have seen first-hand that US&FCS also fulfills this requirement through its formal and informal arrangements with other trade organizations–often referred to as multipliers or partners. These organizations include chambers of commerce, district export councils, trade associations, state and local governments, and other public or private international trade development groups. When these partnerships work as expected, we have found that they are effective in promoting U.S. exports. In addition, US&FCS's overseas Commercial Centers often partner with and, in some cases, collocate with state offices of economic development, other federal trade-related agencies, and federal grant recipients, such as the grantees in ITA's Market Development Cooperator Program. Lastly, the domestic network of District Export Councils are designed to provide assistance and advise US&FCS staff in domestic offices on relevant trade issues. US&FCS has an infrastructure in place to deliver on this objective. However, we have found in some cases that the domestic offices are not proactive with their outreach efforts. In other cases, we have noted that some export councils and partner organizations are actively engaged with their respective US&FCS domestic offices.

In summary, the US&FCS is the Department's principal and most visible export promotion organization. With a global network, US&FCS is strategically located in more than 220 cities worldwide to assist U.S. exporters, including offices (1) in 78 countries, which reportedly represent more than 95 percent of the world market for U.S. exports, and (2) a domestic "hub-and-spoke" network of export assistance centers.

OTHER DEPARTMENT OF COMMERCE UNITS ALSO SUPPORT TRADE PROMOTION ACTIVITIES

The primary mission of the Department of Commerce is to promote American economic security by helping U.S. businesses become more competitive. The Department seeks to fulfill this mission, in part, *by improving the international trade climate for American business and industry*, promoting the expansion of industrial research and development, and providing accurate census data and useful economic forecasts.

Although ITA is clearly the lead departmental agency in the area of trade promotion, it is not the only Commerce agency that plays a role in the advancement of U.S. exports. Several other agencies within the Department participate–both directly and indirectly–in export promotion activities and related trade policy matters.

The National Institute of Standards and Technology, for example, plays a key role in ensuring that U.S. firms have a competitive opportunity, if not an advantage, in the global marketplace through its work on foreign and domestic measurement and standards issues. NIST currently has standards representatives in Saudi Arabia, Belgium, Mexico, Brazil, and India. Placing a standards representative in a foreign market provides NIST the opportunity to negotiate, collect information, and influence technical trade processes. The Deputy Secretary of Commerce emphasized the importance of standards in a recent publication where he states: *"Effective participation in the international standards arena has become a prerequisite for competitiveness in the global marketplace."* During several overseas US&FCS post inspections, we have witnessed the value or potential value that NIST representatives add or could help to improve the competitive position of U.S. exporters.

Commerce's Economic Development Administration is another agency that can and has played a role in export promotion. EDA provides funding to U.S. communities in support of their international trade activities and to further their eventual economic development. EDA's mission is to generate new jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the United States. One way EDA accomplishes its mission is through its economic adjustment grants. These grants enable EDA to fund local projects identified by communities impacted by military base closures, contractor cutbacks, and Department of Energy reductions, in an effort to help them diversify their economies and create quality jobs. During our most recent review of the Department's export promotion efforts, we examined four of these grants that were directly related to international trade. While two were issued with the proper coordination, we found for the other two that EDA and ITA had not properly coordinated on these grants to fund local world trade centers. This situation created a degree of confusion for ITA's partners.

In addition, the National Telecommunications and Information Administration has increasingly played an important role in, among other things, reviewing and formulating international telecommunications policies and in promoting the exporting potential of U.S. telecommunications firms. NTIA's Office of International Affairs focuses its activities on advancing competition and liberalizing telecommunications policies around the world. According to NTIA, its efforts to improve U.S. competitiveness in foreign markets include participating in international government-to-government negotiations to open markets for U.S. companies, and negotiating with foreign governments to ensure that there is adequate spectrum for national defense, public safety, and U.S. business needs.

Unfortunately, despite NTIA's active policy role on international telecommunications issues, cooperation between NTIA and ITA could be significantly improved. In fact, ITA's Office of Telecommunications has its own staff working on many of the same issues as NTIA's staff. We found that there is not only an overlap of duties, but an unclear definition of the roles and responsibilities of each agency with regard to the development and pursuit of telecommunications policy initiatives. We believe that the leadership of both NTIA and ITA need to make it clear that they are committed to working together and leveraging their combined telecommunications and trade expertise to further enhance their individual successes in reducing trade barriers and helping U.S. companies gain a greater share of the worldwide telecommunications market.

Other Commerce agencies, such as the Minority Business Development Agency, the Bureau of Export Administration, the Patent and Trademark Office, and the National Oceanic and Atmospheric Administration, also provide varying degrees of support or assistance in the area of international trade policy and promotion.

COMMERCE HAS THE LEAD FOR THE GOVERNMENT'S TRADE PROMOTION COORDINATING COMMITTEE

The Trade Promotion Coordinating Committee was first created, via a Presidential Memorandum, in May 1990. The Secretary of Commerce was designated as chairman of the TPCC, which included senior-level representatives from 18 federal agencies (now expanded to 20 agencies). The TPCC's mission is to ensure that the federal government is doing all that it can to help U.S. companies, especially small and medium-sized firms, take advantage of the opportunities in the global marketplace.

The TPCC has made some progress toward establishing a government-wide strategy for export promotion activities. In our 1993 report on the Department's trade promotion efforts, we reported concerns about the lack of adequate interagency coordination. Since that review, ITA has established a TPCC Secretariat to improve the coordination between U.S. government agencies on federal trade promotion efforts and to also provide a permanent point of contact for federal or private sector representatives seeking information on TPCC activities. In fiscal year 1998, the TPCC Secretariat was tasked with reviewing the strategic plans of each TPCC agency and, in particular, looking for ways to reduce duplication. As a result of this review, the TPCC developed a set of recommendations aimed at implementing the goals of the National Export Strategy. The recommendations were forwarded by the Secretary to OMB for consideration in the President's fiscal year 1999 budget.

We believe that the TPCC can be an effective tool for better addressing coordination problems between foreign affairs agencies located in missions overseas–problems often found during our reviews of US&FCS posts.

During numerous overseas reviews, we found that coordination and cooperation between US&FCS and other embassy components, such as the U.S. Agency for International Development, Foreign Agricultural Service, Office of Defense Cooperation, Department of State's Economic Section, U.S. Information Service, and U.S. Trade and Development Agency, varied among the posts. Too often, successful interaction, cooperation, and coordination are ad hoc or personality-based. We believe that interagency coordination and communication at overseas posts can be a valuable asset to U.S. exporters. We found during our recent review of the US&FCS operations in China, that the foreign commercial service was working well with the Foreign Agriculture Service. Such a positive relationship aided in assisting not only U.S. agricultural exports, but also U.S.

firms in industries such as food processing equipment. Unfortunately, this is not necessarily the norm.

A lack of coordination among TPCC agencies at posts can result in missed trade opportunities, inefficient operations, and embarrassing overlap and duplication. For instance, during our 1996 inspection of US&FCS Poland, we found that Commerce and USAID representatives at post did not interact well with each other on a programmatic level. USAID funds numerous development projects, has hundreds of contractors who visit developing countries every year, and frequently talks with foreign businesses and government entities. Unfortunately, US&FCS was not kept informed about potential business opportunities or U.S. trade leads. This was also true at other posts we visited. I believe that the TPCC can be used as a tool to encourage greater cooperation, and to increase the synergy between federal agencies overseas to expand trade opportunities.

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This completes my statement, Mr. Chairman. I would be pleased to answer any questions you and other Members of the Committee may have.

Attachment

Office of Inspector General
U.S. Department of Commerce

Audit and Inspection Reports, and Congressional Testimony on the International Trade Administration's Trade Promotion Activities

January 1993 through March 1999

General

1. *Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century*, Final Inspection Report No. IPE-9904 (March 1999)

2. *ITA's Use of Interagency and Other Special Agreements*, Final Inspection Report No. IPE-10752 (September 1998)

3. *Trade Events: Improvements Needed in Planning and Management*, Final Audit Report No. IAD-9714-8-0001 (December 1997)

4. *Advocacy Center: Achievements Need Better Documentation*, Final Audit Report No. TID-8375-7-0001 (March 1997)

5. *Administrative Activities Should Be Further Streamlined*, Final Audit Report No. TID-7325-6-0001 (July 1996)

6. *Follow-up on Import Administration's Management of the Antidumping and Countervailing Duty Programs*, Final Inspection Report No. IPE-8530 (March 1996)

7. *Import Administration's Management of Anti-Dumping and Countervailing Duty Orders*, Final Inspection Report No. TTD-5540 (September 1994)

8. *Import Administration's Unauthorized Use of Copyright-Protected Software*, Final Inspection Report No. IRM-5513 (March 1993)

9. *Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s*, Final Inspection Report No. IRM-4523 (March 1993)

<u>Overseas Posts</u>

10. *Portugal is Effectively Providing Services, But Should Strengthen Program Management,* Draft Audit Report No. BTD-10594 (February 1999)

11. *European Union Mission Should Develop a Europe-Wide Commercial Strategy,* Final Audit Report No. BTD-10588 (January 1999)

12. *South Korea Needs to Augment Effective Program with Stronger Internal Controls,* Final Audit Report No. BTD-10221 (January 1999)

13. *USFCS Post in Belgium*, Final Audit Report No. BTD-10595-9-0001 (December 1998).

14. *The AIT Commercial Section Needs to Place Greater Emphasis on Trade Promotion and Improve Internal Controls*, Draft Audit Report No. BTD-10220 (November 1998)

15. *USFCS Post in Japan*, Final Audit Report No. IAD-10218-8-00001 (September 1998).

16. *USFCS Post in Spain*, Final Audit Report No. IAD-10593-8-0001 (July 1998)

17. *Recent Overseas Inspections Found US&FCS Delivering Services Effectively but Facing Internal Constraints*, Final Inspection Report No. IPE-9178 (September 1997)

18. *USFCS Post in Germany: While Generally Productive, Its Priorities, Resources, and Activities Require Reassessment*, Final Inspection Report No. IPE-9287 (July 1997)

19. *USFCS Post in Indonesia*, Final Inspection Report No. IPE-9285 (May 1997)

20. *USFCS Post in Malaysia*, Final Inspection Report No. IPE-9284 (April 1997)

21. *US&FCS Post in Poland: Effective Post Needs Attention to Certain Management Issues*, Final Inspection Report No. IPE-9288 (April 1997)

22. *US&FCS Post in Thailand*, Final Inspection Report No. IPE-9286 (April 1997)

23. *US&FCS Mexico City Trade Center*, Final Audit Report No. ATL-7788-6-0001 (March 1996)

24. *USFCS Post in Canada*, Final Inspection Report No. IPE-7875 (February 1996)

Export Assistance Centers

25. *Dallas U.S. Export Assistance Center*, Final Inspection Report No. IPE-11006 (September 1998)

26. *Seattle U.S. Export Assistance Center*, Final Inspection Report No. IPE-11007 (November 1998)

27. Congressional Testimony on U.S. Export Assistance Centers: Johnnie E. Frazier, Assistant Inspector General for Inspections and Program Evaluations, Commerce Office of Inspector General, before the Subcommittee on Procurement, Exports, and Business Opportunities, House Committee on Small Business (July 25, 1996)

28. *USFCS Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations*, Final Inspection Report No. IPE-7130 (March 1996)

29. *Mid-Term Review of US&FCS American Business Centers Shows Mixed Results*, Final Inspection Report No. IRM-6831 (September 1995)

Mr. MICA. Thank you for your testimony. I do have several questions. First, part of your report, and I'll just read from some of it, states that "many of the problems in ITA's management of its programs and operations point to periodic voids in leadership and general direction of the individual units." Is this something that has been remedied, or is this something you have identified and are continuing to resolve?

Mr. FRAZIER. I'd surely like to think that the reorganization proposals that are currently being explored by the Department will address this issue. This is something that GAO raised as early as 1990. In 1991, they raised it again, I think. And we raised it in 1993 as a problem, saying, basically, that the way that agency is structured and has been managed has allowed many of the units to virtually compete with one another.

And that could be healthy on many occasions, but at the same time, if it's not very clear as to who has the lead responsibility in a given area, we think that the competition can be unhealthy and counterproductive.

As we completed our most recent work, the report that you are holding there, we interviewed most of the senior managers in ITA, again, asking the question, "How can we make the organization stronger, better suited, better prepared to help U.S. exporters?" And one of the things that we constantly heard was "to make certain that it was clear as to who had the primary responsibility in the area of trade promotion." In ITA, Trade Development and the United States and Foreign Commercial Service had the primary responsibilities along those lines.

And my understanding is that they are moving now to make it very clear that MAC, the Market Access and Compliance Unit will primarily concentrate on policy issues as opposed to competing with TD and with the United States and Foreign Commercial Service. So, with a little luck, Mr. Chairman, the new proposals, some of the changes that are being discussed, should address a lot of those long-standing problems.

Mr. COPPS. Could I add just a comment?

Mr. MICA. Yes, go right ahead.

Mr. COPPS. I think that a lot of the challenge in making an organization like ITA run efficiently is management rather than simply organization. And I think for various reasons over the past few years we have had some long management intervals between Assistant Secretaries.

One of them was killed with Secretary Brown, as you may remember. Others left and I say this non-partisanly, because it takes a long time to get nominations through the White House and through the Congress too. But I think right now we have a management team in ITA that's the best that I've seen in the 5½ years that I've been there.

We have team players heading Market Access and Compliance, the Foreign and Commercial Service, Trade Development, and Import Administration, all working under Ambassador Aaron. So I think that some of the management challenges are in the process of being met. And with the modest organizational realignment that is being contemplated, I'm optimistic about where we are going.

Mr. MICA. Well, there are always two questions. One is—can personnel make the administrative changes that are necessary to accomplish the goal? The second is, should the structure be changed organizationally to accomplish the goals?

From the testimony of Mr. Frazier, I believe he said, this seems to be a recurrent problem, whether we've had Republicans or Democrats in charge in the Department. And he cited, as I recall from his testimony, 1990 and 1993 problems, that this has been looked at. In his testimony and also in his summary, he cites, "ITA's current organizational structure as it has been managed has encouraged fragmented and often duplicative approaches to providing trade promotion services and support to U.S. firms."

So Congress also has a responsibility and an oversight requirement to see that there is a structure in place that will accomplish our objectives. Mr. Frazier, it does not appear that has occurred. What is your comment and the point you are making here?

Mr. FRAZIER. Let me add a couple of things here. One, we go back to 1993 when we issued a similar report to the one that you have, where we first surfaced this issue, reported on it. As I indicated, GAO had previously raised the issue as did consultants brought in by ITA.

One of the problems that we found back in 1993 was that there were many, many political appointees throughout ITA who came and went with such frequency as to not provide in our judgment the kind of continuity needed. It was almost like a revolving door on many occasions. One of the things that I'm aware of that Secretary Daley did last year was to reduce the number of political appointees occupying some of the positions in ITA. And I think that has made a big difference because you aren't going to have those kinds of voids that we were experiencing in the early 1990's. So I'm hopeful that that will make a difference.

The other thing is that I think that the Secretary has said that he and Ambassador Aaron are working to come up with some kind of a modified structure that will deal with these issues. And, again, part of it is the commitment of the various leaders in ITA to agree to work together. But, again, I would point to the one caveat that we put in our statement, "as it has been managed."

A lot of this has to do, as I think Mike points out, with management. If you get the kind of leadership that is necessary to make people do what they are supposed to do, make it very clear what you expect of them, and hold them accountable for those responsibilities, then I think that some of these problems can in fact be addressed without a major reorganization, per se.

Mr. MICA. Well, again, you talk about personnel. In your recommendations you say that, at a minimum, we should aim to reduce the overlapping administrative and programmatic functions and remove organizational barriers that inhibit internal coordination and cooperation. Now, that is one aim.

I'd like you to address a second. First, can these be done administratively? Second, are there any legislative remedies that should be examined?

Mr. FRAZIER. I think that all of them, quite candidly, can be dealt with from a leadership management perspective. Part of it is that you are going to annoy a few people as you take away certain responsibilities and tasks that people have always enjoyed doing.

It's interesting because we find that if we talk to trade specialists in one part of ITA who are very excited about the work that they do helping exporters, they like the idea of working directly with exporters. But if that's not their primary duty, somebody has to tell them "You cannot concentrate on it." You can get a lot of satisfaction from seeing people have success.

The people in Market Access an Compliance, that's not their primary responsibility. They have to move away from that. That has been difficult for some people to accept. So, again, I think that these are all issues that if properly managed, with the proper leadership, can be handled.

Mr. MICA. Further beyond the internal operation of ITA, your report touches upon some of the activities between various U.S. agencies operating to promote U.S. exports. You do talk about some instances of overlapping—failure to communicate on projects, inefficient operations, you call it "embarrassing overlap." Do some of these uncoordinated activities that are legislatively mandated need to have the attention of Congress as far as reorganization?

Mr. FRAZIER. Mr. Chairman, in theory the Trade Promotion Coordinating Committee can play a major role here, if they lay out certain basic guidelines, if you will, requiring agencies to take certain simple basic actions when they are working overseas. You know, we spend a lot of time inspecting our commercial operations overseas. And as part of that process, we invariably go and meet with representatives from other foreign affairs agencies that are overseas.

For example, the Foreign Agricultural Service, USIA, and others. And if we go in and find out that they are working on various projects and they have not coordinated with one another, we think that that is such a disservice to U.S. exporters. If we find, for example, folks who are working with the Foreign Agricultural Service and yet not working with our people to sell farm equipment and other things that would support what the FAS is doing, that's a problem.

And I guess the thing that makes it all the more significant is that when we find examples of where it's working exceptionally well, and we see how beneficial that can be, it's all the more reason that it's essential that this cooperation exists overseas.

Mr. MICA. Assistant Secretary Copps, we heard in the other panel some recommendations for some simple implementation of minor conveniences, such as being able to make long distance telephone calls. Can those things be addressed?

Mr. COPPS. I was not here to hear what the specific suggestion was about long distance telephone calls, so I'm not aware of that.

Mr. MICA. Again, the inadequacy of some of the equipment. I visited one of our—I always try to visit our embassies, our Foreign Commercial Service operations, if I can get past the massive security and even as a Member of Congress I always feel like I've accomplished something. But then you see sometimes the inadequately equipped offices. One office did not have a telephone modem.

The witness testified that the office wasn't permitted to make long distance calls. Seeing that they are dealing with international trade promotion, don't you think that would be considered a bare necessity to conduct business?

Mr. COPPS. I think they would not only be desirable but that they would be essential. And I would be happy to raise this with Assistant Secretary Awilda Marquez. She is the Director General of the United States and Foreign Commercial Service. They have a large commitment, just as we all do in ITA, to become the digital department and the modern communications department.

We are looking right now at trying to make much more massive use of technology such as video conferencing, and the Internet, and e-commerce. We have to do that just to continue on doing the job that we're doing. Our budgets for travel and things like that are constantly tight so we have to find new and more effective ways to reach out to do things.

Mr. MICA. Do our Foreign Commercial Service operations in the various countries now all have websites?

Mr. COPPS. I'm not aware of the fact if each office has one, but I know that the Foreign Commercial Service has an extensive commitment to websites, as do we all in the Department of Commerce.

I think if you will go to the ITA Home Page and look at the resources and the information that is there on every industry, on every country, an market analysis for every country, that you'd be quite impressed by what you see.

Mr. MICA. Would it be possible to check back with the committee and provide us with information on the number of our posts, where we have posts or a Foreign Commercial Service officer, and if they have webpages in those countries? I think one of the most important things in conducting business is having basic information.

Probably the easiest way to access that information today is through existing technology, particularly for medium and small businesses. Usually the large businesses can hire their own research or acquire the basic knowledge. But I would appreciate if you would report back to us on that.

Mr. COPPS. I will be delighted to do so and get the information from the FCS and I know I can report from our shop, in TD, that all of our offices have their own websites, their own industry sector information, and how to's on exporting.

Mr. MICA. What about the 105 U.S. centers, do they all have websites?

Mr. COPPS. I would think so but I will check on that——

Mr. MICA. In the not too distant past, unfortunately, we did find that there were offices that did not have websites, and did not have sufficient computer equipment. When the earlier witness spoke of the concern about going into an overseas post that could not make long distance phone calls because they had exceeded their budget, if you will, they were running out of money and they could not return calls. We reported on some of that probably 18 months ago. I would like to think that a lot of that has been addressed, but it was clearly one of the problems.

If you go to our report on the Export Assistance Center, that's the 105 centers that you were just referring to, in that report, and again that was 3 years ago, we were very troubled by the fact that many of the sites did not have the information technology capabilities, websites, and things that were necessary. We could not believe going into an office that could not access the Internet, for example. So it was something that we were concerned about.

In the report that you have, one of our recommendations is that ITA get a better handle on its information technology issues even with the possibility of consolidating some of those. You would go in one part of ITA and they would have state-of-the-art equipment, then you go down the hall and there would be something less desirable, we'll say. And the other thing is that we were concerned that many of the systems were not interactive. And, again, that's some of the things that can be fixed in house.

I am pleased to report we have assurances from ITA management that all of the recommendations in our report are being addressed. I think there was one recommendation in there that they disagreed with, and we are going to pursue it also.

I have further questions and I'll be submitting them to you and also the Secretary. I'd like to yield to the gentleman from Ohio, Mr. Kucinich.

Mr. KUCINICH. Thank you, Mr. Chairman. I have two questions for Mr. Copps. But welcome to both of you gentlemen. Thank you for the work that you are doing for the country and I'm very grateful for your participation.

Mr. COPPS. Thank you.

Mr. KUCINICH. The administration had repeatedly defended NAFTA and advocated for NAFTA's expansion to the Caribbean and Africa by citing the growth of United States exports since NAFTA was enacted. I don't know if you were here, Mr. Copps, when I was making my remarks. But I pointed out in my statement that Ohio's export of an engine to Mexico occurs because the assembly plant in Michigan was closed after NAFTA and reopened in Mexico, causing a loss of United States jobs. This export represents a deterioration of the U.S. economy.

Furthermore, when the truck assembled in Mexico comes back to the United States, it adds to the trade deficit. Therefore, the trade deficit reflects a deterioration of the U.S. economy. If the administration had advocated the passage of NAFTA by claiming it would increase the trade deficit, my guess is that Congress would not have passed it. My question is this: with 5 years of experience now with NAFTA, don't you have to agree that a growing trade deficit with Mexico is causing the opposite reaction in the United States economy than the net growth the administration promised?

And if the administration promises economic growth and Congress passes NAFTA expansion to the Caribbean and Africa, why should the Congress believe the administration based on NAFTA's track record in causing a growing trade deficit, if you could give a stab at that?

Mr. COPPS. Well, I think we would probably have a small element of disagreement on the overall thrust of NAFTA. I realize when you get a devotee and an opponent of NAFTA together, it's sometimes difficult to find common ground. But——

Mr. KUCINICH. Well, you could stick with the facts and see where it takes you.

Mr. COPPS. All right. My conclusion is that NAFTA is working for America. It is leveling the field of play that was previously tilted toward Mexico. In 1993, the United States faced some pretty significant tariff barriers and non-tariff barriers. In 1999, most of those tariffs are gone. A lot of the licensing requirements and other non-tariff barriers are gone too. In 5 years our U.S. exports have gone up something on the order of 92 percent. Even last year, up another 11 percent.

When the Asian crisis came along, I think thanks to NAFTA, Mexico was not in a position to raise tariffs against the United States which it might otherwise have done. You know, I've seen reports like one from the Dallas Federal Reserve which did a study concluding NAFTA actually reduced our trade deficit with Mexico. I'm not an expert on that report, but I know that there is some lively discussion that's——

Mr. KUCINICH. Actually, I have that available, Mr. Copps. Before NAFTA was implemented in 1994, the United States had a positive balance of trade on goods and services with Mexico. Now, according to the Department of Commerce data, this is where we get it from, in 1992 the United States trade surplus with Mexico was about $5.4 billion. In 1997, 3 years after NAFTA, the United States had a trade deficit with Mexico worth $19.5 billion.

Based on the facts that I get from the Department of Commerce, I would take issue with the assertion that NAFTA has been good for the United States with respect to its balance of trade or imbalance of trade with Mexico.

Mr. COPPS. Well, I understand what you are saying. And, again, I think we would have to go back to some of the fundamentals and what it is that caused the massive dislocations and difficulties that Mexico had. My interpretation is that NAFTA probably helped us weather those and was a positive contribution. Your interpretation of that is obviously very different.

Mr. KUCINICH. Thank you very much.

Mr. COPPS. Thank you.

Mr. MICA. I thank the gentleman. I was just relaying to staff that when I came to Congress in 1993 from the private sector, I had been involved in international trade. I visited many of our embassies and our Foreign Commercial Service offices around the world in that capacity, and one of the first things I did upon taking office was to, I think, write all of the Foreign Commercial Service offices and Ambassadors around the world with my own little inquiry.

It wasn't quite as detailed as the IG's reports, but just trying to assess what we were doing and where we were on assisting trade promotion. After the State Department contained itself from an apoplectic fit about my unilateral action, we were able to agree on how the information could be gathered, which we did gather. I found our efforts, as I suspected, just from the samples that I had been involved in personally observing, that there were some serious deficits.

Unfortunately, it does not appear that we have made a whole lot of progress even on some simple matters. We have changed some faces. I do, before I close however, want to become complimentary. I rarely do this of the Clinton administration. You might listen to this, Dennis, but I will say at the highest levels the administration has attempted to inject itself in the trade promotion and I commend them for that. They have done that very well on repeated occasions. Even, I remember, in the private sector, when we couldn't get the Republican top folks to do the same thing, so I am very complimentary in that regard.

However, it seems that we are still in a bit of chaos, disorganization, and a lack of reforms at lower levels. And I think the IG's report does detail some of that. I am not interested in bashing the agency, but in our capacity we are going to conduct some rigorous oversight.

We would be glad to sit down with the Department and others and look at these reports and see what we can do to bring about some corrective measures. So that's the intent of this first hearing, and what we will be seeing in the coming months and 2 years.

Mr. COPPS. Could I just respond to that for 1 second?

Mr. MICA. Yes.

Mr. COPPS. I have over the years very much welcomed your open-minded approach to this. You may not recall, but I recall that we had the opportunity to have some discussions on ITA reorganization during the great dismantlement debates of a few years back, and I appreciated your willingness to listen and we have very much appreciated the suggestions you made.

I'm not here to suggest that our organization is perfect or that the implementation is perfect. And we depend on my colleague, Mr. Frazier, and on the oversight of subcommittees like yours, and as much as anything, on the creative input of our partners in the private sector to critique both our performance and our organization. But I just want you to understand that when all these debates go on, as Teddy Roosevelt said, "We're in the arena."

And we are in one heck of an international competition right this minute and we are out there doing our job. And I want to reflect on all of the employees of Department of Commerce who I think, by and large, are committed to getting the job done, are working hard, are making a contribution to public service and are I think aware of the very high stakes involved for the American people and the American worker and American industry as we try to succeed in the global economy.

Mr. MICA. I thank you both for your testimony and for your participation. As I said, we will leave the record open for at least 10 days for any additional comments. We look forward to working with you in a cooperative effort to see how we can all do a better job. Thank you. There being no further business before the subcommittee, this meeting is adjourned.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned.]

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