INTERNATIONAL TRADE ADMINISTRATION: THE COMMERCE DEPARTMENT'S TRADE POLICY AGENDA

HEARING

BEFORE THE

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INTERNATIONAL TRADE ADMINISTRATION: THE COMMERCE DEPARTMENT'S TRADE POLICY AGENDA

THURSDAY, JUNE 21, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 9:13 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order. I am very pleased to welcome the Under Secretary of Commerce for International Trade, Mr. Grant Aldonas, before our Committee this morning for our hearing on the Commerce Department's International Trade Administration and its role in promoting the Administration's trade policy agenda. We will also have a second panel of experts representing a broad cross-section of American companies doing business abroad.

Mr. Aldonas is, of course, well-known to many of us on the International Relations Committee in his former role as the Chief of Staff for the Senate Finance Committee under its former Chairman, Senator Grassley from Iowa. I know that the former Chairman of this Committee and the current Africa Subcommittee Chairman, Mr. Royce, worked closely with him in the 106th Congress in enacting an African Growth and Opportunity Act.

In the 107th Congress we look forward to working with him in his new capacity where he will face the twin challenges of promoting the Administration's trade policy agenda and of managing the Department's International Trade Administration.

Mr. Under Secretary, we look forward to hearing your thoughts and recommendations on the renewal of the President's Trade Promotion Authority and how this Committee can play a role in ensuring that this Administration has the tools it needs to complete the task of creating a Free Trade area of the Americas.

Having recently returned from a Codel to South America in Brazil, Argentina and Chile, some of my Committee colleagues, including Mr. Ballenger and Mr. Menendez, and I saw firsthand the importance of our trade and commercial relations with these key friends and allies.

From what I saw, there can be little doubt that these countries are committed to expanding trade and developing new bilateral and multilateral relations with us. The question we must answer is: Are we ready to meet this challenge and give the President the tools he needs to conclude free trade arrangements throughout the hemisphere and to launch a new round of global trade negotiations?

It is my understanding that we are members of only two of the 130 free trade agreements now in force in the world today. This situation stands in stark contrast to a period in the late 1980's and early 1990's when the U.S. took a leadership role in the Uruguay Round of global negotiations and in the creation of the North American Free Trade Area. Without Trade Promotion Authority (TPA), the U.S. will continue to be a trade bystander rather than a trade "grandstander."

I would also point out to my colleagues that once the President has this TPA authority, he is then able to negotiate the most favorable agreements possible and Congress still has the right to accept or reject them.

As we are all well aware, however, there are sharp differences of opinion in this area. Partisan differences run deep on labor and some environmental trade related issues in regard to the granting of the TPA authority to the President. But I would argue that we should use our Committee hearing today to begin a dialogue for identifying common ground and narrowing differences.

I look forward to hearing your thoughts on how we can re-energize the role of the Commerce Department and the International Trade Administration in better managing and organizing the services we provide to our exporting community.

In my view, we need to establish more productive partnerships between government and industry to meet our trade goals. How can we put our scarce resources to better advantage in a world of e-commerce and instant communication? What new partnerships are needed between business and government? How can ITA meet the current challenges of the international marketplace?

I feel confident we have witnesses before us today who can provide us with compelling answers to these questions, and I would turn to anyone on the Democratic side if someone has an opening statement.

[The prepared statement of Chairman Hyde follows:]

PREPARED STATEMENT OF THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

I am very pleased to welcome the Under Secretary of Commerce for International Trade, Mr. Grant Aldonas before our committee this morning for our hearing on the Commerce Department's International Trade Administration and its role in promoting the Administration's trade policy agenda. We will also have a second panel of experts representing a broad cross-section of American companies doing business abroad.

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But as we are all well aware, partisan differences run deep on labor and some environmental trade-related issues. Let's use our committee hearing today to begin a dialogue for identifying common ground and narrowing differences.

I look forward to hearing your thoughts on how we can reenergize the role of the Commerce Department and the International Trade Administration to better manage and organize the services we provide to our exporting community. We look forward to hearing the recommendations from Under Secretary Aldonas and from our private sector witnesses on the kind of partnership we need to establish between government and industry to meet our trade goals.

How can we put our scarce resources to better advantage in a world of e-commerce and instant communication? What new partnerships are needed between business and government? I feel confident that the we have witnesses before us today who can provide us with answers to these questions.

I would like to recognize Mr. Lantos for an opening statement.

Mr. SCHIFF. Thank you, Mr. Chairman. I am Adam Schiff. I am not the Ranking Member, although with Congresswoman Diane Watson's election I am no longer the junior most Member, so thank you for that.

I would like to read an opening statement from Ranking Member Tom Lantos. I would first like to thank Chairman Hyde for calling this hearing on such an important aspect of U.S. foreign economic policy. Given the extensive debate which will occur in Congress this year on trade, this is indeed an auspicious moment for a thorough review of the International Trade Administration and U.S. export promotion programs in general.

Export promotion, if done right, can be of great benefit to the United States economy, helping to support strong economic growth and create thousands of jobs both here in the United States and abroad. Export promotion programs can also help the U.S. reinforce and achieve our larger foreign policy goals.

The U.S. business is among the most competitive and technologically sophisticated in the world. We have much to gain through increased international trade. We also have much to share to the benefit of all concerned. By facilitating the export of U.S. high technology products, we can help promote rational economic development around the world, enabling developing countries to skip intermediate developmental stages by applying the most modern production methods and technologies.

U.S. environmental technologies can also help make this development cleaner and more efficient, thereby helping countries to mitigate some of the most socially and environmentally costly aspects of economic growth. Let us not forget that developing markets around the world serve as powerful magnets for U.S. products stimulating further growth, job creation and prosperity at home.

It is my belief that the U.S. export promotion programs, the ITA's efforts included, have played a valuable role in supporting the remarkable economic growth and development in the United States and global economies that we have seen over the last decade. The ITA has identified export sales totaling $16.2 billion that were in some way assisted by its various programs in the year 2000. This is a significant number, and I applaud the success that the ITA and its sister export promotion agencies have achieved over the years.

This is, of course, not to say that there is not scope for expansion or improvement. Current statistics seem to indicate that only a small percentage of U.S. small and medium sized enterprises or SMEs tap the U.S. export promotion network. Given the competitiveness and the quality of U.S. companies, I for one would like to see these numbers improve.

Moreover, the U.S. Government lags far behind the comparable efforts that our trading partners and competitors undertake in support of their domestic businesses. Japan's official development assistance, ODA, is but one example of a massive foreign trade promotion apparatus devoted to advancing national economic interests.

According to recent figures, excluding the non-financial and non-agricultural sectors, our Canadian and French partners also maintain trade promotion programs 12 and eight times larger as a percent of GDP.

Given this reality, it is vitally important to ensure that U.S. businesses, small, medium and large, receive equal opportunities and prosperity from overseas sales. I also strongly support the efforts the ITA undertakes to ensure that our trading partners adhere to the terms of our international trade agreements.

There is, however, one thing that seriously troubles me with the Bush Administration's approach to export promotion. At the very time when the stellar economic growth and job creation of the previous decade has begun to falter, this Administration is proposing to reverse the course of U.S. trade policy by freezing or cutting back on our export promotion programs.

Whereas the previous Administration buttressed its explicit support for U.S. exporters with tangible funding increases for export promotion initiatives, this Administration seems willing to weaken them at the very time when a souring international economic climate and heightened competition would seem to argue for the reverse.

Given the strong correlation between increased international trade and domestic economic growth, this strikes me as a somewhat wrong headed approach to assuring U.S. prosperity in troubled and uncertain economic times.

My hope for today then is that we will undertake a thorough review of the policy objectives, structure and operations of the ITA and our current export promotion programs to ensure that they are as well managed, targeted and as efficient as possible.

Finally, I would sincerely like to thank each of the folks here today for their willingness to help us in this important endeavor. Thank you, Mr. Chairman.

Chairman HYDE. The gentleman from New York, Mr. Gilman?

Mr. GILMAN. Thank you, Mr. Chairman. I want to welcome this hearing that you have arranged today for our International Relations Committee, in a role that we will have in highlighting U.S. trade relations around the world. Trade has, of course, been an important aspect in the well being of our nation ever since our founding fathers developed trade, and it plays an ever increasing role in the economic health of our nation.

That is why the work of Mr. Aldonas, the new Under Secretary for International Trade at the Department of Commerce, and his colleagues over there is so important. Our nation is the world's largest single nation trading block to the world's exporters, and it is a critical market for our neighbors and our friends. By the same token, American workers depend on a fair system of international trade to compete on an equal basis with traders from around the world.

I am pleased, Mr. Aldonas, with your background at the Senate Finance Committee prior to your current assignment that you will be in a key position to influence and improve America's trade promotion, market access and trade compliance programs. The professional and purposeful functioning of the International Trade Administration is truly vital to our nation's healthy trade relations.

Mr. Chairman, I look forward to hearing from our distinguished witnesses today and how the Administration plans to help move forward America's exports to new levels of success to the benefit of all of our Americans.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you.

Mr. Blumenauer, do you have an opening statement?

Mr. BLUMENAUER. No, sir.

Chairman HYDE. Thank you.

Mr. Leach?

Mr. LEACH. No, sir.

Chairman HYDE. No opening statement. Thank you.

Mr. Chabot?

Mr. CHABOT. No.

Chairman HYDE. We are on a roll.

Mr. Tancredo?

Mr. TANCREDO. No.

Chairman HYDE. No opening statement. Very well.

Mr. Pitts?

Mr. PITTS. No.

Chairman HYDE. Mr. Issa?

Mr. ISSA. No, sir.

Chairman HYDE. Mr. Cantor?

Mr. CANTOR. No, Mr. Chairman.

Chairman HYDE. Mr. Flake?

Mr. FLAKE. No.

Chairman HYDE. Mr. Kerns?

Mr. KERNS. Mr. Chairman, I would not want to stop your momentum here. No, sir.

Chairman HYDE. Very well, Mr. Kerns.

Our first witness then is the Under Secretary of Commerce for International Trade, Grant Aldonas. You have a rather wholesome statement.

If you would put the mike on?

STATEMENT OF THE HONORABLE GRANT D. ALDONAS, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE

Secretary ALDONAS. With your permission, I will submit the statement for the record, Mr. Chairman.

Chairman HYDE. Thank you. Sometimes I think our witnesses are paid by the word.

Secretary ALDONAS. Having spent all that time in private practice, I am glad we got out of the business of being paid by the word, Mr. Chairman.

Chairman HYDE. Okay. Would you please tell us what you have to say?

Secretary ALDONAS. Thank you. I would like to summarize my statement if I could.

Chairman HYDE. Surely.

Secretary ALDONAS. First of all, Mr. Chairman and Congressman Lantos and Members of the Committee, I want to thank you for inviting me here today. I really appreciate your holding this hearing to enable us to discuss the President's trade agenda and the importance of trade to the U.S. economy.

Both Secretary Evans and I appreciate the interest the Committee is taking in oversight of the Commerce Department's international trade functions. It is important to have you as allies in the process as we try to build a consensus in American support of trade.

Secretary Evans has asked me personally to convey his interest in your advice and counsel not only as we go through the legislative process, but in our day to day work in terms of promoting U.S. business interests around the world. I would like to focus first on the President's trade agenda and then turn to the Commerce Department's role specifically in carrying forward that trade agenda.

Mr. Chairman, the President's trade agenda is the focus of our work in International Trade Administration (ITA), of course, and the President's objective is to eliminate barriers to the free flow of American goods, services, investment, and I want to underscore to American ideas and values as well.

President Bush has made the point that from his perspective trade is both an economic and a moral imperative. It is not only good for our country and good for the bottom line, but it carries forward the American free enterprise system. It carries forward the habits of liberty that we think is our most important export.

The President intends to press forward bilaterally, regionally and multilaterally to expand our trade and economic opportunities and create a rising standard of living for all Americans. His intent is to create a virtuous circle of competitive trade liberalization for moving forward wherever we can make progress.

One key element of that strategy, of course, is the renewal of the President's Trade Promotion Authority (TPA). Secretary Evans is currently testifying before the Senate Finance Committee on TPA, and he wants to underscore our intent to work closely with this Committee and with Congress not only for the passage of TPA, but to rebuild the consensus necessary for our negotiators to engage with their counterparts at the negotiating table.

Here I want to stress a point. It was often said previously that we needed Trade Promotion Authority only at the end of trade agreements, and that is categorically wrong. What Trade Promotion Authority really is is the ability of Congress, which has the power to regulate foreign commerce, and the President, who has the responsibility as the voice of our nation at the negotiating table, to reach an agreement about the objectives, about the agenda that he carries forward when he meets with his foreign counterparts.

The essential element of that and what is essential to allow us to make progress on trade is the ability for the President to be at the table with the support of Congress so our trading partners understand that there is no difference of opinion over what the trade agenda is; that this is something that has the backing of the Congress when he represents our country at the negotiating table. That is why the President has made clear that Trade Promotion Authority is at the top of his legislative agenda.

Now, our goal in building that trade agenda and our negotiating objectives is to build them from the ground up by focusing on the needs of U.S. business. We have begun a series of meetings with industry to discuss our trade agenda. I am consulting with our industry advisory groups, which are required under the Trade Act of 1974. Yesterday I met with our district export counsels in Reno, Nevada, at their national conference to again discuss what their needs were.

Particularly from the Department of Commerce there is a focus on small and medium size enterprises, which the DECs represent. That is the future of the U.S. economy. That is one of the reasons I was in Reno yesterday to talk about Trade Promotion Authority and to understand what their objectives were for any future trade negotiation. All of that is an important step to rebuilding the consensus on trade.

Now, ITA's units participate in trade negotiations in a variety of ways. We develop negotiating priorities. We recommend tariff negotiation modalities. We identify non-tariff barriers facing U.S. business. We also provide expertise in trade analysis; what are the economic effects of any resulting agreement. We provide assistance to USTR in terms of the underlying analysis of negotiating positions, and with our country and functional expertise the ITA both leads and supports bilateral and multilateral negotiation.

The important point I want to stress really in terms of the President's agenda is that he is prepared to move. He would like to see the launch of a new round of trade negotiations in Doha, Qatar this coming fall. He has supported moving ahead as rapidly as possible with a Free Trade Agreement of the Americas. We are moving bilaterally with Singapore and with Chile at this stage. We hope to conclude some of those negotiations by the end of the year.

We are moving ahead regardless, but it is important to have Congress' support, the full support of Congress behind that agenda if we are going to serve the interests of all Americans.

I might also comment just briefly on labor and the environment. One of the important things to stress there is that the real nexus, as the studies have shown, between trade and labor and the environment is what trade does to raise living standards and what rising living standards do to improve labor standards and environmental protection.

One of the things that we want to ensure we do is protect the ability of trade liberalization to provide for those goals as we move ahead. We do not want to undercut the value of trade to reinforcing labor protection and environmental standards as we put together not only a bill on Trade Promotion Authority, but as we sit down and negotiate.

The other thing I think we want to stress about labor and the environment is that while we are open to a dialogue about that, we are certainly concerned that we provide room for the President to meet at the negotiating table, to find the mechanisms that will allow us to move ahead in whatever individual negotiation we start with.

Let me turn then briefly to an overview of the International Trade Administration and the Commerce Department's role in carrying forward the President's agenda. The first slide that you have above you sets out the ITA's goals. We serve as the principal advocate for American enterprises doing business overseas.

ITA in its current form was established in 1980, but has predecessors that go back to the creation of the then Department of Commerce and Labor at the turn of the century. ITA strives to create economic opportunity for U.S. workers and firms by promoting international trade, opening foreign markets and ensuring compliance with our trade agreements.

I also have some slides, and this will be the second slide, that illustrate how ITA is organized. It is a $334 million agency with 2,400 employees. As you can see on Slide 3, international trade has out paced our resources over the last decade.

In Congressman Lantos' statement he referred, frankly, to the fact that resources have been flat lined. That is not true just of ITA. It is true of the Customs Service. It is true of a number of other trade agencies. While trade volumes have exploded as a result of the negotiation of agreements like the NAFTA and like the Uruguay Round, the resources we dedicate to export promotion and dedicate to trade generally has stayed basically flat.

I want to say a word about compliance. Compliance is job one at the ITA. We have a division for market access and compliance. One thing that Secretary Evans has stressed and the President has stressed is that compliance is the job of everybody in the International Trade Administration. That is true of our Foreign Commercial Services officers. If they see a problem with a Customs officer in Shanghai, we want that solved on the docks in Shanghai. I do not want that to become a trade dispute.

If it is a problem where our Foreign Commercial Service officers or our businesses detect that it is more than just a single Customs officer in Shanghai or Marseilles, I want to hear about it so we can bring the political influence of the United States Government to bear as quickly as possible to solve that at a practical level before it becomes a trade dispute.

Finally, I want all of our individuals in ITA aware of the fact that we may at the end of the day end up in dispute settlement. We need to be building a case for our interests. We need to be collecting the evidence that eventually becomes a part of any dispute settlement resolution panel or any litigation in front of the World Trade Organization.

Compliance has grown as a percentage of ITA resources, particularly in this past year. I would like to point out that the chart, the fourth chart, reflects the number of FTEs devoted to compliance. It does not actually reflect that I expect everyone to treat compliance as a part of their job. These are simply the FTEs that are specifically dedicated to compliance, not the fact that compliance has to be a part of everybody's job at the Department of Commerce.

Lastly, I want to say on this topic that in February, Secretary Evans invited each Member of Congress to designate one person on his or her staff to work with our Trade Compliance Center. So that if you have constituent interests that feel that they are not gaining market access where they should, if they are facing a violation of our trade agreements, if they are not getting the benefit of the bargains that have been reached at the negotiating table, we want to hear about it right away. We want to get to work on it right away and try and solve those problems.

The second part of our mission beyond compliance is trade promotion. The Commerce Department is the lead agency for trade promotion, and Secretary Evans chairs something called the Trade Promotion Coordinating Committee (TPCC). This gives him a role of oversight within the Executive Branch, not just of the Commerce Department's trade functions and export promotion functions, but of the export promotion functions of the Small Business Administration, of the EX–IM Bank, of the Overseas Private Investment Corporation. The idea behind the TPCC was to provide a catalyst so that all of our efforts were reinforcing opportunities for American business abroad.

Mr. Chairman, I have brought with me copies of our 2000 export programs guide, which highlights the programs within the ITA, highlights our 105 U.S. Export Assistance Centers around the country that are dedicated to helping your constituents and also talks about our offices abroad.

With that, let me close by describing an important management initiative that Secretary Evans has asked me to undertake in the framework of the Trade Promotion Coordinating Committee. We are constantly facing new demands as the international trade environment rapidly changes. The Secretary and I intend to reinvigorate the TPCC, as well as the Commerce Department, as a vehicle for looking at how we can improve. What are the best practices out there?

What we are going to engage in is a benchmarking exercise. We are going to be looking first at how our foreign competitors do the job of export promotion inside their governments. We will look to business processes inside the private sector as models to the extent that we can use them in terms of marketing.

Finally, we are going to be trying to determine our customers' expectations. We are going out to exporters that we serve to make sure we understand how we can improve our services. We will get a score from them about how well we are doing relative to their expectations, and then our goal will be to close that gap.

I expect that by this fall, September, we will have an initial preliminary report about that benchmarking exercise. We will close out the exercise next March with a final report, the annual report of the Trade Promotion Coordinating Committee, with recommendations that we intend to bring back to Congress about the improvements we will undertake within the Executive Branch and any suggestions we have for legislative change.

With that, I look forward to your questions.

[The prepared statement of Secretary Aldonas follows:]

PREPARED STATEMENT OF THE HONORABLE GRANT D. ALDONAS, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE

Thank you, Mr. Chairman, Congressman Lantos, and Members of the Committee, for inviting me to testify before the Committee on International Relations. I am honored to testify before a Committee whose work is so tightly woven into the fabric of our own nation's history. The Committee traces its roots to the Continental Congress in 1775. The Continental Congress established this Committee's forerunner, the Committee of Correspondence, as the first institution created to represent the United States in foreign affairs. Benjamin Franklin served as its first chair, and throughout its history, the Committee has been composed of some of America's most able legislators, statesmen, a future President—James K. Polk served on the Committee 1827 to 1831—and a past President—John Quincy Adams, became the Committee's chairman in 1842, after having served as the nation's chief executive.

Mr. Chairman, that great tradition continues. Your activism and energy is reflected in this Committee's ambitious agenda. I applaud you for holding this hearing to enable us to discuss the importance of our trade policy agenda. Both Secretary Evans and I welcome the attention from the Committee in its leading oversight role. We look forward to establishing an effective working relationship with you and your staff. Secretary Evans asked me personally to convey his interest in your advice and counsel as we represent the United States commercial interests abroad.

AN AMERICAN LEGACY OF FREEDOM

Mr. Chairman, the President's trade agenda is the focus of our work in the International Trade Administration. President Bush believes, and I agree, that trade means considerably more than just economic growth, more higher-paying jobs, and a rising standard of living in America. Trade is ultimately about freedom.

America has always been a trading state, and commerce has been the life's blood of our democracy. It is often forgotten that British restraints over the American colonists' freedom to trade, particularly the Stamp Act, led to the Boston Tea Party and helped trigger the revolution that followed. The freedom to trade has been a recurring theme in our history.

Ever since Alexander Hamilton penned the Report on Manufactures in 1795, the question has been whether free trade was in the best interests of all Americans. Tariffs were a divisive issue in the 1800s, when the Tariff of 1828—also called the Tariff of Abomination—furthered a regional split between north (which sought protection from foreign industrial imports) and the south, fueling economic tensions that became a factor leading to the Civil War. In 1896, in the west, William Jennings Bryan decried the gold standard—the "Cross of Gold"—and attacked tariffs—tariffs that eastern manufacturers wanted to maintain in the face of complaints from western farmers.

Restraints on world trade have been one of the leading causes of international friction as well. The Smoot-Hawley Tariff of 1930—the last tariff schedule enacted line-by-line by the U.S. Congress—produced the highest tariffs overall in our history, triggering retaliatory tariffs by our trading partners and disrupting the flow of international trade. As former Senator Daniel Patrick Moynihan has said, "any short list of events that led to the Second World War would include the aftermath of the Smoot-Hawley Tariff."

THE ECONOMIC CASE FOR FREE TRADE

More recently, critics of free trade and open markets focused on the advent of the North American Free Trade Agreement (NAFTA) and the implementation of the Uruguay Round of multilateral trade negotiations that created the World Trade Organization (WTO). Critics as diverse as Ralph Nader and Pat Buchanan argued that the NAFTA and the Uruguay Round would destroy American manufacturing and impoverish American workers. They maintained that trade would encourage a race to the bottom that would erode America's labor and environmental protections. They claimed that these trade agreements would only benefit the powerful multinational corporations.

Well, what happened? Let's look at the hard facts. Over the last decade, while the United States was negotiating and implementing the NAFTA and the Uruguay Round, the U.S. economy achieved the highest rate of sustained economic growth we have seen in a generation. That produced the longest period of uninterrupted economic growth in our nation's history. Inflation fell to near zero; unemployment fell below 4 percent.

Did trade destroy America's manufacturing base? Not at all. In constant 1996 dollars, manufacturing's share of GDP has held steady at slightly over 17 percent between 1987 and 1999. Between 1992 and 2000, when the overall economy grew by 35.4 percent, manufacturing output increased by 54 percent. Productivity in manufacturing has grown at an average rate of 4.3 percent during the current business cycle, and it accelerated to a 5.3 percent pace in 1996–2000. Liberalized trade is a boon to the U.S. manufacturing base, which benefits from a greater supply of inputs at lower prices, enabling U.S. manufacturers to be globally competitive.

I'd like to add that services make up an increasingly large part of both the U.S. and the global GDP. Global services trade was valued at $1.4 trillion in 1999, which is 19 percent of 1999's nearly $7 trillion in global goods and services trade. We estimate that some $296 billion in U.S. services exports supported 4.4 million jobs in 2000, up significantly from 1994 when $185.4 billion in services exports supported an estimated 3.4 million jobs.

Did trade hurt the American worker? The U.S. economy has created more than 20 million new jobs since the early 1990s. Since 1995, total U.S. private sector productivity has increased 3 percent a year and real wages are up. Exports supported some 12 million U.S. jobs this past year. Workers in jobs supported by these exports receive wages 13–18 percent higher than the national average. Estimates of the effect of trade liberalization through the Uruguay Round and the NAFTA suggest that, between higher incomes and lower prices, the average American family of four benefitted $1200–$2000 annually.

Did expanding international trade opportunities lead to the erosion of environmental protections or of U.S. labor laws? To the contrary, the U.S. environmental laws remain on the books and we benefit from cleaner air and water. NAFTA, in fact, proved to be a catalyst for environmental cooperation between the United States and Mexico that did not exist previously.

On the labor front, strong worker protections remain in place and have been reinforced by a more active international agenda. That agenda includes active American support for the International Labor Organization declarations promoting freedom of association, collective bargaining, elimination of forced and compulsory labor, abolition of child labor, and nondiscrimination in respect of employment and occupation.

I firmly believe that the real nexus between trade, labor and the environment is that trade contributes to rising standards of living, and rising standards of living are the key to achieving higher labor and environmental standards. Some studies have shown a positive link between rising per capita income, to which trade contributes, and improved labor and environmental performance.

That is why we must ensure that, whatever steps we take with respect to trade and labor and trade and the environment, we do not undercut the most important driving force behind improving both labor and environmental standards—trade and economic growth.

Were big companies the only ones to profit from trade liberalization? Our data shows that 97 percent of U.S. merchandise exporters are small- and medium-sized companies. Their exports accounted for $161.7 billion in 1998, or 29% of the total dollar value of our exports.

U.S. export trade has expanded even faster than the U.S. economy. Exports of U.S. goods and services increased from $57 billion in 1970 to $1.1 trillion in 2000. That represents an increase of more than 10 percent per year and a doubling of U.S. exports roughly every 7 years.

Trade has provided enormous benefits worldwide. WTO figures indicate that tariffs on manufactured goods averaged nearly 40 percent at the time the GATT was created in 1947. By the end of the Uruguay Round, for developed countries, those rates had fallen to below 5 percent. During that same time, trade increased 16 times. The OECD has estimated that the Uruguay Round delivers annually the equivalent of a $200 billion tax cut to consumers world-wide.

That does not mean that our work is done. A recent study by Robert Stern at the Gerald R. Ford School of Public Policy at the University of Michigan underscores that point. Professor Stern estimates that a one-third reduction in global barriers to trade in agriculture, services, and manufacturing, would yield $613 billion in world economic growth, the equivalent of an economy the size of Canada. Eliminating all trade barriers would boost global growth by $1.9 trillion, the equivalent of adding two Chinas.

What is still more important, in human terms, is that trade helps lift countries out of poverty. According to the OECD, developing countries with more open markets achieved twice the rate of economic growth of those that kept their markets closed.

In short, the economic case for free trade is unassailable.

THE MORAL CASE FOR FREE TRADE

As President Bush has said, however, free trade is about more than just material well-being; it's a moral imperative. The genius of the free enterprise system is that it relies on and encourages human freedom. Free men and women conducting their business in free markets can pursue their own economic destinies and go as far as their drive, dreams, talents and initiative take them. In the end, that requires freedom of opportunity and freedom of choice, politically as well as economically.

President Bush has said that free trade helps create the habits of liberty that profoundly affect a man or woman's view of themselves and their society. With freedom comes the responsibility to account for one's own actions and the obligation to demand from governments policies that unleash human potential. Freedom is not served when governments erect barriers to individuals' success, whether those barriers are political, social or economic. And, freedom is not served when governments erect barriers that prevent people from providing for themselves and their families.

In the United States, we have come to trust the relationship between economic development and human freedom. Government's role is to create the environment in which our people can succeed on their own merit—to give them the freedom to use their God-given talents to develop a sense of pride and hope. This encourages them to build better futures for their families, their communities and themselves.

In fact, as Amartya Sen, the Nobel-prize winning economist, has made clear in his writings, individual rights are inextricably linked to economic freedom. That is because freedom is indivisible. When we trade, when we press for open markets, when we call for a level-playing field, it is ultimately in the interest of all Americans and our friends abroad. The freedom we cherish is the key to our economic future because it opens doors both economically and politically. Freedom is ultimately our most important export.

THE PRESIDENT'S TRADE AGENDA

With that, let me turn to the President's trade agenda and the role I expect the Commerce Department's International Trade Administration to play in that effort. Since the conclusion of the Uruguay Round, the United States has lost its leadership role on international trade. Our negotiators have been forced to sit on the sidelines while the game has gone on without us.

President Bush recently observed that, "Free trade agreements are being negotiated all over the world, and we're not party to them." There are more than 130 preferential trade agreements in the world today. The United States belongs to only two. The President's point is that we have to get off the sidelines and back into the game.

The President intends to press forward bilaterally, regionally, and multilaterally, to expand our trade and the economic opportunities that it creates for all Americans. When the President laid out his international trade legislative agenda in May, he identified the specific trade negotiating objectives he intends to pursue in order to advance America's interests. That agenda can be summarized simply. Our goal is to eliminate all barriers to the free flow of American goods, services, investment and ideas. That basic principle applies with equal force whether we are talking about soybeans, aircraft, financial services, energy, or software.

One key element of our strategy is the renewal of the President's Trade Promotion Authority (TPA). President Bush has asked Congress for renewed trade negotiating authority. Whether or not Congress grants that authority rests ultimately on trust—trust that the President will make sure that our trade policy works for all Americans. We expect to earn that trust.

Our Constitution grants Congress the power to regulate foreign trade, and, as this Committee's work reflects, Congress plays a large role in shaping our foreign policy. It is the President's job to represent the American people at the negotiating table with foreign governments. TPA represents a workable means of accommodating Congress' authority with the role of the President as the nation's voice in foreign affairs. It reflects an agreement between the President and Congress on the conduct of trade negotiations and the implementation of any resulting agreement.

Under TPA, the President works with Congress on trade negotiations from the outset, both in setting the U.S. negotiating agenda and in consulting throughout the course of trade talks. In addition to that ongoing right of involvement, Congress preserves its ultimate role in determining whether the results serve the long-term interests of the United States by voting "yes" or "no" on any resulting agreement.

It is often said that we don't need Trade Promotion Authority until an agreement is concluded and Congress has to vote on its implementation. What that argument ignores is the fundamental role that Congress was intended to play in setting our trade policies under the Constitution. In fact, what Trade Promotion Authority really provides is a vehicle to ensure that the Congress and the President have agreed on our objectives and on how they will work together to achieve them. This open process, in which public comment is actively sought, allows problems to be identified and resolved during negotiations.

Our intent is to work closely with the Congress, not only for the passage of Trade Promotion Authority, but to rebuild the political consensus necessary for our negotiators to engage with their counterparts at the negotiating table. In the President's view, the Members of Congress are indispensable partners in this enterprise.

THE COMMERCE DEPARTMENT'S ROLE IN TRADE POLICY

Mr. Chairman, you requested an overview of the Commerce Department's role in U.S. trade policy, our role in trade promotion, and our relationship with the Office of the United States Trade Representative. The International Trade Administration (ITA) serves as the principal advocate for American enterprises doing business overseas. ITA and its predecessors have done so since the establishment of the Department of Commerce and Labor in 1903. (The Department of Commerce was established as a separate department in 1913.) Language in the Department's original authorizing statute, "to foster, promote and develop the foreign and domestic commerce of the U.S." has served as the Department's principal authority to promote exports since its establishment.

ITA, in its current form, was established in 1980. ITA strives to create economic opportunity for U.S. workers and firms by promoting international trade, opening foreign markets, ensuring compliance with our trade laws and agreements, and supporting U.S. commercial interests at home and abroad. ITA is a $334 million agency with over 2,430 employees, and has four main operating units: Market Access and Compliance (MAC), Trade Development (TD), the Commercial Service (CS), and Import Administration (IA).

Negotiations

ITA and the Department have three significant roles in the trade negotiating process. First, our goal is to build our negotiating objectives from the ground up by focusing on the needs of U.S. businesses. The Administration has begun a series of meetings with industry to discuss our trade agenda. I am also consulting with our industry advisory groups. Earlier this week, I met with our District Export Councils at their national conference. Our goal is to cast a wide and open net to make sure our negotiating objectives reflect the current and future needs of American industry. I believe that this is an important step towards rebuilding the consensus on trade.

Second, ITA's units participate in trade negotiations in a variety of ways. ITA develops negotiating priorities, recommends tariff negotiation procedures, and identifies non-tariff barriers. ITA's expertise in trade analysis, database tools, and coordinating policy across industry sectors enables Commerce to provide invaluable assistance to USTR during negotiations. And we actively participate in the negotiations themselves. With our country and functional expertise, ITA has both led and supported bilateral and multilateral negotiations.

Third, ITA is a key player in WTO accession negotiations. ITA provides industry expertise on U.S. export priorities and identifies changes in countries' laws needed to bring their trade regimes into conformity with WTO rules. ITA identifies subsidy practices of the applicant country and plays a lead role in negotiating effective WTO subsidy commitments and transparency requirements for that country.

Monitoring, Compliance and Enforcement

Compliance is the job of everyone in ITA. While there may be honest disagreements about trade, no one disagrees that we should ensure our firms actually see the benefits of the agreements we reach. MAC plays a lead role, but all of ITA's units work on ensuring that foreign countries comply with the agreements that they sign with us. Even our Senior Commercial Officers, who work in Embassies abroad, now have compliance as a component of their performance evaluations.

Our Compliance Program ensures that all parts of ITA work together. This involves bringing together all parts of the organization, particularly the country desk officers, industry specialists, Commercial Service Officers, and legal experts in the Office of the General Counsel. The Trade Compliance Center (TCC) holds bi-weekly meetings attended by country desk officers, industry analysts and other experts to review trade complaints and develop compliance action plans to resolve these complaints. When a compliance complaint is received, the TCC puts together a team of experts, including country desk, industry, functional and legal experts. In addition, technical experts at the Department's Patent and Trademark Office and National Institute for Standards and Technology provide valuable expertise on intellectual property rights protection and standards-related issues.

The Trade Compliance Center has established designated monitoring officials (DMO) throughout ITA to ensure that foreign countries comply with the agreements that they sign with the United States. Each trade agreement has a DMO assigned to it to be responsible for monitoring compliance and to ensure proper implementation. For example, our China desk reviews the MOUs we have on Intellectual Property Rights with the People's Republic, and our Office of Telecommunications analyzes Japan's commitments under the Satellite Procurement Agreement. As the Department's resident expert on an agreement, the DMO is available to provide proper guidance and respond to questions about that agreement.

The Trade Compliance Center conducts outreach to let businesses know where they can take their compliance problems. In February, Secretary Evans invited each Member of Congress to designate one staff member to work with our Trade Compliance Center to refer constituent market access and compliance problems; if you aren't already working with us on this, I hope that you will.

Our goal is to solve problems at a practical level. If and when that is not possible, ITA works with USTR to build cases that can be litigated at the WTO or in other formal dispute fora. ITA prepares Section 301 retaliation lists by conducting trade and economic analyses to produce effective lists that also minimize the harmful impact on U.S. importers and producers.

I realize that you are most interested in hearing about the areas of ITA over which you have jurisdiction—Market Access and Compliance, Trade Development, and the Commercial Service—but I would be remiss not to say a few words about the Import Administration (IA). IA plays a vital role, and, frankly, many of the people who work in the other units started out in IA, so it's important for you to understand where they received some of their professional training in terms of negotiations, monitoring and enforcement.

IA is responsible for administering the antidumping and countervailing duty laws. IA has an extremely heavy caseload of investigations and reviews covering a wide range of products and numerous countries.

IA's role in administering the unfair trade laws is vital. As Secretary Evans points out, there is nothing more dispiriting to American workers and farmers than to believe that they are not competing on a level playing field. When our companies face unfair trade, IA provides relief while we seek long-term solutions to get rid of the government interference and underlying distortions in the market. These actions are consistent with our international obligations and the President's commitment to trade liberalization.

In addition to its important role in trade negotiations, IA plays a lead role in monitoring trade agreements in the antidumping/countervailing duty area. IA, working with the International Trade Administration and U.S. Customs, sees that the unfair trade laws are enforced.

Pursuant to the Uruguay Round Agreements Act, IA is also responsible for coordinating multilateral subsidies enforcement efforts through the Subsidies Enforcement Office. This office works actively with the private sector to remedy harm caused by subsidies provided to foreign competitors of U.S. exporters. The Subsidies Enforcement Office evaluates the subsidy in relation to U.S. and multilateral trade rules to determine what action may be possible to take to counteract any adverse effects.

In addition, IA and MAC have been directed by Congress to expand their activities, and we are developing an overseas trade compliance team with staff in Beijing, Tokyo, Seoul, and Brussels.

Trade Promotion

Mr. Chairman, trade promotion represents the core of ITA's mission, and the Commerce Department, in fact, is the lead agency for trade promotion. As you know, Secretary Evans chairs the Trade Promotion Coordinating Committee. In that capacity, he intends to use this vehicle to improve all government export promotion services and to play a leadership role on export promotion.

At ITA, even before we negotiate trade agreements with countries, we help U.S. companies crack those markets. After we've negotiated trade liberalizing agreements, we help U.S. companies take advantage of the new market opportunities. We are constantly trying to find new and better ways to help companies—especially small- and medium-sized companies—export.

During the last fiscal year, our Trade Information Center (1–800–USA–TRADE) handled 85,401 direct inquiries and had 645,284 website hits. Our Advocacy Center, recorded 73 successes (small- and medium-sized companies represented 16 of these successes), worth $9 billion with an estimated $4.3 billion in U.S. content. Our Commercial Service helped facilitate 9255 export transactions worth $21.3 billion.

I would like to say a few additional words about the Commercial Service, since they are our staff who interact on-the-ground with the American business community throughout the United States and abroad. This worldwide network of 1800 employees strives to help U.S. firms realize their export potential and emphasizes outreach to small- and medium-sized enterprises.

We have Commercial Service officers posted in 160 locations in 85 countries abroad; they are our "eyes and ears" on the ground, providing information back to Commerce headquarters and our district offices. Our 105 U.S Export Assistance Centers (USEACs) throughout the nation have become the hubs in a hub-and-spoke network. The USEACs—which include federal, state, and local government partners (in places including officials from the Small Business Administration and the U.S. Export-Import Bank)—offer export counseling, market research, trade events and international finance solutions to U.S. exporters. I strongly encourage you to send your constituents to the ones close to your districts.

Mr. Chairman, I have brought with me copies of our *2000 Export Programs Guide*—which highlights these programs. Our 2001 version will be ready in mid-July, and I will have copies sent to you when it is ready.

BENCHMARKING ITA

Let me now turn to an important management issue for ITA. ITA constantly faces new demands as the international trade environment rapidly changes. Challenges are continually emerging, with new markets to target, new barriers erected, new firms in need of export assistance, shifts in industry dynamics, a stronger role for international organizations and alliances, and various policy mandates. We are an organization that has to keep adjusting, improving, and re-inventing ourselves in order to operate on the cutting-edge.

To best implement the President's trade agenda, we have some stock-taking to do, and I would be interested in your ideas on how to best enhance the Department of Commerce's leadership role on export promotion. The Secretary and I intend to reinvigorate the TPCC by undertaking a major benchmarking exercise of federal trade promotion and finance programs over the next six months. I am interested in asking tough questions and building a framework to test our goals versus our performance. We will look at the best practices of our trading partners and develop a road map of recommendations for the next four years.

Our goal is to update and improve our services for exporters while eliminating duplication between agencies. The end result will be innovative reforms in areas like small business trade finance, e-commerce and domestic and overseas coordination. If we are not meeting our goals, I want to know why. Do we need to refocus our resources? Do we need to reorganize? I also am in the process of meeting with the new leadership in place at our sister TPCC agencies to get their support—and to examine their best practices as well.

The bottom line is this: I want to hold ITA accountable, and I want you to hold us accountable. We should always look for better ways of doing things—and I expect our benchmarking exercise will accomplish that.

KEY ISSUE AREAS: GLOBAL TRADING SYSTEM, CHINA, TRANSATLANTIC RELATIONSHIP, STEEL

You've also invited me to share my views about some key issues areas, so I will now turn to the global trading system, our transatlantic relationship, China, and steel.

The Global Trading System

Mr. Chairman, the WTO is now focusing on whether to launch a new multilateral trade round at the 2001 Ministerial, scheduled for November 9–13 in Doha, Qatar. I'm optimistic that will succeed.

Negotiations began last year under the so-called "built-in agenda" of issues left over from the Uruguay Round. These talks cover agriculture and services. WTO Members have agreed on work plans and are now starting substantive discussions on specific negotiating proposals that should ultimately lead to further market access liberalization.

WTO Members are now working on how these negotiations might be expanded beyond agriculture and services. Members are taking a step-by-step approach in Geneva, building consensus. We hope to have a good idea by July or August of whether launching a new round of negotiations will be possible.

We'll only be able to launch a round this fall if all WTO members can agree on the scope and timing of a round. At present, many developing countries are arguing that they can't take on the obligations that a new round might entail while they are still struggling with existing WTO agreements. Some developing countries are even insisting that they be allowed to backtrack on their current obligations or want to open agreements for renegotiation.

We have done a great deal to assist these countries in implementing their current obligations. For example, we have provided funds and training to many of them in an effort to help them fulfill their WTO obligations. But, we want to ensure that current WTO obligations be met.

I will discuss our bilateral relations with China shortly but would like to point out here that I believe that the agreements on WTO accession that Ambassador Zoellick reached recently in Shanghai have helped provide new impetus to international efforts to launch a new round of WTO negotiations, and China itself has endorsed the launch of a new round.

At Commerce, we're very interested in improving our access to overseas markets—and therefore are interested in a new round. As I mentioned, our country and industry trade experts here in Washington and our Commercial Service officers abroad work diligently to help U.S. businesses export. A new round will provide even greater opportunities for U.S. firms overseas. We'd like to make further progress with regard to "zero for zero" agreements, both expanding participation in those negotiated during the Uruguay Round and securing agreement for those new sectors developed in the APEC context. Under these initiatives, countries agreed to eliminate or harmonize tariffs on products ranging from agricultural and construction equipment to chemicals to furniture to toys. Additional sectors would include scientific instruments, environmental technologies, energy, gems and jewelry. We'd also like to see expanded WTO-member participation in the Information Technology Agreement (ITA), which eliminates tariffs on a wide range of high technology products. And we'd like to finalize "ITA–2" which would further expand liberalization in this important area of our economy.

We also want our WTO partners to agree that tariff cuts agreed to during a negotiation can be implemented on a provisional basis. We don't want to have to wait for a new round to be completed before we can move ahead with liberalization. We should also bind all industrial tariffs as we did with agricultural tariffs in the Uruguay Round.

At the same time, we're interested in ensuring that our firms do not face unfair competition, and want to make sure that a new round preserves our ability to take necessary action. In discussing a potential new round with our trading partners, we've made it abundantly clear that we oppose any weakening of WTO trade remedy rules. The Administration has been unwavering in its position that trade remedies are a critical and integral part of the multilateral trading system, part of the balance of rights and obligations necessary to maintain that system. The United States has the most open and transparent system in the world, and we believe it is critical that our trading partners' trade remedy laws also operate fairly.

Transatlantic Relations

Of course, if we want to launch a new round, we will need to work in partnership with the European Union. Secretary Evans and I are paying a lot of attention to Europe. In our official capacities, he has traveled there twice—he attended the U.S.–EU Summit with the President last week, and I have gone once—in fact, I left for Europe only hours after having been sworn into office. We both have met several times with the Transatlantic Business Dialogue (TABD) and key transatlantic business interests and welcome the private sector's strong commitment to improving commercial relations. Secretary Evans and I both will meet with the TABD in Sweden this October.

The U.S.–EU Summit presented a timely opportunity for us to review our trade priorities. Therefore, we welcome the U.S.–EU Summit's Statement in support of the launch of a new round of multilateral trade negotiations at the WTO Ministerial Meeting in Doha as well as to explore ways to settle our trade disagreements more quickly and effectively, including compliance with recommendations of the WTO Dispute Settlement Body. While we did not resolve the many trade issues between us at the Summit, we are intensifying our bilateral efforts to address mutual concerns in steel and other sectors. We have seen that while our close relationship gives rise to disputes, by the same token, our close ties make compromise possible. In order to expand closer multilateral ties through the WTO, we must lead by example and show how close partners can resolve disputes.

Transatlantic trade relations serve as a bellwether of progress on world trade. The EU is a key economic relationship; in 2000, our two-way trade in goods and services measured $556 billion ($257 billion in exports). The U.S. and EU markets are largely open to each other. Not surprisingly, given our level of trade and similar industrial interests, our trade relations with the EU have been subject to an increasing number of trade disputes and other unresolved issues that tend to raise costs for exporters or create uncertainty. It is important to manage our trade relations carefully because of the complex and interdependent nature of our trade. Our immediate focus is to address our trade compliance concerns that are related to biotechnology, telecommunications and electronics products, aerospace, and the regulatory processes which adversely affect several billion dollars of exports.

The prospect for future transatlantic relations are good. EU economic growth should remain above trend as the EU integrates. Central and Eastern European markets are growing and adopting open market principles for trade and investment. The EU integration process accelerates political stability, reduces risks and broadens market potential for U.S. trade and investment. Transatlantic relations should benefit from these internal European developments. Many of our bilateral trade disputes are really symptomatic of the need to launch a WTO multilateral negotiation. The agenda for the next multilateral Round will contribute in major ways to advancing our transatlantic trade relations.

China

The big question of the moment is to see when China will accede to the WTO. We have recently seen progress made on some contentious issues, and a Working Party meeting in Geneva has been scheduled for the end of the month. While we want to see China and Taiwan join the WTO as soon as possible—and welcome their support for launching a new round of global trade negotiations—it is incumbent on the Chinese to take the necessary steps to get there.

As you know, the permanent normal trade relations legislation signed into law last October will go into effect only after China joins the WTO on terms equivalent to what is in our November 1999 bilateral agreement. President Bush announced his intention to extend normal trade relations (NTR) status to China for another year. This is not something that we are doing as a favor for the Chinese; we are doing this because it is in our own economic and strategic interests. No one should read this agenda as an endorsement of China's policies and values.

Let me stress this point again: the renewal of NTR is in our interests. China is our 11th largest export market—and despite a myriad of market access barriers, trade with China was up by 24% last year and by 36% in the first quarter of this year. Some 400,000 American workers are employed in or benefit directly from America's trade with China. U.S. firms now export services valued at more than $7 billion annually to China and Hong Kong, with our services exports to China surpassing the level of our services exports to Hong Kong for the first time in 1998. Last year, American farmers exported more than $3 billion to China and Hong Kong; this year, they should export even more as China removes bans on key American products like citrus, wheat and meat. It isn't just the big companies that are making inroads into the Chinese market: nearly 80 percent of our exporters to China are small- and medium-sized companies. Trade is in the interests of American consumers, who benefit from a larger selection of lower-priced goods. And with WTO accession, our exports to China will be even stronger as their restrictions are removed.

But this isn't just about economics. Our trade with and investment in China promotes transparency, accountability, good business practices (including higher labor and environmental standards), and the rule of law. As President Bush put it, renewal of NTR "sends a clear but simple message to the people of China: the United States is committed to helping China become part of the new international trading system so that the Chinese people can enjoy the better life that comes from economic choice and freedom."

We want to see an economically open, politically stable and secure China. We have many common interests in the region and in the world. Maintaining a healthy trading relationship enables us to share what is perhaps our most important common interest—the betterment of the lives of people in both of our own countries.

Steel

Steel is an issue that has been in the headlines lately, so I'd like to take the opportunity to mention a few key points that have not made it in all of the newspapers. Our steel companies continue to face a 50-year legacy of competing with state-owned and state-subsidized steel producers. The net effect has been a glut of excess capacity that outstrips world demand. This distorts the playing field on which U.S. industry must compete.

The time has come to find a lasting solution—one that restores market conditions to the steel trade globally. That is why President Bush will push for international agreement to eliminate unfair subsidies, and the inefficient, excess capacity propped up by such subsidies. We must find a way to get rid of the government interference and underlying distortions in the market that have produced the global glut in the first place.

The President has asked the International Trade Commission to initiate a comprehensive investigation of whether imports are a substantial cause of serious injury to the steel industry. That action is entirely consistent with our international obligations and world trade rules. The President's action is a sensible one and does not prejudge the outcome of the investigation.

I want to underscore the President's commitment to trade liberalization. The President intends to press forward bilaterally, regionally, and multilaterally, to expand our trade and the economic opportunities that it creates for all Americans. A key part of the President's trade agenda is the renewal of trade promotion authority. As I mentioned earlier, whether or not Congress grants that authority rests ultimately on trust—trust that the President will make sure that our trade policy works for all Americans. We expect to earn the trust of the American people, and the President's action on steel is part of that process.

CONCLUSION

Let me close by saying that, together, we have some tough work ahead of us. That is true of the work we have to do abroad in opening new markets. It also is true of the work we have to do here at home in setting the stage for further trade liberalization by the renewal of trade promotion authority.

There will be opponents who will raise valid concerns. We should listen and address them, provided that we do not undercut the basic benefits that trade brings. We need to make the case—and help your constituents back home understand—that trade creates wealth that can spur economic innovation, create new and higher-paying jobs and pay for a cleaner environment here and abroad. Furthermore, if we want our values to continue to take hold, we must press ahead.

Thank you again for inviting me to testify. I welcome your oversight and your ideas about how we can continue to improve the workings of the International Trade Administration. I look forward to your questions.

Chairman HYDE. Thank you very much, Mr. Secretary.

Mr. Schiff?

Mr. SCHIFF. Thank you, Mr. Chairman.

Trade compliance and monitoring were among the major priorities of the prior Administration. Secretary Evans has also reiterated these objectives and identified monitoring and enforcement of U.S. trade agreements as one of ITA's major priorities, and I think today you said that compliance is job one.

The Administration's budget, though, cuts funding for ITA's market access and compliance office by over 15 percent. Can you give us an understanding of how we can improve ITA's current trade enforcement and monitoring activities with a substantial cut in resources? Will it not hurt U.S. exporters if ITA does not devote funding where its priorities are?

Secretary ALDONAS. Congressman, that is a good question. We have seen a fairly significant increase recently in the resources dedicated to the specific FTEs in the compliance area. One of the ways I think we can make gains even with fewer resources is ensuring that we are bringing everybody in ITA to the table in terms of the compliance effort.

Certainly there are ways that we can improve the level of communication between our branches overseas, the folks in market access and compliance and the folks in trade development, all of which need to have compliance at the top of their radar screen. So from my perspective, despite the cut in funding for market access and compliance, our goal is really to bring all of the resources of ITA to bear on the compliance issue.

Mr. SCHIFF. I certainly think that there is more involved in effectiveness than mere funding. Most of the time you can make increases in effectiveness by improving efficiency, as well as by augmenting resources. But if you make a cut of 15 percent—while you are successful in increasing efficiency you get back to where you started from, but no farther.

If this is job one and this has been cut, what has been augmented that is a lower priority?

Secretary ALDONAS. We are certainly going to be focusing. I do not think it is a lower priority to start, Mr. Congressman, in terms of compliance because we really are trying to force that through the rest of the organization so that everybody is on board and contributing to that effort.

Mr. SCHIFF. I am just wondering what areas of ITA's budget would be increased if you are going to cut?

Secretary ALDONAS. The only increases actually in the request were for salary, cost of living adjustment and then grade and step increases based on merit, but basically it was taking care of our people first, frankly.

Mr. SCHIFF. Let me ask you about another question, if I could.

Secretary ALDONAS. Sure.

Mr. SCHIFF. In the last year, ten countries alone accounted for $340 billion of the $407 billion U.S. trade deficit with our 50 major deficit trading partners. Chief among those were China, Japan, Canada, Germany and Mexico. Many developing countries are also on this same list.

Do the Commerce Department and ITA have any specific plans to help address the large and seemingly growing trade deficits the U.S. has with our major trading partners, and do you plan to build up or emphasize programs in priority countries to try to offset that?

Secretary ALDONAS. Let me start by saying that regardless of the ebb and flow of the trade deficit, for example, the numbers released today will reflect that the deficit has gone down largely as a function of the slowing of the U.S. economy, not because there has been some liberalization in Japan or China. Regardless of the trade deficit numbers, we are going to be increasing our focus in terms of the push for market access in individual markets.

Certainly in terms of a renewed focus on Japan, much of the dialogue we expect the President to have with the new prime minister at the end of the month will focus on expanding the Japanese economy, so that becomes a larger market for U.S. goods.

We will not be relenting in terms of our press for individual market access on behalf of the sectors that are relevant in the Japanese market. There will be a higher focus on China as they join the World Trade Organization so that we fill in behind that agreement and make sure that we are getting the benefit of the bargain, so in terms of that top tier of countries that represents this most significant bilateral deficit certainly there will be an increased focus from the Administration.

Having said that, I also want to make clear that a lot of the ebb and flow in the trade deficit reflects the growth in our economy. The last time we had a diminution of our bilateral trade deficit with the Japanese was during the recession of 1990–1991. It was not a point at which you saw any significant market opening initiative by the Japanese that would have suggested we should be exporting more or we should be importing less from them. Frankly, it just had to do with the growth in the economy at that point.

That is true today as well. We are seeing the numbers come down. We are seeing the numbers come down both on exports and on imports as a result of an inventory adjustment in our own economy rather than some significant opening by the Japanese of their market.

Chairman HYDE. The gentleman's time has expired.

The Chair recognizes Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. Aldonas, what is the status of the proposed free trade agreement with Jordan?

Secretary ALDONAS. It is something that the President has made clear he supports. It is something that I expect will be forthcoming. We do not expect any changes in the underlying agreement. Everybody is aware of the importance of that to the Middle East and to an ally in the Middle East in terms of our support.

Certainly from the point of view of the Administration improving the economic climate in the region generally is something that would contribute overall to regional stability, and the free trade agreement with Jordan is a part of that.

Mr. GILMAN. Mr. Aldonas, what is the case for granting Permanent Normal Trade Relations (PNTR) with China, and when will China's accession to the World Trade Organization be proposed and completed?

Secretary ALDONAS. Both good questions. Let me take the latter one first. Given the course of 14 years of negotiations, I do not want to predict when that will actually take place. Certainly we are pressing the Chinese. The Chinese leadership seems inclined to move ahead.

It would be good if they were a part of the process going to Doha that would launch a new round. We are really waiting on the market access commitment, and a number of American businesses are eager to see those trade barriers come down as a part of the WTO agreement.

On PNTR, the one thing the President has made clear is that his view of PNTR is that we are doing this because it is in our interest, in the interest not only of establishing a stronger market access for the United States over the long term and establishing a stable relationship with the Chinese, but at the end of the day improving an economic relationship that will drive the habits of liberty that the President refers to when he talks about trade.

Mr. GILMAN. What about some of the Indian nations that have been asking for similar trade benefits as we granted to the Caribbean nations. What is the status of that?

Secretary ALDONAS. Well, the Indian Trade Preferences Act is up for renewal this year. The President supports that. He has made that a part of his trade policy agenda, his legislative agenda that he sent forward on May 11.

He is certainly interested in working with the Members of Congress to make sure that the preference available there do contribute to our overall goals in the region, which is to really encourage economic diversity away from things like cocaine and onto things like manufacturing and other economic benefit.

Mr. GILMAN. In meeting with some of the Bangladesh representatives, they have asked could we have some benefits for their textile industry, some waivers of some of the present requirements that we place on them.

Secretary ALDONAS. The answer, Congressman Gilman, is that we are in the process of lowering the restraints on textiles as per the World Trade Organization agreement on textiles and apparel. That process will be complete by 2005, at which point tariffs will be the only barriers. At that point, I hope we are engaged in a new round of trade negotiations so that when other countries are asking for access to our market for textiles and apparel that we are asking them for access to theirs as well.

Frankly, one of the things that I have found in working on the Africa bill last year was that we have a worldwide competitive textile industry. In many respects if they have access to other markets, I think it is fair to say that if countries like India or like China want access to our textile market, they want the tariff barriers to come down, that the 60 to 100 percent tariffs they impose on our textile exports come down as well.

Mr. GILMAN. Thank you very much.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you, Mr. Gilman.

Ms. Watson?

Ms. WATSON. Thank you, Mr. Chairman.

Mr. Aldonas, in light of proposed budgetary cuts in the export promotion program, what happens to developing countries? I want to relate that to the country I just left, the Federate States of Micronesia, which most people cannot find on the globe.

We are monitoring their progress toward building their own economic base because we are in a compact with them that ends in September, and so I am wondering in light of those cuts how would you promote the export programs? Do you plan to expand if you cut the budget? I want to know could it reach way down to the Federated States of Micronesia?

Secretary ALDONAS. Well, one of the things that Secretary Evans has asked me to do as we go through this benchmarking exercise, Congresswoman Watson, is to look at how we get more resources to the front line, frankly. The government is behind corporate America in terms of how we reorganize ourselves to delayer management and get more people on the line. I think that is one way we can get a lot of resources out of the Commerce Department as it exists currently.

That is something which may take some time. We want to take a hard look at ourselves and how we are organized, but that is the sort of proposal I suspect we are going to be bringing back to Congress in terms of how we organize the Department in the future. With modern communications we do not need the layers of middle management that we have in the past. I think corporate America has found that over the last decade. That has been part of the reason for our growth.

I think we can apply those principles in government as well, and I think that is one way of reaching down even to the level of Micronesia.

Ms. WATSON. My particular concern is that this is a nation that we fully fund, we fully aid, and we are trying to promote their trade policies so they can build up their own economic base.

I am just wondering if there are sufficient cuts in promotions will we be able to assist them in building up their ability to import/export, and is there a plan for these developing nations, newly developing nations?

Secretary ALDONAS. Not with respect to Micronesia in particular. I would be interested in talking with you about that.

At least as I understand the situation with Micronesia, probably the most powerful tool we have is keeping our own market open to Micronesia. We certainly want to help them export elsewhere to Asia, to Australia, to New Zealand, but that is probably the most powerful tool we have as we go forward with the pact that we now have with the Micronesians.

Ms. WATSON. I would like to talk to you about some very specific things.

Secretary ALDONAS. I would be pleased to do that. Sure. Yes.

Ms. WATSON. Thank you.

Secretary ALDONAS. That would be very helpful.

Ms. WATSON. Thank you very much.

Secretary ALDONAS. Surely,

Ms. WATSON. Than, you, Mr. Chairman.

Chairman HYDE. Thank you.

Mr. Issa?

Mr. ISSA. Thank you, Mr. Chairman.

I am an old fast track advocate and a private sector NAFTA warrior, so I guess my cards are pretty well on the table, but I do have some concerns that in the last Congress a pattern was set where the President was denied that authority for the first time in my memory and I guess since we started using the term. Now we have a new term, and there seems to be a certain amount of resistance by Members to do it simply because it was not done for the last Administration.

How are you facing that besides this hearing today in your outreach to Members of Congress to try to build back the coalition that existed on a bipartisan basis Congress after Congress?

Secretary ALDONAS. That is a very good question. I think the way to do that is twofold. One is an openness to discuss the difficult issues that face us as we are embracing a global economy, and certainly some of those come up in the labor and environmental areas, but more fundamentally it is really focusing on what the trade agenda ought to be about.

I think in focusing on, as I was describing, building our trade negotiating objectives from the ground up, what you find is that there is constituent interest in every Member's district and in every state that has an item on the agenda that they want to carry forward in terms of market access. We want to be able to vindicate that. I think that is one of trying to rebuild the consensus so that all Members see that they have a stake and that they have an economic future in their constituency that is linked to trade, linked to opening markets abroad.

I guess the second half of that question perhaps for everyone seeing this here today is let us assume for a moment that this pattern of one time denying the President this continues. Can you give us sort of the scenarios that are likely to occur if we deny the President Trade Promotion Authority?

Secretary ALDONAS. Well, certainly there are a number of our trading partners that would use that as an excuse not to engage in negotiations. Certainly it would be a stumbling block in terms of trying to move ahead in the FTA, the Free Trade Agreement of the Americas, and in trying to launch a new round of negotiations.

One thing the United States has consistently provided as you know, Congressman Issa, is leadership on the world stage in terms of driving the agenda forward toward trade liberalization from which we all benefit, and really that upsets a lot of interests that are dug in in a number of other countries.

Certainly there are states that would prefer not to see us back at the negotiating table because they would prefer not to liberalize. We do not intend to let that happen, but it is a much more powerful statement, a much more powerful statement to our trading partners if Congress is fully behind the President with Trade Promotion Authority, with an agreement on the negotiating objectives and the agenda we ought to be carrying forward.

Mr. ISSA. One of the other things I think that we are all interested in is we have seen some inklings of interest on additional partners, such as New Zealand. Before this hearing, you and I were talking about New Zealand, Australia and Egypt.

President Mubarak made it very clear that he wanted to catch up with his other partner in the area, and obviously when King Abdullah was here. They were all saying let us move forward on what we have already negotiated.

Can you give us a best case of sort of ticking off the countries that if we grant this authority you believe you could accomplish obviously with Bob Zoellick and others during this next 3 year period in the way of countries that you have firm and mutually profitable relations with?

Secretary ALDONAS. Well, right on top is the Free Trade Agreement of the Americas. Certainly you can appreciate from Governor Bush's perspective, having seen the success of the NAFTA up close and personal as Governor of Texas. His interest in looking south is something that has been on the agenda and has been a part of the agenda for the past 7 years. It is time to conclude that. That would be a significant achievement and something which I think we can get done within the time frame that has been set out. Hopefully it has accelerated.

One of the things that you do then, in terms of who you choose as potential candidates, is to see what can drive the larger process within an FTA, within a WTO. One of the advantages of talking with Chile right now is that it provides greater energy to the FTA talks, for example.

The notion that we are out there talking with Singapore certainly gets a lot of other countries in Asia interested. Australia and New Zealand for a long time have been interested in trying to pursue some sort of pact. Singapore may be a first step into the region.

There may be others to follow; certainly strong candidates for that, given their relative openness, given their interest in pursuing the free trade model.

Mr. ISSA. Thank you, Mr. Secretary. I apologize for over running my time, but I could go on a long time. This is a very important issue to our Committee.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you.

Mr. Leach? I am sorry. I should go to the Democratic side, and then we will come back to you, Mr. Leach. We will give you additional time to prepare.

Mr. Blumenauer?

Mr. BLUMENAUER. Thank you, Mr. Chairman. I would like to follow up on my colleagues' comments.

I am a Member who has supported the ability of the Administration regardless of its partisan affiliation to be able to negotiate in a comprehensive fashion, but I watched what happened when it became polarized in 1998, and in fact we could not even produce the number of Republicans that were projected. It was something like 150 or 160 votes.

I am concerned that we capitalize on your statement. You talked about your interest and the Administration's interest in engaging Congress and using it in a partnership. Mr. Zoellick has been masterful I think in terms of the interaction he has had with a number of us. I do not know where he finds the hours in the day to sit down for 45 minutes or an hour with obscure junior Members of the Minority party, let alone what he has to do I am sure with more esteemed and significant Members of the chamber.

The notion somehow that we are not going to be moving forward to deal with legitimate concerns of Members on the Republican side—not just the Democratic side—dealing with labor and the environment and being able to generate some momentum early in the game with the Jordanian agreement, and you mentioned Singapore. This appears to be low hanging fruit to demonstrate the Administration's willingness to reach out and to forge the coalition.

I was just reading before I came in remarks that the President gave this week to some agricultural leaders: If you are a poor nation, it is going to be hard to treat your people well. If you are a poor nation, it is going to be hard to have good environmental policy.

Can you understand how——

Secretary ALDONAS. Sure.

Mr. BLUMENAUER [continuing]. Some Members on both sides of the aisle can have some concerns about how the Administration is going to make real opportunities to make progress in this area that is going to be necessary to get a bipartisan 218 votes and hopefully more?

Secretary ALDONAS. Hopefully more, yes. Absolutely.

I would like to amplify on the President's comments. Really what he was referring to is the point I made earlier, which is that as you approach these issues, and I should be clear to everybody. There are environmental provisions and labor provisions in trade agreements, already. There have been since 1974 in the GATT, for example. It is not as if these topics are not addressed.

The real issue is how do you address them in a way that encourages the strongest possible push for trade liberalization because that ends up raising living standards, and it ends up giving people the ability to afford higher standards of labor protection, higher standards of environmental protection?

The sorts of evidence that we have seen recently I think bears that out. A lot of the criticisms, frankly, of the NAFTA that we were going to face a race to the bottom in our environmental standards, our labor standards, when you look at the facts now those have not been borne out.

On the other hand, when you look at the situation in Indonesia, for example, right now you can see that the economic effect of what has gone on in Indonesia has also led to environmental degradation.

Mr. BLUMENAUER. We are on the same wavelength, Mr. Secretary. I have seen enough in my limited visits to developing countries and looking at the research and seeing, frankly, what powerful things some American companies are doing to actually raise not just living standards, but environmental standards and labor standards.

My concern is how do we engage because, as you referenced, it is not unknown for us to have labor and environmental standards in trade agreements. We have done it for over half a century. Is there not a way that we can emphasize these areas of agreement and start looking for ways to have both the agreement moving forward and incentives for environmental and labor provisions?

Secretary ALDONAS. No. I think there is. Certainly there are principles I think everybody in the debate agrees upon. No one is interested, for example, in seeing our labor laws or our environmental laws rewritten by an international tribunal of some sort. That probably means we are not going to expect that of other countries as well.

Do we want to provide incentives if at all possible? Certainly we want to do that. When the Africa bill passed this last year, it included provisions like that. There are ways to go after that and provide the incentives, but we want to be careful as part of that process that we do not undercut this powerful driving force that does help labor and the environment and improve those standards.

Chairman HYDE. The gentleman's time has expired.

Mr. BLUMENAUER. Thank you.

Chairman HYDE. Can someone get that? It is not mine.

Mr. Leach?

Mr. LEACH. I think it is a call from a higher authority.

Chairman HYDE. No doubt. We are getting spiritual messages here.

Mr. Leach?

Mr. LEACH. Mr. Secretary, I come from a part of the world where everyone is on the one hand and on the other. That is, in the midwest if you have a good crop it is lower prices. If you have higher prices, it is a weaker crop.

The analogy that I would like to make is with the value of the dollar. A strong dollar is generally in our country's vested interest. It has kept inflation down. It has increased and strengthened the value of most American assets.

On the other hand, in a subsequent panel we are going to hear economists from the National Association of Manufacturers (NAM) argue that the strong dollars have the effect of hurting our exports rather dramatically. The 30 percent increase in the value of the dollar relative to a number of other principal trading countries over the last 4 to 5 years has had a significant effect on decreasing the competitiveness of American manufactured goods and agricultural products as well.

Secretary ALDONAS. In particular.

Mr. LEACH. In particular.

Secretary ALDONAS. Yes.

Mr. LEACH. Now, NAM is going to argue that perhaps the Commerce Department ought to be involved in making annual or semiannual reports on the impact of the dollar on our economy.

Do you favor this sort of things? Is our Commerce Department today a strong dollar Commerce Department, or is it favoring adjustments to make goods and services more competitive?

Secretary ALDONAS. It is a Commerce Department that would prefer to see a number of our trading partners renew and reinvigorate economic growth in our economy so that restores the market in some balance in the international economy that does not exist now.

I think that is really the right way to approach the issue. Beyond that, of course, the Treasury Department takes the lead on regularly reporting about exchange rate movements and about their economic impact.

I have to say it is more about the economic fundamentals. What I would want to be cautious about is whether that led to the suggestion that there ought to be intervention in the market with affected exchange rates.

I think the best thing we can do, for example, is to have dialogue that the President will have with the Prime Minister of Japan at the end of the month in terms of trying to encourage the Japanese to get the fundamentals right and to be moving in the right direction is really the answer in terms of both exchange rates and in terms of access to markets.

Mr. LEACH. Yes. I frankly agree with that, and I certainly agree with the notion that any hint of action in the exchange rate markets by the U.S. Government is fraught with difficulties.

I mean, the fact is our Treasury has about a $45 billion or $50 billion fund, and our Fed about the same, in the daily trade in securities and currencies over trade and so it is not something we can effect very much even if we wanted to.

Secretary ALDONAS. Right.

Mr. LEACH. Let me just turn to one other quick subject. In China, it just struck me that we have all these issues with China that would spring up now and again. President Clinton was one to say it is economy stupid. Well, actually it is trade deficit stupid.

It is amazing to me that the principal, if not the virtually exclusive issue that we ought to be talking about with China is the whole issue of trade balance. I would just hope that this message be very loud and clear to the Department of Commerce, which is our principal government agency in this way.

I personally think that the long-term American and Chinese relationship is only going to be terribly constructive if the trade balance is more in line.

Secretary ALDONAS. Well, there is no doubt that if we do not see progress in terms of market access in China that it is going to cause significant difficulties in the relationship, and that ought to be the goal, frankly.

Certainly the goal that was pursued by the last Administration and concluding in a bilateral agreement as a part of the WTO accession package, certainly a part of what Ambassador Zoellick took to China recently in terms of trying to wrap up the negotiations on WTO accession, certainly that is going to contribute to our exports to China and agriculture in particular, so I think that is a strong part of the answer.

I will make the commitment that from the point of view of the Commerce Department compliance with China's WTO accession is going to be a huge issue.

Mr. LEACH. Yes.

Secretary ALDONAS. We are going to dedicate ourselves to making sure that they are well within their obligations in terms of their market access commitment.

Mr. LEACH. I appreciate that, and I would just like to conclude with one sentence if I could, Mr. Chairman, and that is all of the WTO is well and good, and I am strongly for it, but the statistics are that it will make a $3 billion or $4 billion trade difference for us in a $50 billion trade circumstance that is growing. The moral imperative that China buy more American goods has to be brought to this, as well as simply the fact that we are opening China to certain rules.

Secretary ALDONAS. I appreciate your interest, and we will carry that message to the Chinese.

Chairman HYDE. The gentleman's time has expired.

Mr. Delahunt?

Mr. DELAHUNT. Thank you, Mr. Chairman.

Welcome, Mr. Secretary.

Secretary ALDONAS. Thank you.

Mr. DELAHUNT. You know, I, like everyone else, hope that we can work out differences in terms of trade promotion. I think those differences are honest ones.

I would associate myself with the remarks of Mr. Blumenauer in terms of the rhetoric that is used. I think it should be positive and constructive. I think once we start to use terms like "protectionist" and "isolationist" I think we go down a wrong track. I think positions would harden.

In terms of trade promotion, I think there is a belief that if we do not achieve a consensus that somehow we will just leave the world market. Well, the reality is that we conduct bilateral negotiations like we have with Jordan. In that case, I dare say there really is. If the Jordan arrangement were before Congress now, I have no doubt that it would pass overwhelmingly, and I think you might agree with that.

So we are not precluded from negotiation on a bilateral basis, and at the same time when we engage in bilateral discussions regarding trade arrangements the reality is that our market, access to the American market, is clearly such a powerful incentive——

Secretary ALDONAS. Sure.

Mr. DELAHUNT [continuing]. That it creates, if you will, a leverage point that is overwhelming. I think that that is important to put out there. I think saying that the premise that failure to achieve trade promotion is the end of the free world really is hyperbole.

Secretary ALDONAS. You are absolutely right. The President I think has made clear that we are not going to back away if there is no Trade Promotion Authority. We need to carry forward the agenda because, as the Chairman alluded to, we have 130 agreements that have been reached recently. We are a part of two.

It now makes more sense, if you are going to sell automobiles to Chile to manufacture them in Canada than it does in the United States just because of an 11 percent tariff difference. Those are things that we want to eliminate for the benefit of our workers, frankly.

Having said that, I want to go back to the point I made earlier, which is I do not want the lack of Trade Promotion Authority to become an obstacle toward pursuing those agendas and, more fundamentally, I want to honor the fact that under the Constitution Congress' role in this in regulating foreign commerce is to be a partner and a driving force in setting the negotiating objectives.

In many respects what Trade Promotion Authority really is is a vehicle for forcing the President and Congress to get on the same page, and at that point the negotiators at the table set the parameters.

Mr. DELAHUNT. You are winning me, Mr. Secretary, with those words. I welcome them.

Secretary ALDONAS. That is what we need to do. That is the real value of trade promotion. That is why I have always disagreed with the argument that we only need to set the end because if the United States comes with Congress and the Executive to the table in agreement about what the negotiating objectives are, that is a very powerful combination, and that really allows you to make use of the leverage of our market in the best way possible.

Mr. DELAHUNT. Let me ask you this question, and I am sure we are going to hear a lot about NAFTA in the course of the next several months. The increased trade. How is it reflected in terms of the median income of Mexico? Of the United States? Of Canada? Have we seen an increase that can be directly related to the increased level of trade?

Secretary ALDONAS. No.

Mr. DELAHUNT. We cannot?

Secretary ALDONAS. No.

Mr. DELAHUNT. Because?

Secretary ALDONAS. Because economically it works differently. What trade does is one would argue it allows you to specialize I would argue it forces you to reach a comparative advantage.

There is often a mistake about what comparative advantage is. We think about it relative to other countries. What is our comparative advantage to Mexico? In fact, what it is is what is our comparative advantage in this country? What do we do most efficiently? Therefore, that is where capital should flow in our market.

Mr. DELAHUNT. Right. I understand that.

Chairman HYDE. The gentleman's time has expired.

The gentleman from Arizona, Mr. Flake?

Mr. FLAKE. Thank you, Mr. Chairman.

I just wanted to ask you a couple of questions with regard to sanctions policy. Is the Administration going to come out with kind of a new you or a change in the direction of our sanctions?

I know Ron Paul, the gentleman from Texas, is going to talk about this as well, but just the other day we imposed a whole new set of sanctions that I think opened up Pandora's Box with the Sudan Peace Act. We are actually requiring our SEC to list foreign companies that are investing there.

Do you have any thoughts on this? Does the Administration have a position on it? Are we due for a rethinking of our sanctions policy?

Secretary ALDONAS. Yes. It is not my direct area of responsibility. My sense is that the policy perspective that the Administration brings to the sanctions issue is one of providing the authority to the Executive Branch so that they can use it with flexibility when the situation requires, but not mandating it in every instance and certainly where they are mandated to encourage a regular review of those sanctions by Congress and by the Executive to see whether they are still working.

More than that, I would probably have to defer to my colleagues at the Treasury and the State Department, but I would be happy to get back to you on that point.

Mr. FLAKE. On another subject, in trade with China one of the big issues is trademark protection, as well as copyright infringement.

Secretary ALDONAS. It is critical. Yes.

Mr. FLAKE. What is your Department doing in that regard to look at that?

Secretary ALDONAS. Well, the Trade Related Aspects of Intellectual Property (TRIPs) compliance is an agreement under the WTO to which China will have to adhere and it will get an awful lot of attention from the Commerce Department, from the Patent and Trademark Office, as well as from ITA in terms of compliance, but we are there now backing up the bilateral agreements that have been reached with China about this and trying to press for stronger enforcement of their own rules.

We have had some successes I think in recent years. It is not successes on our watch necessarily. It is something that we are going to have to press ahead with that. One of the things that we do intend to do at the Commerce Department is provide within market access and compliance a greater focus on China for precisely these reasons.

They are going to represent a whole different set of issues that we would like to see resolved practically in our favor without having to drive everything through the WTO dispute settlement mechanism.

Mr. FLAKE. Thank you.

Secretary ALDONAS. Thank you.

Chairman HYDE. Ms. Napolitano?

Mrs. NAPOLITANO. Thank you, Mr. Chair.

Mr. Under Secretary, there are a couple of areas that are of vital interest to me because I have long been interested in international trade promotions for small business. I also sit on Small Business, so I have a kind of correlation that I make.

Many areas abut to us not only in Small Business, but in other areas where there is not as much focus on assistance to small business penetration of the foreign markets. I can say that because less than 2 months ago I was in Hong Kong and in Tokyo talking to them on the Codel, and they are doing their own outreach. They are coming to the United States and doing workshops.

These are American companies helping small business understand how they can penetrate the markets in those areas, which I neglected. I should have asked do they have any connection with our Department of Commerce or with your agency, but I think that we are missing the boat because we tend to focus on the larger business penetration because of their ability to do their own negotiations, if you will.

Small business has a lot to offer, and we are consistently not putting them in the same category of helping become more versatile. Are you planning to do anything, any Web sites that might assist small business contact say an American chamber that can help them or your office?

I am not quite sure. I did not really check my notes to see whether your agency is being cut in funding. If it is, how do you attempt to do that with the less resources that you might have available to you?

More importantly, are you going to hopefully work with SBA and other Federal agencies to dovetail efforts to assist in promoting loans into small business new outreach or new products and services that can be marketed because it is not just products. It is also services that are heavily marketed.

Secretary ALDONAS. Sure.

Mrs. NAPOLITANO. I will start with that.

Secretary ALDONAS. Okay. Well, two things. One, it is not that the big guys do not know how to find us when they need us, but most of the infrastructure at the Department of Commerce is actually dedicated to small and medium sized enterprises. Markets are about information. Part of the infrastructure we provide is providing information about opportunities to small and medium sized businesses.

One of the fascinating statistics I have found since starting this job is that 97 percent of our exporters are small and medium sized businesses, 500 employees and less. That is where most of our focus is going to be in terms of what Secretary Evans and I want to try and accomplish because they are the people who create jobs. They are the real incubators of innovation in our economy, and the more that we provide in terms of—how should I put it—leverage for them to get into the global marketplace the more they are going to have the opportunity to expand and do the good things they do for our economy, so that is going to be the primary focus of everything we do.

Now, second and more directly to your question about what we are attempting, I was explaining earlier about a benchmarking exercise we are going to go through with the Trade Promotion Coordinating Committee that allows us to look not just at the programs in the Commerce Department, but across the government in terms of export promotion, including Small Business Administration. First of all to see how our competitors abroad are doing in terms of foreign government support for their small businesses, but also to look at business itself for models of how we can improve our performance and then finally to go out to our customers and say how can we better serve your interest. Give us a scorecard on how we are doing now, and then tell us—help us really—to figure out how to close that gap.

We view some of our customers as the Members here on the House Committee on International Relations. We want to have you and your staff involved in that process as well so that if you have thoughts about improvements in how we deliver our service we get those in the mix as well.

We are going to be coming back with the annual report of the Trade Promotion Coordinating Committee, which is due in March of next year. Our expectation is we will come back with our own suggestions about things we will implement under current authority, and if changes are required we will be coming back to work with Congress to see that those are implemented.

That is our focus. Really from our perspective it is what we view as under served communities at this point, whether it is small or medium sized businesses, whether it is minority owned businesses, whether it is women owned businesses. That is a focus that we want to try and bring to our export promotion efforts to really engage them in the global marketplace.

Mrs. NAPOLITANO. Well, some of the areas that you touched on are very good news to me personally. I was the Chair of Trade and Commerce in California, and I had to physically take my chambers of commerce to the Long Beach Trade Center because nobody knew it existed. That is a conglomerate of assistance centers. Unfortunately, the personnel there were limited in being able to do the job of outreach. It reached within let us say a 30 mile radius, and that was it.

You need to understand that now with the great computer programming that you have available to the small business population that it is a possibility to be able to tie into some programming so they can get directed to your sites to be able to get further information because you do not have the staff to do that outreach. That I know. Everybody knows that.

Chairman HYDE. The gentlelady's time has expired.

Mrs. NAPOLITANO. Thank you.

Chairman HYDE. You bet.

The gentleman from Colorado, Mr. Tancredo?

Mr. TANCREDO. Thank you very much, Mr. Chairman.

Mr. Secretary, I am going to go back to the issue of China and trade with China for a few moments. Over the last several years, and I do not know how many, we have annually approved normal trade relations with China after some debate in the Congress. We, of course, now are anticipating their entrance into the WTO, which will then negate that experience for us, that annual debate anyway.

Through the course or over the course of time in the granting of Permanent Normal Trade Relations with China, let me see if I can tick off some of the things that have occurred. Slave labor has increased. The production of products through the use of that particular mechanism has increased. Technology has been stolen from the United States, technology that actually puts our nation's security in danger, technology stolen even though the last Administration provided them with a significant amount of that.

The deficit has grown with China to the point that now it is over $80 billion a year. Internally, their treatment of their own people has deteriorated. The Falun Gong practitioners have been imprisoned. Prelates from a variety of different religious organizations have been imprisoned or detained or exiled.

They have continually blocked exports to China from the United States. They set off a neutron bomb a year and a half ago. They threaten Taiwan almost monthly with invasion. They forced down an American plane, putting in jeopardy the lives of 24 crewmen.

Now, all those things have happened while we have been approving Normal Trade Relations with China. I wonder if you can tell me what is there on the other side of the scale that I can sort of balance these things off with to recognize how important normal trade relations with this country has been?

Secretary ALDONAS. That is a good question. Ultimately it is really a question of whether you are better off with it or without it in terms of trying to encourage the sorts of changes you want to see in Chinese society.

Bluntly, my own view is any time you give individuals an economic interest that is in contradistinction of the interests of the Chinese Communist party, you are improving the prospects for liberty in that country.

One of the things that I have always been concerned about is that the net result of not encouraging trade with China, not encouraging American investment in China, is that you condemn the Chinese workers to continue to work for the enterprises that violate their rights, providing them with another opportunity that really does allow them, as the President's has stated, to practice the liberty that eventually incurs change. That is probably our best bet.

It is a race——

Mr. TANCREDO. Yes.

Secretary ALDONAS [continuing]. In terms of how the Chinese society will evolve.

Mr. TANCREDO. Let me suggest that there is very little evidence to show inevitably that free markets, the development of free markets even within a country, will inevitably lead to democratization.

Secretary ALDONAS. I do not disagree with that.

Mr. TANCREDO. Therefore, it also seems to me that it is only a hope and a prayer that we have when we say things like if we increase trade with China and if that improves the economic condition of the people of the country, that will in fact lead to some weakening of the regime.

I do not think that we can actually assume that that will happen. It could, I suppose, but to assume that it is de facto I think is incorrect for us. Therefore, it seems that we have to set out a list of criteria, very specific criteria, to say if the following things happen we will recognize that improvement and, therefore, you know, go ahead with this kind of a trade relationship.

What I am asking you is, is there that kind of specificity in whatever plans we have for trade with China? Is there something that you can say to us? If China does the following, if we see an actual change in trade balances to the positive at X amount and tick off three or four things that we will actually use as benchmarks, I will feel so much better than if we just simply say we believe that things will improve in China.

Secretary ALDONAS. Well——

Chairman HYDE. The Chair will intervene. The gentleman's time has expired. Without objection, the gentleman will be granted an additional 2 minutes if he will yield to me.

Mr. TANCREDO. Yes, Mr. Chairman. That is hard bargaining.

Chairman HYDE. You were talking about one of the really profound problems; our relationship with a resurgent, militaristic, oppressive China and what do we do about it.

If I may join in this colloquy briefly, I have been wrestling with that problem. I have voted both ways. I have voted for normal trade relations. I have voted to withhold them. I justify both votes with solid reasons.

My current thinking is you cannot change a country by isolating it. Our goal should be to influence China to make it a democracy or more democratic than it is. If we withhold any interfacing with them at all, the status quo is the best we can hope for.

To influence people you have to rub against them. You have to interface. You have to communicate. You have to demonstrate. I am wondering how we influence China by isolating them from the world. The more we interface with them, engage with them, hopefully what we are providing will rub off, and they would learn about our way of doing things, our culture, and maybe make some choices. That might not be so scheduled that this happens and this happens. It might be very gradual.

Mr. DELAHUNT. Would the Chairman yield?

Chairman HYDE. Yes. Surely.

Mr. DELAHUNT. I think you are——

Chairman HYDE. Well, it is Mr. Tancredo's time.

Mr. TANCREDO. I will certainly yield.

Mr. DELAHUNT. Yes. I would just ask the Chair. I think he has hit on something, and I think these are difficult questions to gauge, yet at the same time I would respectfully suggest that the same logic that you just articulated applies to our relationship with Cuba, particularly an embargo and particularly in terms of the restriction of travel by Americans to Cuba.

Chairman HYDE. Well, I am going to say I do not agree with you, but that is another aspect of the same problem.

I am anxious to get to Mr. Meeks because he has been sitting here a long time, and I do not want to keep him waiting. We have

Ron Paul as well, so we will interrupt this colloquy until further notice.

Thank you, Mr. Tancredo.

Mr. TANCREDO. Sure.

Chairman HYDE. Did Mr. Aldonas want to comment, or probably not? [Laughter.]

Secretary ALDONAS. Actually, I would always prefer to comment, but I know Mr. Meeks has been waiting a long time.

Chairman HYDE. All right. Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman.

Well, I will ask the Under Secretary. Listening to your opinion with reference to China and which way we go, what is your opinion and the Administration's opinion on how you justify Cuba, you know, as far as the influence is concerned in making a difference with a much smaller nation? Therefore, we should have greater influence if we engage.

I will follow that train of thought and hear your opinion.

Secretary ALDONAS. It is a fair question. Frankly, I think the difference is what avenues you have to engage. What I worry about with Cuba is that there is simply less there to engage with than there is with China. There is not the instinct to move in the direction that China has by either liberalizing its markets or providing more in the way of avenues for that interchange.

Congress I know acted, this past Congress, to expand the possibilities for trade. Those were largely rejected by Castro when the attempt was made on our part really to say on agricultural areas and on medical goods we were willing to expand the trade there. That was met with rejection, so it is difficult to engage when the other side does not want to.

Mr. MEEKS. I would just say every other country in the world——

Secretary ALDONAS. Yes.

Mr. MEEKS [continuing]. Seems to be engaged with Cuba except for us. We just have this unilateral embargo that seemingly has not worked for the last 40 years.

Let me ask another question in another area. I am sorry. I missed most of your testimony. I wanted to know what was the Commerce Department's role or what will its role be in trading with Africa, and are there any targets as far as markets are concerned there with respect to trade?

Secretary ALDONAS. Well, the first thing is implementing the African Growth and Opportunity Act, which was passed last year, and making sure that we fulfill the commitments that we made as a part of that to subsaharan Africa.

The second thing is that certainly our research is dedicated toward developing trade on the African continent. The Secretary has made clear his interest in leading a trade mission to Africa as soon as possible. We are organizing one for him.

What we are trying to do is focus on those markets where we think we are likely to see as much opportunity for American business as possible, at the same time recognizing that there are a number of countries in Africa where there is going to be real difficulty until the situation stabilizes for any kind of economic activity, much less to attract our investment, attract our capital and attract our exports.

While we would like to be supportive, I think we really need to find those areas where there is a mutuality of interest between African businessmen and women and American businessmen and women and try and target those. That is the process we are going through right now in terms of identifying markets where the Secretary could bring American men and women in business over to Africa.

I suspect that is something that will unfold. It takes us about 6 months really to put these things together, but that is the time frame we are thinking about.

Mr. MEEKS. So you have not identified any specific targets yet or any countries?

Secretary ALDONAS. No. We are in the process of looking at that. Again, it is going to be something that is focused not just on where a presence might do the most good in Africa. I would leave that to the State Department.

I think our job really is to get Secretary Evans over there with American businessmen and women where they can find good opportunities to do business because that is probably the strongest link we can make with our African trading partners, so that is our focus in terms of trying to identify the countries.

Mr. MEEKS. Let me just follow up briefly with what my colleague, Ms. Napolitano, had indicated. The U.S. Foreign and Commercial Service operates over 100 domestic and international Export Assistance Centers. I was wondering. I think that that has had a lot to do with our additional exports around the globe, and it helps create jobs in America.

We talk about trying to balance the jobs that we lose to creating jobs. I was wondering if you thought about any expansion. Have there been any new markets, whether they be domestic or international, of these centers to help us export more goods into various countries?

Secretary ALDONAS. I am going to go back to what I talked about earlier. This benchmarking review process that we have underway is a way of telling us where we could get the most bang for the buck out of the research that we already have.

We are working our way through that process—we are really just at the start—and taking a hard look at not only what we do in terms of export promotion, but what the Export/Import Bank does, what the Overseas Private Investment Corporation does, and what Small Business does. We are trying to team with our own Minority Business Development agency to see how we can combine forces to get the word out about the opportunities that are available in the global marketplace.

I expect that review is going to take us to an interim report in September and to a final report in March, where we will have suggested the improvements we are going to implement ourselves, as well as the changes we may be coming to Congress for in terms of authorization.

Chairman HYDE. The gentleman's time has expired.

The gentleman from Texas, Mr. Paul?

Mr. PAUL. Thank you, Mr. Chairman. First I would like to get unanimous consent to submit an opening statement in the record.

Chairman HYDE. Without objection.

[The prepared statement of Mr. Paul follows:]

PREPARED STATEMENT OF THE HONORABLE RON PAUL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, a number of people in this body and elsewhere have been urging rapid consideration of so called fast track trade authority for the President. I would like to address this issue today. The motivation behind pushing for this authority is the desire that the President negotiate further trade agreements.

Because these agreements, together with this so-called fast track authority, are two key pillars of our current unconstitutional trade policy, it is critically important that they be examined together. Indeed, I believe fast track authority is simply the most egregious and unnecessary example of how we currently conduct our trade policies.

As I hope to lay out here, fast track and international trade agreements, far from being the repudiation of nearly a century of wrong-headed thinking on trade, are merely an extension of the interventionist policies exemplified by the Smoot-Hawley bill that precipitated the great depression. While the idea of placing codicils regarding environmental and labor concerns into our international trade agreements stands as the most blatant evidence that supporters of the current policy are eager to engage in interventionism, my point is that the entire trade regime is in fact designed to promote government interference in economic matters.

As our own economy weakens, under some of the same pressures that helped to create the great depression, i.e. an economy under the weight of monetary inflation and excess taxation resulting from years of foreign interventions, it is particularly timely that we now consider the true free trade policy our country must enact as a means to rescue our economy from the grip of what seems to be an imminent downturn.

CONSTITUTIONAL AUTHORITY TO REGULATE TRADE

In Article 1 Section 8, the founding fathers crafted language granting Congress the authority, to regulate trade. Their intention becomes evident by considering the history and context in which this delegation of authority is made. The first paragraph of this section of the constitution is essentially the sum and substance of the grants of authority contained in this section, and the paragraphs which follow amount to specific enumerations thereof. The key to this section is that the colonists sought to rest with Congress the power to obligate and pay expenditures on behalf of the nation for those few specific powers granted to the central government, including those necessary for engaging in war for the purpose of defending this country. Moreover, the founders wanted to remove from the states the ability to regulate commerce. This move to pre-empt states was not done in hopes that Congress would gain new regulatory powers for the purpose of economic intervention. Rather, it was one of the few instances in which the founders wanted to stop the states from acting. The power to regulate foreign commerce was given to Congress not so that it would exercise such power, but rather so that the states could not exercise it.

But the power was not entrusted to Congress simply as a means to preempt the states, it was also placed there out of a natural affinity between this power and two other key Article 1, section 8 powers with which Congress was entrusted. Namely, the revenue power and the war making power.

If Congress was to be able to declare war might it not also regulate commerce with a nation with whom we were engaging in armed struggle? It is only natural to suggest that we might, for example, wish to restrict the sale of munitions to a nation with which we were engaged in hostilities. This is another reason why Congress was granted this power, because it was ancillary to the war making power, granted also to Congress, indeed in the very same section of the constitution.

As an aside, I'll note that John Randolph vociferously asserted during the hostilities leading up to the war of 1812, that this power conveyed no right whatsoever to engage in outright embargoes, even in the instance of hostilities. As Randolph pointed out, embargoes amount to a destruction of commerce, not mere regulation. Unfortunately, embargoes have joined international trade agreements and fast track authority as other pillars of our wrongheaded and unconstitutional trade policies.

Would our nation's founders have been so ignorant, so short-sighted to have granted the U.S. federal government the same power to cut off trade as the British had held? To answer that question in the affirmative is to suggest that the people, upon whose consent our government rests, fought a war to wrest a noose from the British King and Parliament only to give that same noose to a Congress and President who were no more than former British subjects residing in North America. Such a claim is thus prima facie absurd. This becomes even more evident in light of the charge in our *Declaration of Independence* accusing the British of "Cutting off our trade with all parts of the World."

Finally, the power to regulate foreign commerce was granted to Congress as an ancillary power to the revenue function. Tariffs have two impacts, one of regulating foreign commerce and a second of raising revenues for the government. Anyone who does not believe our founders recognized these purposes, and their distinct-but-connected nature, need only read John Dickinson's revolutionary era writings, *Letters From A Pennsylvania Farmer*. Indeed, his second *Letter* serves as a great explanation of the difference between revenue tariffs and regulatory tariffs.

The purpose behind placing the war-making and tax-writing powers in the House was based on the founders' understanding that the House would be the body closest to the people. Recall that originally our constitution called for the direct election of the House alone. The House was thus the closest representative of the people, and this is reflected in its title, House of Representatives. For it was understood that the people ultimately delegated all the authority that each of the branches of government received, and thus they alone could rearrange that delegation. The delegation of trade authority to Congress, and Congress alone, was the natural outcome of the delegation to Congress of war-making and tax-writing powers, because trade policy is inextricably linked with these functions.

In fact, the reason Randolph fought against the aforementioned embargo is that he saw clearly, as have many others, that trade hostilities often lead directly to war. Unfortunately, the War of 1812 proved Randolph's vision to be accurate. So, if protectionism was not a goal of the founders, why did they give certain powers to Congress when it comes to tariffs and trade regulation?

THE PROPER PURPOSE OF TARIFFS IN THE UNITED STATES

American colonists had felt the real impact of mercantilist policies enacted by England. In constructing a new republic they were well aware how tariff and regulatory policies stood as pillars of British mercantilism. Our *Declaration of Independence* cites a "cutting off of trade" as a prime reason for breaking away from Britain. Still, our founding fathers constitutionally authorized the placement of a tariff on foreign goods. But again, hearkening back to Dickinson, they understood that the tariff served, in this instance, the purpose of raising revenue, not of intervening in foreign markets or protecting domestic manufacturers from competition.

The American tariff was authorized, not with a blank check but rather for a specific purpose, that purpose being to raise sufficient revenues for the running of a constitutionally limited federal government. The raising of a tariff for protectionist purposes, as in the case of Smoot-Hawley, is a prime example of a policy our founders would have detested. The advocates of protectionism like to portray tariffs as "taxes on foreign goods" but goods do not pay taxes, people do. As the writings of Mr. Dickinson further make evident, the founders realized tariffs are taxes primarily upon consumers rather than producers. Tariffs are a tax on the American people. It was this realization that helped fuel the call for the secession of these colonies from the mother country. By placing tariffs on American consumers, the British Parliament was engaging in taxation without representation.

If we truly understood these principles this House would vote today to unilaterally lower tariffs. In fact, as long as we have any kind of national income, payroll, or sales tax we ought to lower our tariffs to zero. We should undertake this policy because tariffs negatively impact the standard of living of every American. Far from promoting the general welfare, tariffs diminish it.

There is no reason to enact international trade agreements as a means to lower our tariffs. This is a ruse. The reason we engage in these international agreements is "to open up foreign markets," and frankly, there is no constitutional authorization whatsoever for our federal government to open foreign markets. Our government is supposed to set policy for our nation alone. We are not to impact the trade policies of other countries through agreements, but rather by the moral and economic persuasion that would come from showing to the world the benefits of freedom and increased living standards that flow naturally from a lower-tariff/free trade policy.

But we have constructed a regime of trade agreements, and the accompanying policy of subsidies (yet another pillar of our current unconstitutional policy) as a means to "open foreign markets." Big business and special interests prefer this policy because they get the subsidies and preferential treatment in these agreements.

Again, our government has authority and responsibility to unilaterally open our market, it does not have the authority to open other markets.

Similarly, we should consider the impact that these free trade agreements have upon our sovereignty. These agreements have the effect of delegating to foreign trade negotiators a role in shaping U.S. policy. This is the sort of dangerous consequence we end up with when Congress neglects the proper duties the people have delegated to us.

To those who are naive enough to believe that free trade agreements are in fact intended to reduce our tariffs in this country, I can say only that even if this were true we would be faced with the problem of advancing unconstitutional trade agreements as a means to rectify unconstitutional protectionist policies. I recall the admonition of the great advocate of open markets and free trade, Ludwig von Mises, who pointed out that one of the worst problems created by government intervention is the fact that it begets further intervention.

The only proper purpose for a tariff in this Republic is the raising of revenue to fund legitimate government functions. This being the case, it is clear that whatever tariff rates other countries place upon their citizens has no rightful role in determining our tariffs. Tariffs can never then be the proper subject of trade negotiations. We should reduce our tariffs because it is good for our country—the presence or absence of international agreements plays no role in forming this economic axiom.

THE PRESIDENTIAL ROLE

Understanding the proper Presidential role in regulating trade is important to appreciating what our founders set out to do with regard to restricting government powers with regard to international commerce. The first key to understanding what role the President should have in regulating trade is to read that article of the constitution enumerating presidential powers. Searching that article one will find no reference to foreign commerce because the founders intended no role whatsoever for the president in this area. Thus, the President would simply have the power to sign or veto tariff legislation.

Some may suggest that the treaty-making authority is the means by which the president gains a legitimate power to negotiate trade agreements. Even our courts do not recognize this. While international courts recognize no difference between treaties and trade agreements, our own courts have had to recognize that our constitution grants Congress the authority to regulate foreign trade. What our courts have not recognized is the reason the founders placed the trade regulating power with Congress and the treaty authority with the President, is that this had the effect of expressly prohibiting any treaty, or falsely named "agreement," dealing with commerce from ever being enacted. Because treaty and trade regulatory powers were divided among branches of government, a constitutionally limited government would be effectively blocked from engaging in these activities. In short, trade policy was to be crafted unilaterally, in the American interest. American policy relative to the regulation of commerce was not to be the subject of negotiations with foreign governments. The international courts are seldom right, but they recognize that trying to call a treaty an "agreement" is a mere play on words.

Because of the way American courts have ruled, agreements that the founders thought should never be enacted have not only become possible, they have become possible at a lower threshold even than those treaties which were in fact specifically authorized. By calling something an "agreement" the 2/3rds vote required for passing treaties in the Senate has been circumvented.

Obviously, there is then an insurmountable dilemma for those who wish to centralize trade policies in the hands of the President. The argument left to those who advocate a role for the President in the regulation of foreign trade, is that Congress is delegating such authority. This too runs contrary to the principles of a government designed to rest upon the separation of powers. The separation of powers was integral to the founding of our republic because the founders perceived concentration and centralization of power as the single greatest threat to individual liberty. Thus a system of checks and balances was designed to avoid this centralization and its concomitant threat to liberty.

Indeed, in his *Notes on Virginia*, Thomas Jefferson points out that it is a violation of the entire understanding of the system of checks and balances to believe that one branch can ever delegate its authority to another. All authority is in fact expressly granted by the people and it is conditionally granted. This is especially the case in grants to the House of Representatives because of its "closeness" to the people. In the *Notes*, Jefferson states not only that a branch of government does not lose its authority simply by failing to exercise it in every instance, he further points out that if any branch wishes to no longer exercise the granted authority then the authority automatically reverts to the people. Thus, only by way of a constitutional amendment can authority be properly transferred from one branch of government to another.

Alas, with this House having surrendered war-making and tax-writing power to the executive, and with the courts having ratified these surrenders as well as the introduction within the Senate of money bills, it should be no surprise that we stand ready to violate the constitutional principle of the separation of powers with regard to the regulation of foreign commerce as well. In fact, it seems as though we go out of our way to spit on the constitution in this instance. Could not the President negotiate these so-called agreements and bring them to this House for consideration under a closed rule? Would this not get him to the same essential place as the granting of this fast track authority? A closed rule would mean we could not amend the agreement. So, in effect we have a means to consider such an agreement without granting this authority. Why then do we add this dubious unconstitutional fast track authority? Now we get to the real heart of the issue.

We are told that, without fast track authority, no foreign government would negotiate with the President. So the reason we will pass fast track authority is because foreign governments demand it. I have often spoken of our arrogance in telling other countries what to do, but in this instance clearly that arrogance is being reciprocated. Does any foreign government believe our President to be so incompetent that he cannot get a favorable rule passed and a favorable bill reported when his own party is in the majority in both Houses of Congress?

The President has no rightful constitutional role to play when it comes to foreign trade, and this House has no rightful ability to grant him such a role through any means other than constitutional amendment. If foreign leaders do not like the constitution we have adopted, I will certainly not ignore my constitutional oath solely for the convenience of those who run foreign governments. This document was enacted to protect the liberty of individuals in this country, not to advance the convenience of foreign nations or their leaders, or the international corporations benefiting from managed trade agreements.

CONCLUSION

Our current policies are merely an extension of the kind of interventionist policies of the last century or so. They may differ in style, but not in substance. They may differ in type, but not in principle. Smoot-Hawley sought high tariffs and protectionism. It promoted government interventionism and special interest politics. Our current regime promotes fast track authority, international trade agreements, economic embargoes, and trade subsidies. Again, it promotes government interventionism and special interest politics.

I do not wish to go back to the ideas of our founding fathers, I wish to go forward with them. Our current interventionist policy is the product of going backwards. We have reverted to the kind of interventionist policies the British foist upon this land as a colony. The founders broke from that regime because they had the forward-looking view of things.

They understood the benefits of a free economy and open markets. They appreciated how these policies increase the standard of living and thus promote the general welfare. And, they knew all too well the costs of mercantilism. As Russell Kirk has written, had the constitution specifically authorized a 10% tariff it would not likely have been adopted. We must regain the vision of our founders. They constructed for us a republic, but we have not kept it. We have violated it, and we have allowed for centralization in our war-making, trade-regulating and tax-writing policies.

By separating powers, providing checks and balances and carefully delegating powers, our founders left us a limited central government. By separating the treaty and commerce regulating functions and by disallowing the further delegation of authority without the express consent of the people, they gave us a system that would not permit for government interference in the economy, would not allow international trade agreements (or for that matter treaties), and thus would not grant to foreign governments a say in American economic policy. The system they created is as relevant and workable today as ever.

Free trade and free markets are accurately defined as engaging in commercial activities without government intervention. Government intervention is therefore the opposite of free trade. An international trade agreement, or treaty, is the action of two or more governments. Thus, no international trade agreement can truly be called a "free trade agreement," the term itself is oxymoronic. Moreover, in order to engage in these agreements we have had to change our entire system of government. We have had to give the President powers in the area of trade although commerce is not even mentioned at all in article II of the constitution. We have had to call treaties agreements, even though international courts do not recognize this ruse of a distinction. What a tangled web we weave.

Mr. Chairman, in this topsy-turvy world, down is up and up is down. Government intervention is called "free" trade. We call debt "capital," tax hikes are "revenue enhancements," and war is called a "police action." George Orwell knew exactly where we were heading. Though we still have a choice. We have the ability to reclaim our republic. We can return to the vision of our founders because they left us a clear path. As our entire economic house of cards looks more and more shaky, a choice is now before us. I will strongly oppose so-called fast track, or trade negotiating authority because it perpetuates the sophisms of this past century.

I don't know if I'll have success. I expect not. I expect that fast track will pass, new trade agreements will go into effect, codicils about environmental and labor issues will be enacted. If so, power will be further centralized, the crime of our era, the costs to be more fully borne perhaps by future generations. Unfortunately, we have become technologically able enough to push into the future many of the costs of our current interventions. However, as always, the check will come due.

I do not support interventions and I do not support high tariffs. I believe in true free trade and think our constitution, as crafted, provided for that trade. I believe we should cut taxes, restore sound money, end the income tax and restore our government to its constitutionally-limited role. A low revenue tariff could be a small part of funding the few constitutionally enumerated functions this government has, and that is the ultimate solution. Until that time I'd support a zero tariff and oppose all trade barriers, I also call for the end of all trade subsidies and embargoes. I welcome all those who will come to this well in the weeks and months ahead, to spout the rhetoric of free trade, to join with me in this endeavor.

Mr. PAUL. Thank you.

I want to follow up, Mr. Secretary, on Mr. Flake's question, and I would like to be included in the answer that you said you would defer to some others, but let me just make a point about that.

Yesterday's Financial Times talked about the vote on Sudan, and this is the type of information that is out there now in the financial business journals. It says, "U.S. business groups and the Bush Administration are gearing up to try to derail legislation that would for the first time deprive some foreign companies of access to U.S. stock markets if they run afoul of the U.S. foreign policy."

Mr. Buckheed, who they refer to, said the bill was dangerous and would send a big chill through all other foreign investors who potentially want to list in the U.S. That is the type of thing that we would like a clarification on where the Administration stands.

In following up on the discussion about engagement and communication and the danger of isolation, I certainly agree with that enthusiastically. As a matter of fact, I would agree with the gentleman who points out that we should be consistent and follow the same process with Cuba as well because it would be great if Texas could sell some rice to Cuba. There are certainly some immediate benefits for trade with Cuba.

I also would say that if those principles apply to China, which is a rather ruthless nation, and to Cuba, maybe we are going in the wrong way with Sudan, so I would apply this consistently across the board.

I would like to just state my position on trade and see if I could get some comments from you. I am a free trader, but I believe a consistent free trader more so than those who claim they are free traders because I believe that low tariffs are so beneficial that we should just lower our tariffs because it is a benefit to our consumer. It protects the individual right to spend their own money as they see fit; there is a unilateral benefit to free trade, and we do not have to have international agreements.

I do not believe in mercantilism. I do not believe in all this extra stuff they want to put on that has to do with the environment or labor laws. That makes it worse. I oppose the fast track legislation mainly because I do not see that as a proper method whereby we achieve what we want because Congress should do what is right, and that is to lower tariffs. They should just do it.

The authority is in the Congress not in the Presidency. If the President has the authority to do it, it is a treaty. Then the House is not involved. If you say well, we need this authority, we need this permission from the Congress, my answer is we do not have the authority to delegate or transfer power from the House to the Presidency, so I object to that.

I applaud the goals of low tariffs, but I believe we are doing it incorrectly in that I am very jealous of the prerogatives and the authorities of the Congress, and I have a constitutional responsibility to protect that and not to be careless because when Presidents get too much authority what they do under executive orders, as we have just gone through for a period of 8 years where I think executive orders were abusive, I think it is the responsibility of us in the House especially to protect those prerogatives.

Would you care to comment?

Secretary ALDONAS. Sure. Two things. One, I am very mindful of Congress' role in this, and that is one of the reasons why I am very supportive of the notion of Trade Promotion Authority.

It goes back to a comment I made earlier, Congressman Paul, which is that since the President has the constitutional role to represent the country as, as the Supreme Court once said, the sole voice of the nation at the negotiating table and since Congress, on the other hand, has the exclusive power to regulate our foreign commerce, we have to find a way to accommodate each other. That way our trading partners understand that Congress and the President are on the same page when we go to the negotiating table.

Now, I concede that most of the economic benefit goes to the liberalizing nation, but the political logic of how we go about negotiation really is to balance advantages. Can we get market access for the benefit of our exporters by using the leverage of our market?

In that process it is also helpful to have Congress and the President on the same page as to the objectives that we take to the negotiating table, so my focus when I think about trade promotion is really about the negotiating objective.

I understand what you are saying about the prerogatives of the Congress, and certainly having spent the time on the Committee on Finance, I understand the Senate's perspective on what they give up as part of that process, but if you concentrate on building those negotiating objectives it is really developing a common agenda between the Congress and the Executive that allows us to go to the table as the United States.

Mr. PAUL. Let me make one point.

Secretary ALDONAS. Sure.

Mr. PAUL. You either have to ignore my point, or I am wrong. If I am right, you have to ignore it, or I am wrong. I claim that I am right on not being able to delegate this power.

I thank you for your comments.

Secretary ALDONAS. I want to be clear. It is not a delegation of power. The President has the power to negotiate, and he will negotiate. It is a vehicle, though, that allows Congress and the President to agree on the trade objectives that he should take to the negotiating table, and that, I would submit, is very important in terms of accommodating the powers under the Constitution that Congress has and the power of the President in representing our nation at the negotiating table.

I do not think it takes away from the point that you are saying about the structure. When you talk about Trade Promotion Authority it is literally an action by the House with respect to its own rules. It is not a delegation of authority of the President. You are right about that.

Chairman HYDE. The gentleman's time has expired.

The gentlelady from the First District of Virginia? Ms. Davis, you have no questions?

Secretary ALDONAS. Being a Virginian, I was hoping I would at least get one question.

Ms. DAVIS. I apologize, but I had to leave to go to another Committee hearing so I did not hear enough to know what to ask you and what has already been asked.

Secretary ALDONAS. Well, feel free to get in touch with me any time.

Ms. DAVIS. I will.

Chairman HYDE. That completes our first panel.

We have a second panel. The Chair would like to declare a 4-minute recess, and then we will begin with our second panel.

Secretary ALDONAS. Thank you, Mr. Chairman.

Chairman HYDE. I want to thank Ms. Davis for her steadfastness.

[Recess.]

Chairman HYDE. The Committee will come to order.

In January 1997, Mr. Edmund Rice was appointed the Executive Director of the Coalition for Employment Through Exports. In July 1998, he was named President of that organization, comprising 35 major U.S. exporters and banks. Its main issue areas include export promotion, export financing and export controls.

Mr. Rice has had 30 years of experience in Washington in both the Congress and the private sector. He has served on the staff of the Committee on International Relations working on legislation in the areas of export policy and international economic relations. He played a leading role in oversight and legislative activities relating to the Export-Import Bank, the Trade and Development Agency and the International Trade Administration of the Department of Commerce. He has also had extensive experience on the staff of the House Banking Committee and the American Hospital Association, where he managed their Regulatory and Legislative Affairs Division.

Mr. Franklin Vargo is the Vice President of the International Economic Affairs of the National Association of Manufacturers (NAM) and is the Association's chief spokesperson on trade issues. This association has 14,000 member companies, including 10,000 small and medium sized companies.

Prior to joining the NAM, Mr. Vargo had a distinguished career at the Department of Commerce, where he was the senior career official responsible for increasing U.S. access to global markets. He has held a number of key posts in the Department where he was responsible for policy toward Asia, Europe, the WTO and Trade Compliance. He helped to initiate the Transatlantic Business Dialogue focusing on trade policy between the U.S. and the EU, and was the recipient of the President's Distinguished Executive Award.

Mr. Peter Bowe is the President of Ellicott Machine Corporation International. In his 17 years at Ellicott, he has held positions of Treasurer, Vice President and General Manager. He is Chairman of the Small Business Exporters Association, a member of the American Bureau of Shipping and a board member of the World Trade Center Institute.

In 1989, he received the Venture award by the Greater Baltimore Committee, and his company received the Company of the Year Award by the Baltimore Business Journal. He has received the Maryland Award for International Business Leadership. In 1998, he purchased Liquid Waste Technology, a manufacturer of remote controlled dredging equipment for wastewater treatment plants and United Marine International, a manufacturer of marine trash skimming equipment.

I want to thank you for being here. Your contribution will be made a part of the record. If you could summarize as best you can, your full statement will be made a part of the record.

We will start with Mr. Rice.

STATEMENT OF EDMUND B. RICE, PRESIDENT, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. RICE. Mr. Chairman, Congresswoman Davis, I thank you. It was a great honor for me to work for this Committee for a number of years. I have a good job now, but I can tell you that the years I spent here on your staff were among the best of my life, and I will always remember them.

Let me make three very brief points to summarize my testimony. Number one, for American exporters and their workers, this Committee's work on export policy is crucially important, and I would argue that it has a broader scope of impact on real world issues affecting the day to day trade policy than any other Committee in the House and in the Senate.

Trade negotiations may get the headlines, but for our people it is the work of the Commerce Department under your oversight that makes the difference in practical terms. The reasons are that, first, Commerce does almost all of the analytical work and the data gathering to support our trade negotiators. Commerce does the monitoring and enforcement after negotiations are undertaken and completed, and it is the Commerce Department that helps exporters with the day to day obstacles in foreign markets.

This leads to my second point. For exporters, there is a wide gap between the debate here in Washington over trade policy and the reality of competing for sales in overseas markets. Simply put, U.S. companies need the United States Government as a partner.

In the marketplace, U.S. exporters are up against not only their business competitors, but also their governments. There are two annual reports that the Congress gets that underscore this point. First, the report that comes to this Committee each year on country economic and trade policy which underscores the problems, and, secondly, the annual foreign trade barriers report from the USTR. Mind you, this report is getting larger every year even after NAFTA and the WTO. Barriers are being erected to replace normal tariffs with non-tariff barriers.

This is where the Commerce Department plays a key role in four ways. First of all, in market analysis, providing the leads for export opportunities, by the Foreign Commercial Service, and the Trade Development Office. A good example is the Business Information Service of the NIS at Commerce that does a tremendous job in developing trade leads in the newly independent states.

Secondly, in counseling businesses on how to overcome barriers overseas. Third, on advocacy of solving problems in international trade through the Advocacy Center, also using our diplomatic resources in our missions overseas, and then finally in helping to find financing, which is a real choke point not only for small and medium sized businesses, but also for large ones.

My third point is that no U.S. company can win against foreign governments by themselves. Even the largest U.S. companies need our government as an ally, in particular in advocacy. The bigger the deal, the greater foreign government involvement and sometimes interference. Small and medium sized exporters need help across the board with trade leads, counseling, finance and advocacy.

In conclusion, Mr. Chairman, your examination of these programs is very important to our exporters, and one good place to start is with the Trade Promotion Coordinating Committee that has come up earlier today. It is a great tool. The authority originated in this Committee in 1992, and it is welcome news to hear that Under Secretary Aldonas and his colleagues are going to try to reinvigorate it.

I would only urge that this Committee exercise close oversight because, properly used, the TPCC tool under your oversight can be a great benefit in making more efficient use of the limited resources that are available in our government for export promotion and advocacy.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rice follows:]

PREPARED STATEMENT OF EDMUND B. RICE, PRESIDENT, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. Chairman and members of the committee, I am Edmund Rice, President of the Coalition For Employment Through Exports (CEE). The Coalition is comprised of 31 major U.S. exporting companies and banks, as well as two national associations of companies, mostly small businesses, which manufacture machine tools and related equipment. CEE's focus is on legislative and regulatory issues related to export finance, export promotion and export controls.

THE ROLE OF EXPORTS IN THE U.S. ECONOMY

In 2000, U.S. exports of goods and services totaled $1.069 trillion, a 12 percent increase over 1999. This total was comprised of $773 billion in exports of goods, (a

13 percent increase over 1999) and $296 billion in exports of services (a 9 percent increase over 1999).

However this welcome increase in exports still fell short of the $1.4 trillion of goods and services that Americans imported last year, which resulted in a $369 billion deficit in goods/services trade.

After taking account of the deficit in financial flows, the net U.S. deficit on the current account was $435 billion, more than$100 billion worse than in 1999. Clearly, the overall U.S. trade posture continued to deteriorate last year, at an accelerated rate.

The negative impact of the worsening U.S. trade performance was ameliorated only by the fact that trade still accounts for only about a quarter of U.S. GDP.

Clearly, expanding U.S. exports must be a renewed priority, especially as overall economic growth slows. Domestic consumption will not continue to mask the lackluster U.S. performance in world markets for much longer.

THE NEED FOR GOVERNMENT ASSISTANCE FOR EXPORT COMPETITIVENESS

Much of the Washington debate over trade policy and programs is focused on the pros and cons of negotiating multilateral or bilateral trade agreements to move the international trading system towards "free trade" or "open trade". However, for those who work in U.S. companies and financial institutions to actually compete in world markets, the Washington debate over trade agreements misses most of the real action. For U.S. exporters who are "on the ground" in the global marketplace, the scene is one of bitter competition, where every export transaction is fought for among a steadily increasing field of players. U.S. exporters see that their foreign competitors have the active backing of their governments: in promoting their nation's products and services, in identifying and approaching potential customers, in financing transactions and in exercising political influence to win sales.

Our exporters believe there is a vital role for active, robust U.S. government involvement in export promotion, advocacy and finance, just as there is a need for an aggressive U.S. government role in trade negotiations. By the same token, negotiating trade agreements will have only limited payoff for U.S. exporters if there is not the follow-through to help exporters take advantage of the opportunities that agreements open up.

Six years ago, this committee convened an extraordinary hearing to review a classified study by the Commerce Department and other U.S. agencies of the real world of trade competition. Having worked on that hearing, I can say today that the 1995 report is still current and relevant; if anything, the actions by other governments to win export sales has become even more intense. For U.S. exporters, success in world markets depends first and foremost on the quality and price of goods or services. However, for an increasing number of U.S. companies, success in world markets also depends on the effectiveness of our government's role, not just in negotiating trade agreements, but also in monitoring and enforcement of those agreements and day-to-day assistance in export promotion. As our competitors seek every advantage, including through government involvement, so must we.

To compete effectively against foreign companies which have their governments' active backing, U.S. exporters need government help in specific, practical ways:

- reliable information on emerging overseas markets, including foreign laws, regulations and procedures governing business transactions;
- advice on how to accurately assess the legitimacy and creditworthiness of foreign customers, particularly in countries with weak or non-existent commercial codes or other recourse and where criminal elements are pervasive;
- financing when commercial financing is not available, or where foreign governments offer financing and other sweeteners to steer a transaction to their companies; and
- diplomatic advocacy when foreign governments intervene in a transaction.

Specific needs depend on the resources and experience of the individual U.S. exporter and market conditions. Large U.S. exporters have less need for market information, but a greater need for advocacy, because larger transactions often attract foreign government intervention. Moreover, large, high-profile transactions sometimes result in complications later on as foreign customers and their governments seek to renege on commitments. The bigger the deal, the more governments interject themselves.

Smaller-sized U.S. exporters more often need help in assessing overseas markets and customers, particularly in emerging markets. They need help in threading through the red tape in foreign countries. Simply put, small- and medium-sized exporters can have difficulty in determining whether a potential customer is the one they should do business with. In addition, many foreign countries' import rules and customs procedures are opaque or variable. Many countries' commercial codes are either inconsistent, unreliable or non-existent, leaving the U.S. exporter without reliable recourse in the event of problems.

Increasingly, U.S. exporters need help in obtaining financing for their export opportunities. Just two days ago, the Export-Import Bank held a seminar on developments in commercial trade finance. The presentations from a variety of commercial bankers was that private sector trade finance in emerging markets is becoming less available, even for the largest U.S. companies. For small- and medium-sized companies, trade finance is fast becoming a real problem, even when they have a solid deal with a creditworthy buyer. Commercial banks are becoming less interested in offering trade finance, just at the time when the U.S. is renewing its push for market-opening agreements.

Moreover, the U.S. is already far behind some of our major trade competitors in government-provided trade finance. In 1998, the most recent publicly-available data, government export credit programs provided nearly $500 billion, financing about 8 percent of world trade that year. By contrast, the U.S. Export-Import Bank provided less than $14 billion of that half-trillion in finance. Japan, France, Korea, Germany, Canada and the Netherlands all provided more export credits to their exporters than did the U.S. government. A forthcoming study by a former Ex-Im Bank official will make the case that government export credit agencies are now approaching $1 trillion in export credit.

EXPORT PROMOTION PROGRAMS: THE NEED FOR COORDINATION

There have been long-standing Congressional concerns over the proliferation of federal export promotion programs and the growing duplication of effort. These concerns are well-founded. The 2000 National Export Strategy report by the Commerce Department shows that 19 federal agencies are now involved in export promotion, an increase over three years ago. Yet overall federal resources for export promotion have steadily declined for nearly a decade.

Since these programs are all authorized, either explicitly by statute or implicitly by annual appropriations, it has proved difficult to focus Congressional attention on the number of federal agencies now engaged in export-related activities, much less to achieve any real coordination. Indeed, many such programs have specific, direct Congressional mandates.

However, in today's highly-charged global competition for export markets—and the growing need by U.S. exporters for assistance, it more important than ever that these government funds be used in the most effective manner possible.

One goal must be to better coordinate these programs across the government, both programmatically and budgetary. In 1992, Congress established the Trade Promotion Coordinating Committee, chaired by the Secretary of Commerce, with a mandate to review federal export programs, fill gaps, resolve duplications and harmonize budgets. For U.S. exporters, the fulfillment of the TPCC mandate has become even more important than in 1992, because the competitiveness of U.S. companies increasingly depends on vigorous, well-coordinated and efficient export programs. With budgetary resources scarce, the most efficient allocation of funds must be a renewed priority.

Questions of duplication appear most relevant in the areas of exporter counseling, market development and advocacy, all functions which are primarily assigned to the Commerce Department, but which have proliferated among other departments and agencies. This is one area where Congressional oversight is warranted.

The TPCC mandate should be reviewed, with a view to strengthening its role beyond that set forth in the 1992 legislation. If better coordination and more efficient budgeting are to be achieved, the Secretary of Commerce must be empowered to use the TPCC as his primary tool.

ONE BENEFIT OF COORDINATION: THE U.S. EXPORT ASSISTANCE CENTERS

Some coordination has been achieved. A good example is the U.S. Export Assistance Centers network, which is being established under TPCC leadership, with strong Congressional support. The idea is to bring several export programs to one consolidated location, with cross-training, so that an exporter can make one office visit and gain access to market data, financing help and advocacy., in short "one stop shopping". Managers of the network report that co-location is promoting teamwork and professional development. The reports from exporters are very positive.

CONCLUSION: EXPORTERS NEED THE U.S. GOVERNMENT

In today's world, trade is a fierce competition. Every sale is fought for by an ever-larger cast of companies. Governments play an increasing role. U.S.companies need the U.S. government as a partner in translating multilateral trade agreements into tangible benefits for American workers and the U.S. economy. As budgetary constraints become more severe, the need for coordination is increasing. This committee's interest and involvement in this effort is welcomed by U.S. exporters. We stand ready to assist in that effort.

Chairman HYDE. Thank you, Mr. Rice.

Mr. Vargo?

STATEMENT OF FRANKLIN J. VARGO, VICE PRESIDENT FOR INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. VARGO. Mr. Chairman, Congresswoman Davis, I am very pleased to appear before this Committee on behalf of the National Association of Manufacturers, and I am particularly pleased to be here in view of my previous career at the Commerce Department and all my earlier appearances before this Committee that were as an official of the International Trade Administration.

America's manufacturing industry, I want to point out, Mr. Chairman, exports one-sixth of its production. For many industries, the ratio is much higher. Over half of our aircraft production is exported, close to half of all of our gas turbine production. We are very dependent upon exports. Manufacturing is by far the most important part of U.S. trade. In fact, manufactured goods account for 90 percent of all our exports. Agriculture accounts for 7 percent.

Now, an interesting thing here is that the U.S. Government's export promotion budget is split pretty evenly, about half to agriculture, half to manufacturing, even though manufacturing has 90 percent of the exports. I am not saying that we ought to take from agriculture because they need that funding, but I do want to point out that the Commerce Department, relative to the size of its job, really does not get that much funding.

We count on ITA for trade policy, trade negotiations, trade compliance, export promotion, information and a lot of industry support. We are very heavy users of ITA. Overall, given the resources they have, we are quite satisfied with what they are able to do.

We are particularly pleased with the President's trade agenda and Commerce's support of that. I want to point out, Mr. Chairman, that America is a very open market. Our tariffs average less than 2 percent. You know, that is not really a trade barrier. That is a speed bump. Our manufacturers in many markets face duties of 20 percent, 30 percent or more. That is why we need more trade agreements. We cannot get them. Other countries will not conclude them without Trade Promotion Authority.

Now, as one measure of what this means to us, today American exports to South America are $60 billion a year. NAM has done its estimates and looked at the tariffs and what would happen with their removal, and we believe that that $60 billion would triple to $200 billion, more than triple to $200 billion, within the decade if we can get the Free Trade Area of the Americas.

Chile. We do not have a free trade agreement with Chile. Canada does. Mexico does. Argentina does. Brazil does. That is costing us, Mr. Chairman, $800 million a year in lost exports in paper exports, machinery exports. That is $2.25 million a day. Today we are going to lose $2.25 million just because we do not have a free trade agreement with Chile. We have to have Trade Promotion Authority, and Congress has got to find a way to get together and pass it. American manufacturing absolutely has to have it.

Now, ITA is very important in trade compliance, and we are pleased that they are putting more effort into China trade compliance. We are going to need that badly. Overall, the compliance budget is still not where we would like to have it.

Trade promotion services are very good. I do note that a lot of companies, though, just do not use them. They do not know about them. NAM has to do a better job in letting our members know these services exist. Commerce needs to promote its own services better than it does.

Mr. Chairman, there is one very important area, perhaps the most important area, that we get no help from ITA or the Commerce Department at all, and that is in the matter of exchange rates. The dollar has soared almost 30 percent in recent years, and that is exactly like putting an additional 30 percent tariff on our duties and cutting foreign prices in this market 30 percent. It is hurting our exports. It is really cutting into them.

I get lots of calls, lots of letters from small companies, large companies, saying we cannot sell in Europe anymore. Our customers are telling us you have to cut your prices 30 percent. They just cannot do it, so they drop out of the market.

Now, the Treasury Department is required to report twice a year on exchange rates, and it does. It takes a macro economic approach, but nobody is providing us, the Congress or the public with reports on just what is the effect that exchange rates are having on manufactured goods trade.

Now, requiring these reports would be the single, most important step in our view that this Committee could do. We are not asking for a particular policy on exchange rates. We are saying that the trade experts in the Commerce Department need to tell this Committee, need to tell the American public, exactly what is happening to our exports and imports because of changes in the value of the dollar. In our view, and we can see it from our members, there is no question that this is the largest single factor affecting our trade, and the Commerce Department has to have a role in it.

We are asking, Mr. Chairman, that this Committee require the ITA to begin analyzing and reporting semiannually on the effect that exchange rate changes would have on manufactured goods trade, and we look forward to exploring this issue further with you, Mr. Chairman, and other Members of the Committee.

Thank you.

[The prepared statement of Mr. Vargo follows:]

PREPARED STATEMENT OF FRANKLIN J. VARGO, VICE PRESIDENT FOR INTERNATIONAL ECONOMIC AFFAIRS, NATIONAL A supports 56 million Americans—the 18 million American men and women who make things in America—and their families.

I am also pleased to appear before the committee in view of my previous 30+plus year career in the Commerce Department's International Trade Administration. I served in eight administrations under 18 secretaries of Commerce. I was the first career deputy assistant secretary in the International Trade Administration, and over the years held a wide variety of responsibilities, including market access, European trade policy, Asian trade policy, WTO affairs, trade compliance, export promotion and international economic research

TRADE: VITALLY IMPORTANT TO U.S. MANUFACTURING

It is necessary to understand that trade is of great importance to American manufacturing firms and their workers. The fact that manufacturing comprises the vast bulk of our foreign trade demonstrates this importance. Last year, $690 billion of U.S. manufactured goods were exported, 88 percent of total U.S. merchandise exports. Let me stress that figure: almost *nine-out-of-every-ten dollars of U.S. merchandise exports are manufactured goods*!

The $52 billion of agricultural goods exported last year accounted for 7 percent of U.S. merchandise exports, and mining and all other industries accounted for the remaining 5 percent. Similarly, manufactured goods dominate our imports, where last year they accounted for 83 percent of the total.

About one-sixth of our total manufacturing output is exported, and for many important industries the ratio is much higher. For example, exports account for 54 percent of U.S. aircraft production, 49 percent of machine tools, 46 percent of turbine and generator output, 45 percent of printing machinery and the list goes on.

Trade is also of major benefit to America's factory workers. The more open industries are to trade, the more workers are paid. In 1999, worker compensation in America's most trade-engaged industries averaged $60,000. That is almost 40 percent more than the $44,000 annual compensation in industries least open to trade. As economies become more internationally engaged, they focus increasingly on what they have a comparative advantage in producing. In the case of the United States, our comparative advantage lies in the skill of our workers and the technologies they use to build the world's most sophisticated products more efficiently than anyone else. This is why the fastest growing sectors within manufacturing have been in industries that are highly capital intensive and compensate workers with a premium wage.

THE IMPORTANCE OF THE INTERNATIONAL TRADE ADMINISTRATION

As the NAM looks at government policies and programs to advance the ability of American industry to utilize its competitive abilities in the world, the Commerce Department, and notably the International Trade Administration (ITA), is important across the board, in terms of:

- Trade Policy and Trade Negotiations
- Trade Compliance
- Export Promotion and Information
- Industry Support

The NAM and its member companies are heavy users of ITA services. I would like to state at the outset that NAM is quite satisfied with ITA and its services overall. We have a few suggestions, but I want to stress how important ITA is to us. Our members—both large and small—give it very high marks. ITA is important to all our members, both large and small. Of the NAM's 14,000 members, 10,000 are small and medium-sized companies.

Since about 90 percent of all U.S. merchandise exports are manufactured goods, the commerce department has a big responsibility in the trade area. Yet, less than 50 percent of the U.S. government's export promotion expenses go to support manufacturing exports. More than 50 percent support agricultural exports. I do not in any way meant to detract from the need that American farmers have for export promotion support. It is very difficult for American farmers to compete against enormous foreign government support and subsidies. I just want to put into perspective that while the Commerce Department does a lot, it is with has comparatively few resources.

This is true as well from the perspective of foreign government export promotion and assistance entities. When companies entities in countries such as Japan, France, Canada, and others, the Commerce Department ranks near the bottom in terms of resources relative to export promotion. I am cognizant that this is not the appropriations committee. I just want the committee to understand that ITA does a lot with the resources it has.

THE ADMINISTRATION'S TRADE AGENDA AND ITA'S ROLE

I would like first to look at the Administration's trade policy and how the NAM sees ITA's role. A growing problem for American manufacturers is that the global playing field is not level. Many other countries are simply not as open to our trade as we are to theirs.

America is very open to industrial imports. The average bound U.S. tariff on industrial goods is just 3.9 percent and the actual duties charged, considering such factors as the Generalized System of Preferences (GSP) and various other preferential trade arrangements average even less—only 1.6 percent. Forty percent of our industrial tariff line items are bound at zero. Another 40 percent are bound at less than 5 percent. Thus 80 percent of all U.S. duties on industrial goods are bound at 5 percent or less.

Bound duties are relatively low in other industrial countries, where they average 6.5 percent. But in the developing world, which accounts for nearly half of our trade, duties remain high. The average bound tariff rate for South America, for example, is 35 percent. In Southeast Asia the average is 28 percent. India holds the trophy, with bound tariffs that average 59 percent! These bound rates are important, for while many developing countries actually assess duties that are considerably less than their tariff bindings, they can snap them back up to their bound WTO levels at any time. Additionally, bound rates have been the basis for WTO tariff negotiations.

The disparity is becoming getting more serious as other countries negotiate free trade agreements. Of more than 130 free trade agreements in the world, the United States is a party to only two. The cost is a high as Europe, Mexico, and others—including Japan—cut their own trade deals and freeze out U.S. firms. Consider Chile. Since 1997, when Chile entered into a free trade agreement with Canada and a preferential trade agreement with Mercosur (Argentina, Brazil, Paraguay and Uruguay), American exports have been nosed out of the Chilean market.

So far this year, our share loss in Chile is running at an annual rate of more than $800 million dollars of trade. We are losing real business while others are gaining—simply because we don't have a free trade agreement with Chile and are paying higher duties.

That is why the NAM has been pressing hard for a trade agenda of bilateral, regional and multilateral trade agreements. Every day we sit behind our miniscule tariffs and allow other nations to protect their industries with duty rates that frequently are 20–30 percent or even more is another day that American industry and American workers lose out.

The NAM is pleased with this Administration's trade policy of opening up foreign markets. We strongly support the goal of obtaining Trade Promotion Authority and negotiating serious agreements in the World Trade Organization (WTO), the Free Trade Area of the Americas (FTAA), and bilateral free trade agreements with Chile and Singapore. The NAM believe that bilateral agreements can spur faster progress in the FTAA and the WTO, and hope the Administration will embark on even more—particularly in the Pacific Asia region with countries such as Australia, New Zealand and the Southeast Asian nations.

The stakes are high. We forecast that a successful FTAA agreement will more than triple today's $60 billion of U.S. exports to Central and South America to $200 billion within the decade. That is why we urge Congress to act on providing Trade Promotion Authority to the President as soon as possible this year. We cannot wait. We cannot risk another failure to launch a new WTO round this year. We cannot risk delaying the start of actual FTAA negotiations. And we must not delay concluding the Chile and Singapore agreements this year.

Every day counts, literally. As I stated earlier, the absence of a free trade agreement with Chile will cost us more than $800 million in lost exports this year. Mr. Chairman, that means yesterday we lost $2.25 million in exports to Chile. We are losing another $2.25 million today, and we will lose another $2.25 million tomorrow, and each day until we get a free trade agreement.

The Commerce Department's International Trade Administration has an important role to play in obtaining these agreements. Here it is difficult to separate ITA from the role of the Secretary of Commerce, who plays such an important role in explaining to Congress why we need TPA quickly. This requires a lot of detailed work.

ITA also needs to work diligently in the interagency process to emphasize the importance of other countries' industrial trade barriers and ensure they rank among the most important negotiating objectives as U.S. priorities are set. American manufacturing needs someone in the interagency process that understands the competitive needs of U.S. industry—and that is ITA. Additionally, ITA needs to provide the detailed analytical and negotiating support for the actual negotiations. Line-by-line tariff negotiations, non-tariff barrier discussions, and other aspects of the nitty-gritty negotiations require adequate staffing and attention by individuals who understand industry. That is why ITA must be at the center of the negotiating process.

TRADE COMPLIANCE

ITA also plays a unique role in trade compliance, both in terms of enforcing U.S. laws against unfair trade and in obtaining compliance with trade agreements negotiated by the United States.

As I understand that ITA's Import Administration, which enforces U.S. antidumping and countervailing duty laws, is outside the jurisdiction of this committee, I shall concentrate my comments on the ITA's role in obtaining foreign compliance with trade agreements.

There is little benefit in negotiating measures addressing trade barriers without ensuring that the agreements are honored and that American firms and workers obtain the benefits and opportunities intended. Getting what we bargained for is good for American business and American workers. It is also one of the best ways to help create confidence among business, labor and the general public that trade agreements actually work by creating new business and employment opportunities.

The compliance function is centered in ITA's Market Access and Compliance unit (MAC), but depends upon close coordination with industry experts in ITA's Trade Development area (TD), the overseas officers in the U.S. Commercial Service (CS). The Trade Compliance Center (TCC) has been established to provide a coordination point and clearinghouse for information. Effective trade compliance also requires cooperation with other parts of the department, such as the Patent and Trademark office (for intellectual property protection) and the National Institute of Standards and Technology (for standards issues). Additionally, the cooperation with the U.S. Trade Representative's office (USTR) is absolutely vital.

Compliance is a time-consuming process: It requires effort to monitor trade agreements to ascertain where they are not being implemented fully, to determine where companies are having problems, to examine specific cases and to consult with other governments to try to bring about compliance. Though labor-intensive, the process is essential, which is why the NAM has advocated an increased budget for this work.

In the NAM's view, Commerce and USTR have established a workable mechanism in which ITA is responsible for seeking voluntary action by foreign governments to come into compliance, and USTR is responsible for initiating enforcement action through the WTO, NAFTA or other trade agreements. The mechanisms are there—and they work. Both government and industry, though, need to do more to ensure that smaller companies across the nations are aware of the compliance support they can receive.

The upcoming entry of China into the W T O will likely result in a large increase in compliance cases. The NAM worked hard to support Permanent Normal Trade Relations (PNTR) with China, and we want genuine commitments, not just commitments on paper. We need to have actual and effective market access to China. The NAM plans to initiate a China Compliance Monitoring program for our 14,000 members, raising awareness of China's obligations, and providing a vehicle for our members to raise compliance complaints to Commerce and USTR without necessarily revealing their identities.

Our 14,000 eyes and ears will provide monitoring that is difficult for government officials and we will call attention to the problems we uncover. But this is pointless unless ITA and USTR have resources to follow through with the government-to-government work of investigating and resolving complaints.

That is why the NAM pressed for added compliance resources ITA. Both the Administration and the Congress concurred, and we pleased to see that initial staffing for China compliance efforts now appears adequate.

TRADE PROMOTION AND INFORMATION

Let me turn now to ITA's trade promotion and information services. These services, providing direct assistance to individual companies seeking to enter world markets or expanding to more markets, are extremely important to our members—particularly small and medium-sized firms.

ITA's trade promotion and information services enable U.S. manufacturers to more easily find new markets and new customers. Smaller companies, for the most part, simply do not have the time or resources to figure out where they can sell or how to find new customers in more countries. ITA's services provide an affordable answer, enabling companies to obtain market research, identify prospective customers or distributors, and meet prospective partners face-to-face.

ITA's Foreign Commercial Service offices in markets around the world are extremely valuable, and many of our members work with the commercial officers so frequently that they are on a first-name basis. Our members hold the commercial service officers in high regard and count on them for assistance and information.

The NAM has in the past, and will in the future, work jointly with ITA in planning trade missions and other special trade promotions. We publicize ITA events and refer our members to the Commerce Department when they raise export marketing questions.

ITA's Trade Information Center, the TIC, deserves particular mention for the amount of detailed information—including tariff and trade regulation information—it has collected in one place and the increasing ease with which that information may be accessed.

Commerce Department offices around the country and the export assistance centers are another important service. They bring ITA's services directly to companies and work in manufacturing centers to help increase knowledge of exporting and to provide a more direct means of obtaining ITA export services.

I must say, though, that I am struck by the number of NAM companies that are not aware of ITA's services and have never used them. Those that have are big fans and tend to be repeat users. But despite Commerce's offices around the country, the word of these services is still not getting publicized as it should. The NAM will increase the amount of publicity we provide no ITA services, and we will work with ITA in this regard. It may be useful, however, for ITA to be able to advertise its services and promote more knowledge of just what is available and how it can help companies.

INDUSTRY PROGRAMS

Finally, I would like to discuss ITA's industry programs. These are centered in ITA's Trade Development (TD) unit. The TD provides a unique combination of industry sector expertise, trade advocacy, and trade data—all of which are important to NAM members.

The TD's industry offices and industry experts are particularly important to the many industry-specific trade associations—including the American Furniture Manufacturers Association, the Motor Equipment Manufacturers Association and hundreds more. ITA's industry experts are the in-government contacts for these associations. Through the industry officers, trade associations have a means of two-way communication to provide input to tariff and non-tariff barrier objectives for trade negotiations, for example, and to receive information about policy and market developments around the world that affect particular industries.

ITA's industry experts get high marks from our members, who comment that these officials have good relationships with industry associations and are very responsive to the issues raised by trade associations. Here is a typical comment from one of our member associations: "It is particularly helpful to have career staff with expertise in particular product categories . . . This avoids what could be a lengthy process of educating someone about the nuances of our industry and why particular trade policies might disadvantage us."

The only concerns raised by our members relate to resources. Firms and associations want to see the industry offices adequately staffed. One firm told me, for instance, it is deeply concerned about a steady loss of experienced industry officers as new initiatives of the Department of Commerce are staffed up, and that this has severely reduced the TD's analytical capacity. "This is particularly unfortunate," an executive of the firm told me, "as such analysis will be critical to the success of this country in the new round of WTO negotiations. We strongly urge the addition of new industry analysts at the earliest opportunity so that they may assist the trade negotiating teams in setting USG priorities and in evaluating the offers of other countries."

Our members, additionally, speak highly of the Advocacy Center—an organization that marshals U.S. government advocacy and support of U.S. firms bidding for major contracts overseas. Support from the TD's Advocacy Center often is a critical success factor in winning bids overseas. This organization has a strong staff that must continue to be maintained at an effective level. The Advocacy Center plays an important coordinating role in securing inter-agency support.

EXCHANGE RATES

I would like to note one area of extreme importance to U.S. trade where ITA has no role, but should: assessing the effect of exchange rates on U.S. manufactured goods exports and imports. Shifts in the value of the dollar can—and are—influencing U.S. manufactured goods trade and the U.S. manufacturing industry more than tariffs or other trade barriers. Since 1997 the dollar has appreciated nearly 30 percent on a trade-weighted basis. That is just like assessing a new 30 percent duty on U.S. exports. No amount of productivity increase can offset that kind of markup in a short period of time.

At current exchange rates, as NAM President Jerry Jasinowski and the heads of trade associations representing the big three auto makers, the forest and paper industry, the aerospace industry, the machine tool industry, and the auto parts industry, told Treasury Secretary O'Neill earlier this month—the value of the dollar is having a strong negative impact on manufacturing exports, production, and employment. A growing number of American factory workers are now being laid off principally because the dollar is pricing our products out of markets—both at home and abroad. Small firms as well as large ones are being affected.

The result is staggering. Exports of U.S. manufactured goods have been stagnant or falling for a half year now. Imports of manufactured goods have been artificially boosted. And as the foreign currency profits of U.S. overseas affiliates are converted into dollars, they are marked down so substantially that they have affected U.S. equity values.

Exchange rate shifts can swamp all other factors affecting trade, and in the NAM's view this is just too important for the Commerce Department to ignore. This is not the first time that dollar swings have affected U.S. manufacturing. The enormous appreciation of the dollar in the 1980s still stands out for its devastating effect on our trade.

Section 3005 of the Omnibus Trade and Competitiveness Act of 1988 requires the Secretary of the Treasury, after consultation with the Chairman of the Federal Reserve Board, to provide the Congress with periodic reports on exchange rates and economic policies, including the effect of exchange rates on production, employment and growth in the United States. The NAM notes that the legislation does not require the Secretary of the Treasury to consult with the Secretary of Commerce, and that no analytic role whatsoever is provided for the Commerce Department.

After examining the recent reports produced by the Treasury under Section 3005, the NAM is disappointed to see no mention of the adverse effect the appreciation of the dollar has had on trade in U.S. manufactured goods. The Treasury's report attributed the entire increase in the U.S. trade deficit to faster economic growth in the United States than abroad, and to increased oil prices. While the Treasury report is a very competent examination of macro-economic developments and appears to comply with the requirements of Section 3005, the NAM believes it is important that the relationship between exchange rate changes and manufactured goods trade should be examined separately and explicitly.

Accordingly, the NAM believes it would be beneficial if the Commerce Department's International Trade Administration were required by Congress to begin preparing semi-annual reports directly analyzing the effect of exchange rates on U.S. manufacturing imports, exports, production and employment. ITA's industry experts and trade economists are well suited to perform this kind of analysis.

These reports should be made available to the public and would, we believe, be quite valuable in providing full information to U.S. policy-makers so that they, Congress and the American public would be more fully aware of the consequences of various policy decisions.

CONCLUSION

To sum up, Mr. Chairman, the NAM and its members work closely with all parts of ITA, find its policy and program efforts to be extremely important, and want to see it well funded. We give it high marks, suggesting only more work on publicizing its services to businesses and initiating semi-annual reports on the effect of exchange rates on U.S. manufacturing trade.

Thank you, Mr. Chairman, for providing the NAM with this opportunity to present our views on trade policy and the International Trade Administration. We look forward to a continuing dialogue with the committee.

Chairman HYDE. Thank you, Mr. Vargo. We will take that very carefully under advisement.

Mr. Bowe?

STATEMENT OF PETER BOWE, PRESIDENT, ELLICOTT MACHINE CORPORATION INTERNATIONAL

Mr. BOWE. Mr. Chairman, Congresswoman Davis, thank you for the opportunity to offer testimony on behalf of the Commerce Department's activities promoting exports.

My name is Peter Bowe. I am speaking on behalf of Ellicott International, a Baltimore based dredge manufacturer, and the Small Business Exporters Association (SBEA), of which I am Chairman. The SBEA is now in the process of affiliating with the National Small Business United, which has over 50,000 small business members in the country.

Ellicott has been exporting dredges ever since we built all the dredges used in the original construction of the Panama Canal. Even though we have less than 100 employees, we depend on exports. They are over half of our sales.

I thought it would be interesting to show you the services of the Commerce Department in promoting exports by allowing me to put your Committee in my shoes running a small business exporter. Imagine that your international sales manager comes to you and says there is a great opportunity for a dredge sale in Southeast Asia where the buyer is the Ministry of Transportation. However, the elation of this good news is tempered by the sales manager's further comments on what your competition is doing.

A German competitor, which built battleships for the German Navy in World War II, has been able to get the German prime minister personally to intervene. Not only has he written a letter to the prime minister of the foreign country, which is your customer, but he has actually brought up the subject in face to face meetings as an agenda item.

The Dutch competitor has also managed to get his prime minister involved with letters. Not only that. The Dutch Queen has led a trade mission to the country and included the CEO of your foreign competitor on that trade mission. You know that your foreign customer likes being entertained royally, literally in this case.

If you are lucky, your sales manager will tell you that there is no foreign financing being offered such as soft loans, which we are unable to respond to. The competition is based just on quality and price and whatever government leverage you can bring to bear.

Running a small company, you think to yourself that is no problem. I will just call President Bush and ask him to respond the same way. Well, I do not think it is going to work that way. We understand that President Bush or any other President has more important items on his agenda, and promoting a specific commercial transaction is not likely to be one of them, especially for a small business.

However, everyone on this Committee needs to appreciate that while being the world's policeman or promoting PAX Americana may be a great use and the best use of American foreign diplomacy, for our European and Japanese competitors promoting their commercial interests has a much higher priority, and they push it hard.

The preceding anecdote was actually a composite of real life situations we have faced in China, Thailand, Indonesia, Vietnam, Egypt and South America. But there is actually someone we would call, even if it is not President Bush. What we would do is make three phone calls, all to different parts of the Commerce Department.

First we would call the local Foreign Commercial Service officer in the embassy in the country to apprise them of the facts. We would call the Commerce Department contact at our local U.S. Export Assistance Center in Baltimore. We are fortunate to have an office nearby, and we note that these centers were established by the 1992 Export Enhancement Act promoted by our own Senator Sarbanes.

Thirdly, we would call the Advocacy Center of the Commerce Department in Washington. The Advocacy Center deals with situations like these where foreign leaders are trying to tip the scales for suppliers and their countries. The Commerce Department's Advocacy Center recognizes that trade has many aspects similar to war. It is a competition with foreign entities. It is a win/lose game, and every resource must be brought to bear to increase the chances of a positive outcome. Thus, while our German competitor no longer builds battleships, we are still fighting a war with exports.

The three entities of the Commerce Department work together well to develop the most useful support, whatever that might be. Often this support is something as simple as a letter from an appropriate U.S. Government official to the buying entity in the foreign government supporting the American exporter's bid. These letters provide credibility and visibility to the American supplier. In many cases there is no direct expense to the U.S. Government other than the time and energy of the Commerce Department people involved.

The results can be outstanding. To mention just one case, in 1995, Ellicott won a $12 million order from the Vietnamese Ministry of Transport, which was possible only because of the coordinated advocacy it received from the State Department, the Transportation Department and the Commerce Department all put together by the Commerce Department.

The Vietnamese took notice of this advocacy that we received, and we were able to defeat competing Dutch and German bids. I have attached an article from the Far Eastern Economic Review highlighting the details of how that process worked in the Vietnamese case. We can point to other successes in other countries on a similar basis.

Commerce has other programs which systematically promote U.S. exports. The Gold Key program is a for-fee service to assist American exporters in locating dealers and agents. One of our Small Business Exporters Association directors has pointed to excellent results from this service and the dealer service for Midmark Medical of Ohio. They used the Commerce service in 40 countries and said this shortened the process in finding a dealer from four to five trips in-country to one to two. As a result, their export sales grew from $100,000 a year to $12 million in a 12 year period.

The Commerce Department also acts as an advocate with various multilateral lending agencies, such as the World Bank and Asian Development Bank, which are funding export opportunities. These institutions finance projects which can be daunting to small businesses because of the many details and parameters. The Commerce

Department officials, which are seconded to these banks full time, look after our interests.

Finally, the Commerce Department provides information which is valuable to exporters and potential exporters as mentioned by my other panel members today. It takes many forms. It can be a specific e-mail notification, a country report or an industry study. These provide assistance both to the experienced exporter trying to expand further and inexperienced exporters just considering getting into the market.

The U.S. has had an alarming trade deficit in recent years, made worse by the strong dollar. Our exporters need every tool they can get, including the ones offered by the Commerce Department. Congress can help the ITA do more to encourage exports and address the stiff competition we face from other countries by strengthening and funding their personnel levels, especially within the Foreign Commercial Service.

To comment on some other things I have heard today, I think it will be difficult to improve the level of service in a people intensive service like the Foreign Commercial Service while cutting the budget.

I applaud the idea of benchmarking, but it is relevant to ask what will the benchmarking be compared to? I would suggest that the relevant standard would be the activities of our foreign competitors, the Germans, the Japanese, the French. What are they doing? That is the relevant standard.

Finally, the TPCC does need reinvigoration. That is going to take work, and it is going to take consensus among the various U.S. Government agencies on who should take the lead. It is a good idea.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Bowe follows:]

PREPARED STATEMENT OF PETER BOWE, PRESIDENT, ELLICOTT MACHINE CORPORATION INTERNATIONAL

Thank you for the opportunity to offer testimony on behalf of the Commerce Department's activities promoting American exporters.

My name is Peter Bowe, and I am speaking on behalf of Ellicott International, a Baltimore-based dredge manufacturer of which I am President, and the Small Business Exporters Association, of which I am Chairman. The Small Business Exporters Association is now in the process of affiliating with the National Small Business United (NSBU).

Ellicott has been exporting dredges since it sold all of the dredging equipment used in the original construction of the Panama Canal. We are the oldest and larg-

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tion. You know that the foreign customer likes being entertained royally—literally in this case.

If you are lucky, your sales manager will report to you that these European competitors are not offering special financing, or soft loans, and that the competition is just based on quality and price, and whatever government-to-government leverage can be brought to bear.

So, running this small American company with 100 employees you think to yourself, no problem, I'll just call President Bush and ask him to respond in kind.

Seriously, we understand that President Bush, or any other American president, has more important things on his agenda than promoting the commercial aspects of specific companies or specific transactions, especially for small companies. However, everyone on this committee needs to appreciate that, while being the world's policeman or promoting the PAX Americana is the best use of American foreign diplomacy, for our European and Japanese competitors promoting their commercial interests overseas has a much higher priority relatively speaking, and they do push it hard.

The preceding anecdote was actually a composite of specific competitive factors we have faced in China, Thailand, Indonesian, Vietnam, and elsewhere.

There actually is someone we can call, even if it's not President Bush. An executive in my position would actually make three phone calls to coordinate a competitive response.

First, one calls the Foreign Commercial Service Officer at the U.S. Embassy in the buying country. Second, one would call the Commerce Department contact at the local U.S. Export Assistance Center. Ellicott is fortunate to have such an office located within eyesight in Baltimore; these centers were established by the 1992 Export Assistance Act sponsored by Maryland's own Senator Sarbanes. Thirdly, one would call the Advocacy Center of the Commerce Department in Washington. The Advocacy Center deals with situations like these where top foreign leaders are trying to tip the scales for companies from their countries. The Center set up a "war room" recognizing that trade has many aspects similar to war: that it's a competition with foreign entities, that it is a win/lose game, and that every resource must be brought to bear to increase the chances of a positive outcome. Thus, while our German competitor no longer builds battle ships, we are still fighting a war of exports.

These three entities of the Commerce Department work together as a team to develop the most useful support on behalf of the U.S. exporter. Often this support is something as simple as a letter from the appropriate U.S. Government official to the foreign buyer promoting the American exporter's bid. Such letters provide credibility and visibility to the American exporter's proposal. In many cases there is no direct expense to the U.S. Government other than the time and energy of the Commerce Department people involved. The results can be outstanding.

In 1995 Ellicott won a $12 million order from the Vietnamese Ministry of Transport which was possible only because of the coordinated advocacy support we received from the State Department, the Transportation Department, and the Commerce Department, all organized by the Commerce Department. As these negotiations occurred shortly after the lifting of the embargo and prior to the opening of Eximbank to Vietnam, there was no U.S. government financial support for this contract of any kind. The Vietnamese took notice of the advocacy support Ellicott received, and we were able to defeat competing Dutch and German bids. I have attached an article from *Far Eastern Economic Review* about how this process worked.

Ellicott can point to other successes in countries around the world with similar circumstances. For example, we beat a Dutch offer for a dredge for Paraguay in the 1990's worth $3 million, based largely on advocacy and again without any U.S. Government financing support of any kind.

Commerce has other programs which systematically promote U.S. exports. The Gold Key Program is a for-fee service to assist American exporters in locating dealers and agents. One of SBEA's directors who ran international sales for Midmark Medical of Ohio has noted that he has used the Gold Key service in four countries with excellent results. Potential representatives take appointments arranged by the Embassy seriously. Midmark benefited from the credibility of this process. Midmark also used Commerce's Dealer Search activities in 40 countries. Midmark has said this shortened the process of finding a dealer from 4 to 5 trips in-country, to just 1 or 2. As a result, Midmark grew from $100,000 a year in exports to $12 million over a 12 year period.

The Commerce Department also acts as an advocate with various multilateral lending agencies such as World Bank, Asian Development Bank, etc. These institutions frequently finance projects with complicated specifications and parameters which can be daunting to small businesses. The Commerce Department officials which are seconded to these banks full time look after the interest of American bidders on the projects these banks finance. Finally, the Commerce Department provides information which is valuable to exporters and potential exporters. This information takes many forms. It can be targeted as a specific email to a company notifying them of a pending tender, or market sector analysis, to industry studies in high growth opportunities like environmental exports. These programs provide invaluable assistance both to the experienced exporter who is trying to expand further, and to the inexperienced exporter who is just contemplating the risks and opportunities of foreign transactions.

The U.S. has had an alarming trade deficit in recent years made worse by the strong dollar. U.S. exporters need every tool they can get to pursue the important objective of increasing the share of GDP coming from exports. The U.S. lags behind other industrialized competitors which already understand how important exports are to economic growth and job creation, and which support their exporters aggressively. The U.S. should do the same through the Commerce Department and recognize the excellent job that the International Trade Administration at the Commerce Department is doing with very limited resources. Congress can help ITA do more to encourage U.S. exports and address the stiff foreign competition we face by strengthening ITA's funding and personnel levels.

Chairman HYDE. Thank you, Mr. Bowe.

We have a vote on, which saves you from the penetrating questions we were going to direct at you. I really want to thank you for your excellent presentations and for your cooperation with us.

You have all stressed the importance of building a consensus, and our witnesses have emphasized the need for reaching agreements regarding Trade Promotion Authority and a new round of the World Trade Organization negotiations and other multilateral and bilateral agreements, and the need for the government and the private sector to work together has come through loud and clear.

I want to commend Mr. Aldonas of the Department of Commerce for its outreach efforts to private sectors, and I want to congratulate Mr. Rice, Mr. Vargo and Mr. Bowe for their highlighting of how programs can be prioritized and improved. You have made a contribution. I appreciate it. Thank you.

The Committee stands adjourned.

[Whereupon, at 1:12 p.m. the Committee was adjourned.]

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