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INTERNATIONAL TRADE ADMINISTRATION

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Thank you very much for the honor of speaking to you today. Today I would like to share with you some thoughts on how, under President Clinton's leadership, we are positioned now to take advantage of global change and can prepare for an increasingly competitive and dynamic global economy, and to examine challenges for the future. We are better prepared because of a strong working partnership with the private sector. While there are factors in Washington that argue against such a partnership, we must remain committed to this strong link if we are to remain competitive in the future and ensure our economic prosperity.

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In January of 1993, when President Clinton took office, the business community, while understanding the benefits and potential of world trade, faced international competition largely on their own. While our markets were generally open, we often faced a stacked deck abroad in terms of tariff and non-tariff barriers. While foreign governments invested increasing amounts of leadership and energy into supporting their companies' commercial activities, the U.S. Government was comparatively disengaged and uninvolved. U.S. financial assistance and export promotion programs were among the lowest of G-7 countries. Confronted with an uneven playing field, American business stood alone in a fiercely competitive global economy.

President Clinton came to office with a pledge to set this nation on a course to strengthen the economy, to create new jobs, and to expand opportunities for all Americans. He came in with a mandate for change -- change that would be good for American business, good for American workers, and prepare us completely as we enter a new century.

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The President fought to invigorate the domestic economy, and has done so successfully as evidenced by four years of sustained, moderate growth with low inflation and low unemployment. Expanded international trade has been a key component of that growth. We recognize the tremendous impact of trade on our economy and on our way of life. Total trade -- exports and imports -- in 1995 represented 23.6% of the U.S. GDP. Exports alone represent over 11 percent of our GDP, up from 7.2 percent 10 years ago. We have seen exports surge from $618 billion in 1992 to $787 billion last year. Last year alone exports rose by $80 billion -- a record. In 1995, about 11 million jobs depended upon exports, and by the year 2000 it will be nearly 16 million and the figures are expected to continue to rise significantly after that. At a time when we are concerned about flattening wages, jobs directly related to exports pay, on average, about 15 percent more than the hourly wage in the U.S. economy. Over the past seven years, export-related jobs have grown several times faster than total employment, and exports have accounted for one-third of the total U.S. economic growth, even though they represent only 11 percent of the total economy.

The Administration has developed a truly comprehensive post-Cold War trade policy that has been a major contributor to this trend. This policy rests on the twin pillars of relentlessly pursuing open markets and aggressively promoting exports. This has laid the groundwork for an unprecedented U.S. export explosion.

It is in the area of export promotion activities that our firms and our workers are able to take advantage of market-opening efforts, often taking the form of public-private partnership. This has been done through policy initiatives, advocacy practices and export assistance -- all wrapped up in our National Export Strategy.

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In formulating this post-Cold War trade and economic policy, the Clinton Administration recognized the critical importance of public-private partnerships. This is a fiercely competitive global economy where it is not just a matter of philosophy, but also a critical necessity to work together to combat practices that had previously given a decided advantage to our economic competitors. This approach is dramatically different from the one taken by past administrations. By not reaching out to business, by ignoring the changes around the world, by taking a pass and not recognizing these global realities, our economy floundered. American business was forced to go it alone. The real losers were American business and American workers. President Clinton changed this by creating a genuine public-private partnership to help American businesses compete and win overseas and at home. And this strategy is not only working, it is thriving.

However, this practice is under attack like never before. Public-private partnerships have been mischaracterized and called into question recently in the politically-charged atmosphere of accusation and innuendo. While Congress and the press seek to link all policy decisions and government programs, regardless of impact or effectiveness, with political contributions, the entire system is tainted. There is a danger of that happening in Washington that has put our programs under a cloud of questionable motives.

Under the challenge of numerous requests for documents and information, we have complied fully with all requests and answered any and all questions. Not only because it is required, but also because it is in our interests and in the interest of the American people. Because once someone hears about our programs, once someone listens to our success stories, once someone understands how critical these public-private partnerships are to our future economic prosperity, they understand that our sole motive in working with U.S. business is to help support U.S. jobs at home.

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Let me give you an example of how we have had to counter perceptions about our programs. A recent issue of The Economist implies that the United States Government in general and the Department of Commerce in particular should not be in the business of promoting exports; that this is not a proper government function. We feel our role is an important one. In fact our efforts are geared towards promoting a level playing field where transparent market mechanisms can operate to ensure that economic choices are based on market principles of price and quality. We have found, through our programs, that one of the most effective strategies is to use the power and weight of the U.S. Government on procurements, particularly major procurements where governments are involved as buyers, regulators or supporters of U.S. competitors.

We also find that our trade development activities are complementary to our market access and trade agreement enforcement activities. While the Clinton Administration has reached some 200 agreements in its first term, it takes market opening activities in the form of missions, trade shows, and counseling of American business to help business take advantage of new market openings. While much of this activity is driven by the private sector, in some markets conditions exist that require U.S. Government involvement. No private entity can make the government-to-government introductions and provide the expressions of government interest necessary to open a market in a timely fashion. The involvement of the U.S. Government in these trade promotion activities also provides us with effective mechanisms to advocate for foreign government enforcement of its treaty obligations and show us where we need to do more work.

Characterizing our efforts as simple salespeople is inaccurate and unfair. Where deals are based on market factors of price and quality, where deals are between private parties in truly free and fair markets, or where small businesses can reasonably be expected to fend for themselves, government should stay out. In other situations, the United States Government should be a strong advocate for American business.

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A shining example of a public-private partnership that recognizes the new global realities is the practice of government advocacy. Our three-year old Advocacy Center has put the United States Government -- more forcefully than ever -- squarely on the side of U.S. exporters to level the playing field in a fiercely competitive global marketplace. Since November 1993, when we first launched the Advocacy Program and the Advocacy Center, we have helped U.S. firms win contracts worth billions and billions in U.S. export content. Those exports will lead to the creation and retention of hundreds of thousands of jobs across the U.S.

In addition to large companies and multi-billion dollar projects, the Advocacy Center works closely with many small and medium sized businesses. More than 24 advocacy successes last year directly supported small and medium sized enterprises. Another way that advocacy supports small and medium sized companies is indirectly, by advocating for large U.S. companies, who rely on thousands of small U.S. suppliers and contractors to help fulfill their contracts.

We are proud of our successes and the Advocacy Center is a model example of both government efficiency and coordination and a productive public-private partnership. Like many of our programs, there are those who assume that they exist just to help large contributors to political parties. To those, let me say this:

Advocacy is provided based on clear and well-established guidelines. We don't choose companies, they choose us. We help companies that meet our clear guidelines whose projects will help create or support American jobs. These advocacy services are provided on a non-partisan and non-discriminatory basis. In administering the advocacy program we do not seek, nor have we ever considered, information concerning political activities or affiliations of the companies we assisted. Information about our services is widely disseminated and available.

We must continue to redouble our efforts, however, and refine our advocacy for maximum impact. We estimate that over the past eight years, U.S. firms have lost more than 100 separate overseas competitions due in part to political and economic pressures brought to bear by other governments, as well as corruption and bribery by foreign companies. These losses amount to tens of billions of dollars. The Advocacy Center is a very small investment considering the stakes involved. The Center's total budget is less than $1.5 million a year with 21 full-time, hard working staff.

Our support and outreach to American business is not reserved for hand-picked businesses with political connections. Rather, it is done right here in places like Atlanta, and in Export Assistance Centers throughout the country. These centers are another innovative step toward providing, in one convenient location, hands-on export marketing and trade finance support for small and medium-sized companies. The Export Assistance Centers -- now 15 in all -- are a joint effort of the Commerce Department's Commercial Service, the Small Business Administration, the Export-Import Bank, and -- in one site-- the Agency for International

Development. They are one-stop shops for companies wishing to export. We also operate 51 District Export Councils nationwide, representing exporters and export service providers. Through the District Export Councils, we have expanded communication and outreach to our private sector partners

Another area of public-private partnership is the Business Councils we have created from Argentina and Brazil to India. But most successful has been the Transatlantic Business Dialogue (TABD). This TABD process is itself an unprecedented venture in government-business partnership tackling issues relating to the world's most important economic relationship, between the U.S. and the European Union.

I have been intimately involved in the development of this process. It has become deeply ingrained in a short period of time into the U.S. Government and European Commission decision-making process on a range of regulatory, trade and commercial issues. It is one of the driving forces leading to decisions at the highest levels -- including the semi-annual summits between President Clinton, European Commission President Santer, and the European Presidency.

While government plays a role, the true champions of this economic expansion have been the private sector. They have prepared for a changing global economy. The Clinton Administration has cleared the tracks for exports to be the engines of growth. American businesses, large and small, now have an environment to grow, become productive and take advantage of market opportunities. And with this the private sector has created jobs and wealth.

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The one practice that has come under the greatest attack is our Trade Missions. With a history of success in supporting U.S. jobs and penetrating markets around the globe, trade missions take advantage of opportunities in promising economic sectors and in various geographic markets that demonstrate strong growth potential. These missions have proven to be an effective mechanism to directly assist exporters to take advantage of market opportunities; to support U.S. companies entering newly-opened markets or expanding in existing markets; and to further U.S. commercial policy objectives.

Given the increasingly competitive nature of the global economy, we cannot step back in a world in which our economic competitors are using all the tools at their disposal to aggressively pursue market opportunities for their companies. If we are to ensure our continued economic prosperity, we must continue programs and initiatives that promote and support private sector engagement in the global economy. These programs must meet the highest possible standards, and Commerce Secretary Bill Daley is presently conducting a top-to-bottom review of the selection process to answer any questions and clear up any and all perceptions that suggest that these missions were reserved for political contributors. This entire notion is absurd. We have chosen companies that are best able to take advantage of market opportunities regardless of political affiliation. These missions have proven successful and Secretary Daley's review will clear up any mis-perception that these missions do not meet the highest standards placed on us by the Congress of the United States and the American people.

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Trade missions and our programs are important in not only advancing our overall commercial interests, but also in furthering our foreign policy objectives. In addition to enhancing our standard of living at home, trade missions help create better international understanding through the interchange of products, ideas and culture. Under President Clinton's leadership and the passion of Ron Brown and hard work of Mickey Kantor, we have developed commercial diplomacy to better coordinate it with our foreign policy. Both Ron and Mickey believed passionately that increasing trade opportunities for U.S. industry not only creates jobs and economic growth at home, but also serves important foreign policy goals as well. Under the leadership of Bill Daley, we are committed to build upon the outstanding legacy of achievement left by his predecessors. The Administration believes in the critical role economics plays in the implementation of our foreign policy objectives. This cooperation and coordination goes beyond a specific commercial focus.

We see it in the undergirding, with U.S. business, of new democracies whose viability depends upon improving living standards for their citizens. This is evident in South Africa, in Haiti, and other areas in which I am particularly interested: Central Europe, the Baltic States, Russia, Ukraine, and the NIS. If these fledgling democracies are to flourish, it is absolutely essential that we work together with the private sector to increase trade and investment. We can no longer rely so much on foreign assistance in an era of budget stringency; expanded trade and investment are the keys to future growth.

Trade and investment also play an important role and must do even more in supporting the peace process in troubled regions throughout the world. In the Middle East, Northern Ireland, and Bosnia, peace and stability are intrinsically tied to jobs and prosperity. The best way to support the peace process is by creating a better way of life through jobs in the private sector. We can contribute mightily to this end by fostering American trade and investment in these regions. I saw this first hand in Pittsburgh last fall when we hosted a Trade and Investment Conference for Northern Ireland with some 200 U.S., Northern Irish, and Irish Republic companies represented. In the face of troubles and violence, American firms and Irish firms met to discuss potential business and partnerships in what was the biggest Commerce Department matchmaker conference in the history of a program that dates back some 15 years -- some 450 matchmaker meetings.

Finally, countries like Egypt and Turkey (the latter in which I have developed a particular expertise), facing radical forces, can be assisted by the improved economic conditions more U.S. investment and trade will bring. Radicalism feeds on desperation and better living standards can help remove its attraction.

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The Future

Where do we go from here? What are the challenges of the future? One of the most daunting and important is to solidify the consensus for free trade and open markets under attack from the left and the right of the political spectrum. There are several ways to do this. One is to have other countries understand our new philosophy.

The recent conclusion of the telecommunications agreement represents an increasing awareness and recognition of the realities of this new global economy. Following World War II, we developed an asymmetrical relationship to our trading partners in developing countries. At the time it made sense. We turned a blind eye to certain anti-competitive behaviors and conditions such as monopolies and cartelization and permitted the market access while they built up their infant industries.

Our new philosophy recognizes that these days are over. While we should and will continue to give special treatment to certain poor developing countries, for example through the Generalized System of Preferences and the Caribbean Basin Initiative, we must adopt a new approach to a whole range of countries in Latin America and the Asian tigers who are at a stage of development where preferential treatment and anti-competitive and trade restricting practices can no longer be tolerated. We need to press these countries to come up to our standards for market access, as we did to a certain extent in the telecommunication service agreement. These countries' economies and export production have matured to a degree that specialized treatment is no longer necessary or desirable.

I believe the historic U.S. support for the multilateral system and for open markets is under attack as never before in the post-World War II era. To maintain the current bipartisan consensus for free trade against the chorus of protectionist voices, we must more effectively and visibly enforce our existing trade laws and trade agreements -- including the some 200 agreements successfully negotiated by the Clinton Administration. We must demonstrate to our workers -- as we have done most recently with our intellectual property rights sanctions against China -- that we intend to enforce the market opening commitments foreign countries have made with us in bilateral and multilateral trade agreements.

Within the Commerce Department, we have created a Trade Compliance Center devoted to monitoring foreign compliance with our trade agreements. This Center will develop and maintain a central repository of monitoring expertise. It will bring together in a synergistic way monitoring efforts already undertaken by our sectoral and country experts, and will complement these efforts through providing a central source for data collection, analysis of foreign compliance, and the development of monitoring techniques. We will work hand-in-glove with the new enforcement unit at USTR to highlight those who fail to abide by the bilateral and multilateral agreements they have reached -- and to act accordingly to ensure compliance.

Second, we must pursue an aggressive market opening agenda with our trading partners. We must develop an agenda and pursue agreements that are relevant to the average citizens. For example, we must emphasize the linkage between trade and environmental standards and trade and labor rights. Fundamental protections, such as standards against the use of child labor or prison labor, have the support of our workers and have a rightful place in our trade agreements. We must stress to our partners the importance of such agreements to the future of liberalized and mutually beneficial trade. This is not an attempt to eliminate the competitive advantage of our trading partners, but to insist on core rights and basic conditions that will help convince the average worker that these international trade institutions are not mechanisms for job loss, but are created to spur growth while at the same time address common, shared concerns.

Beyond sustaining public support for trade liberalization, there are other trade priorities as we approach the 21st century. We must rebuild the consensus for free trade and move the global trade system forward. This can be done by securing Congressional support for fast-track negotiating authority to allow us to continue a trade liberalizing and market opening agenda on a regional and multilateral basis. We must work to extend our network of regional trade agreements, including expanding NAFTA to include not only Chile, but a regional link-up with Mercosur; and perfecting the new Trans-Atlantic marketplace to remove barriers to trade and investment.

We need to pursue additional foreign trade agreements on a regional basis. These include negotiating a Free Trade Area of the Americas (FTAA) by the year 2005 and attaining free and open trade and investment among members of the Asian Pacific Economic Cooperation forum by 2010 for developing countries.

We must better communicate to the American people the benefits of trade in very clear and concrete ways. Only with public understanding and support can we be successful in expanding exports and maintaining a political consensus for trade liberalization. Workers must see trade as job creating, not job destroying. Trade is not some esoteric policy issue. A large and growing proportion of U.S. jobs depends on exports and imports. To those people, trade means jobs -- good paying jobs. It means better buys for consumers. It is the means by which we as a nation create future economic growth, ensure future prosperity, and provide jobs and opportunity for our people. There is a vast global marketplace out there for American products. And for the second year in a row, the U.S. has been selected as the most competitive country. This is an area in which we can make a real difference in our people's lives.

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Remarks by Commerce Under Secretary for Trade
Stuart E. Eizenstat
Washington Council on International Trade
June 19, 1996

Good Afternoon. It is a pleasure to be here in Seattle -- this is my first visit to the Emerald City since I became Under Secretary for International Trade. And given this regions keen understanding of the link between exports and jobs, it is entirely fitting that I didn't waste much time making my way out to the Pacific Northwest.

I am very grateful for the opportunity to address the Washington Council on International Trade. You have been at the forefront in this city's efforts to expand exports. Seattle is a model for the nation on how trade can benefit and revitalize a community and how exports not only lead to the creation of jobs, but also serves as a catalyst for dynamic growth and prosperity in the region.

Washington state is the most trade dependent state in the country, with one of every four jobs related to trade. With only two percent of the nation's population, Washington is responsible for 8% of the nation's exports. The Greater Seattle area is ranked fourth out of 250 Metropolitan areas in a recent report released by the Commerce Department on the export performance of U.S. cities.

The important role international trade plays in Washington State has made Seattle an incubator where ideas and programs for assisting exporters are generated and nurtured. While I am here today to share with you some of my thoughts, goals and priortities in my new posiiton, I am also here to listen to you and learn from you.

In nominating me to this position, President Clinton has given me the opportunity to continue the work of Secretary of Commerce Ron Brown on the full range of trade issues on which I had been working within Europe, but now on a worldwide basis.

Ron Brown believed passionately that increasing trade opportunities for U.S. industry not only creates jobs and economic growth at home, but serves important foreign policy goals as well. The American public needs to understand that our policies of aggressively opening markets and promoting exports abroad are clearly in the national interest.

Working with my long time friend and colleague Secretary Mickey Kantor, I intend to build upon the outstanding legacy of achievement left by Ron Brown. Together we will ensure that our trade policy goals mesh and complement our foreign policy objectives around the world, and create jobs, economic growth and a better standard of living at home.

Throughout my years in both the public and private sector, I have worked closely with American business. In my most recent position as the United States Ambassador to the European Union, I have made it a central goal of the U.S. Mission I headed to champion the cause of U.S. business in breaking down tariff and non-tariff barriers to Europe.

My experience in Brussels has given me a deeper appreciation of the important nexus between jobs and growth, trade and competitiveness. Trade and exports are essential to the creation of high-paying American jobs. No area of the country is more keenly aware of the fact that exports equals jobs.. Exports today represent over 12 percent of our GDP, up 45 percent since 1980, when it was 8.5 percent. In 1995, over 11 million jobs depended upon exports, and by the year 2000 that number will rise to nearly 16 million. At a time when we are concerned with a flattening of wages, on average, jobs related to exports pay about 15 percent more than the hourly wage in the rest of the economy. Over the past seven years, export-related jobs have grown eight times faster than total employment, and exports have accounted for one-third of the total U.S. economic growth, even though they represent only 12 percent of the overall economy.

Our future economic growth and prosperity rely on an aggressive pursuit of market opportunities, a strict enforcement of our U.S. trade laws, and an understanding that we must work with the private sector to ensure America's competitive advantage as we approach the 21st century.

There are many ways in which the Commerce Department in general and the International Trade Administration specifically have focused on areas that satisfy the important international commercial objectives of the United States.

ITA is in a unique position to support these objectives, through its ability to provide strategic support to the development of U.S. international trade and commercial policies. It is the only agency of the U.S. government with the proven capacity to provide hands-on assistance to U.S. companies that seek to broaden their markets by exporting or doing business abroad. Our three-year old Advocacy Center has put the United States government -- for the first time -- squarely on the side of U.S. exporters to level the playing field. Since November 1993, when we first launched the Advocacy Program, we have helped U.S. firms win contracts worth $42 billion in U.S. export content. ITA can assist in interpreting foreign rules and regulations, help arrange joint ventures with foreign partners, and enable U.S. companies, particularly small and medium-sized enterprises, to navigate an often strange and sometimes foreboding foreign marketplace.

ITA offers a full service global network of resources through its Commercial Service; provides leadership in the U.S. government for trade promotion and advocacy through the Trade Promotion Coordinating Committee; analyzes U.S. competitiveness on an industry-by-industry basis in the Trade Development unit; provides business counseling and market access assistance on a country-by-country basis through its International Economic Policy unit; and through the Import Administration ensures a level playing field for American businesses through enforcement of the anti-dumping and countervailing duty laws. Since it opened in December of 1993, the Department's Advocacy Center has assisted in over 230 cases helping secure projects in excess of $40 billion in US domestic content over the life of those agreements.

I have several clear goals that I would like to accomplish at Commerce to ensure America's competitive advantage, to create jobs through exports, and to maximize our trade potential.

The first of these is the aggressive promotion of U.S. exports in a highly competitive global market. In the area of trade coordination and trade promotion, I will make it a high priority to strengthen our Administration-wide advocacy efforts for exports through our Advocacy Center, which I want to enhance, and the Trade Promotion Coordinating Committee (TPCC), which we chair. There are concrete steps I believe we can take to improve the coordination and effectiveness of the TPCC agencies. The first is to use the information available to develop and make effective use of the unified trade promotion budget.

Our Advocacy Center helps create a level playing field for U.S. exports. We also need to strengthen the Advocacy Center's interagency expertise through greater interchanges between the Advocacy Center and other TPCC agencies. We have broadened the inter-agency participation of the 19 member TPCC. This year, we have focused TPCC's activities on the U.S. response to the Foreign Competitive Practices report released by Ron Brown late last year -- everything from concessionary financing and subsidies to bribery and corruption. On the latter, our persistence is beginning to pay off. The OECD Ministerial Conference in Paris endorsed an end to tax deductibility of bribes and called for all member countries to criminalize bribery and corruption.

Besides trade promotion, another goal I have is to strengthen our trade enforcement efforts. I am a strong believer in the value of free trade. I believe protectionism in today's interdependent, global economy is self-defeating. We are dependent upon exports to create jobs, to provide greater choice for our consumers, and to strengthen the competitiveness of U.S. companies. We cannot expect to have open markets abroad if we close ours at home. Under Republican and Democratic Presidents, and Republican and Democratic Congresses, the United States since the end of World War II has been the world's champion in trade liberalization and in creating a rules-based system for the adjudication of trade disputes. This has helped foster more open markets around the world and has helped bring unparalleled prosperity to the United States and elsewhere, while significantly reducing global tensions. Among the most important achievements of the Clinton Administration has been the successful negotiation of NAFTA and the Uruguay Round and its support by Republicans and Democrats alike in the Congress.

But I believe the historic U.S. support for the multilateral system and for open markets is under attack as never before in the post-World War II era. To maintain the current bipartisan consensus for free trade against the chorus of protectionist voices, we must more effectively and visibly enforce our existing trade laws and trade agreements -- including the some 200 agreements successfully negotiated by the Clinton Administration. We must demonstrate to our workers -- as (we have done with our intellectual property rights sanctions against China) -- that we intend to enforce the market opening commitments foreign countries have made with us in bilateral and multilateral trade agreements.

We are in the process of creating a Trade Compliance Center, within the International Economic Policy unit of ITA, devoted to monitoring foreign compliance with our trade agreements. This Center, which will utilize existing ITA resources, will draw on the sectoral and geographic expertise of ITA, its skilled economists and industry experts, and its history of monitoring and enforcing trade agreements. The Center, which will be headed by a senior ITA official, will serve as a central repository of monitoring expertise. It will bring together in a synergistic way monitoring efforts already undertaken by our sectoral and country experts, and will complement these efforts through providing a central source for data collection, analysis of foreign compliance, and the development of monitoring techniques. We will work hand-in-glove with the new enforcement unit at USTR to highlight those who fail to abide by the bilateral and multilateral agreements they have reached -- and to act accordingly to assure compliance.

We can also help sustain a public and congressional consensus for free trade by encouraging rapidly industrializing countries, particularly in Asia, and more developed nations like Japan and China, to open their markets to foreign products. The U.S. trade deficit with China is expected to surpass $35 billion, exceeded only by our deficit with Japan. The perception that the U.S. market is far more open to their products than their markets are to ours fans protectionist flames among ordinary working people. These countries, because of their reliance on the U.S. market, have a greater stake than anyone in opening their markets to assure a continuation of the free trade orientation of the United States.

Even more broadly, the WTO and the entire multi-lateral trading system will not meet the full potential we envisioned when the Uruguay Round was enacted and signed at Marakesh unless rapidly developing and growing developing countries in Asia and Latin America begin to recognize that trade must be a two way street. They must do this to sustain the consensus for free trade and they must do their part to make significant market opening offers in WTO negotiations like those on financial services and, most recently, telecommunications services. This world is too small; the global economy too interdependent, economic competition too fierce; job and wage pressures are too severe; the stage of economic development too advanced for them to seek complete access to a U.S. services market, while continuing to close their market to U.S. and foreign trade and investment by protecting cartels and monopolies and other restrictive practices. This cannot continue.

Third, I want to give special and increased emphasis and energy to targeting small and medium-sized businesses, and minority and women-owned businesses that are severely under-represented in the export area; in order to increase their exports. Small and medium-sized businesses are where the new jobs in the United States are being created. They represent about 25 percent of our manufacturing output, yet only account for 12 percent of our exports. ITA is already aggressively targeting small and medium-sized business through its Commercial Service, but better education, more outreach, and improved trade facilitation, and, possibly, new export financial mechanisms, must be in place to broaden the export base of this country, and to increase the profits and job opportunities in this key sector of our economy. Small businesses often lack the resources for market research overseas. ITA can and does help, counseling over 41,000 small businesses each year through a variety of programs and initiatives on how to break into foreign markets.

One such program, the Export Training Assistance Partnership, or ETAP, which is a customized export training program originally designed by Pru Balatero of our Seattle Export Assistance Center. This program has been adapted nationwide and serves as an excellent example of how our Seattle Export Assistance Center has worked with the local trade community and local business to foster innovative programs to assist exporters.

Through customized training workshops covering exporting "how-to's", one-on-one counseling, ~~and~~ on-going follow-up, ETAP has provided small and medium-sized export firms the tools they need to enter the international arena. Of the various programs available to exporters, ETAP provides the most comprehensive, cost-effective training available, drawing on the best trade expertise in the state.

ETAP, like our export assistance centers, embodies our efforts of reinvention targeted to the needs of small- and medium-sized businesses. ETAP is also an excellent example of our efforts to build strong partnerships in the local community and to leverage the resources of our partner organizations.

This is the type of hands-on outreach we will be doing across the country. Shortly, I will launch a series of SME seminars around the country to help smaller business learn how to export and penetrate complex and often forbidding foreign markets. We are also working on new financing mechanisms, because banks, often reluctant to lend at all to exporters, are particularly resistant to lending small dollar requests. We are working on a consortium concept -- like Fannie Mae for housing -- to encourage bank lending.

Yet another goal is to better consolidate our commercial policy and our foreign policy. We believe in the critical role economics plays in the implementation of our foreign policy objectives. This cooperation and coordination goes beyond a specific commercial focus. Having served for two and one-half years as Ambassador to the European Union, I bring to Commerce a first hand understanding of the importance of the ways in which our trade and commercial efforts support and work hand-in-hand with our foreign policy goals.

We see it in the undergirding, with U.S. business, of new democracies whose viability depends upon improving living standards for their citizens. This is evident in South Africa, in Haiti, and other areas in which I am particularly interested: Central Europe, the Baltic States, Russia, Ukraine, and the NIS. If these fledgling democracies are to flourish, it is absolutely essential that we work together with the private sector to increase trade and investment. We can no longer rely solely on foreign assistance in an era of budget stringency.

Trade and investment also play an important role and must do even more in supporting the peace process in troubled regions throughout the world. In the Middle East, Northern Ireland, and Bosnia, peace and stability are intrinsically tied to jobs and prosperity. The best way the peace process can take hold is by creating a better way of life through jobs in the private sector. We can contribute mightily to this end by encouraging American trade and investment in these regions. So too, countries like Egypt and Turkey (the latter in which I have developed a particular expertise) facing radical forces, can be assisted by the improved economic conditions more U.S. investment and trade will bring.

A fifth goal of the Commerce Department and the ITA, which I will continue with enthusiasm, is the emphasis on trade with Big Emerging Markets (BEMs). I fully recognize the importance of the BEM initiative, for it is here that the lion's share of the incremental growth in world imports will occur in fewer than a dozen markets -- the Chinese Economic Area (China, Hong Kong, Taiwan); South Korea; the ASEAN countries and India; South Africa; in Europe via Poland and Turkey; and in Latin America (Mexico, Brazil, Argentina). In 1994, U.S. exports to the BEMs exceeded exports to either Japan or Europe. If present trends continue, by the year 2000, they will exceed exports to Japan and Europe combined. These markets offer the greatest opportunity for future export growth, given the significant growth rates of these countries -- with some 2.5 billion people. The BEMs' share of global GDP may double from 10 percent now to more than 20 percent in just twenty years. This initiative has helped bring our trade promotion activities into better balance after many years of emphasis on our traditional trading partners. The BEM's initiative has redressed this historic imbalance.

But the support of the United States government is essential to help U.S. businesses take full advantage of this phenomenal growth, particularly in infrastructure development. In a sampling of over 200 overseas competitions in the past eight years, the Commerce Department estimates that U.S. firms lost approximately one half of these competitions due to political and economic pressure by other governments, including concessional financing, promises of technology transfer, and linking foreign aid flows -- totaling some $25 billion in lost contracts.

Having represented the United States to the EU over the past two and one-half years, and having seen things from a European perspective at the same time, makes it clear, however, that we cannot and must not ignore our mature markets in Europe, Canada, and Japan. The trade flows there are huge -- for example, some $230 billion in two-way trade with the 15 countries of the European Union. Fifty percent of our merchandise exports go to traditional markets (20 percent to the EU, 20 percent to Canada, and 10 percent to Japan). Even a 3 to 5 percent increase in our exports to these countries represents an enormous increase in our exports. This is not an either/or proposition. We must continue to stress our Big Emerging Markets initiative while at the same

SPEECH BY AMBASSADOR STUART E. EIZENSTAT
BEFORE EX-IM BANK'S ANNUAL CONFERENCE
EVENING DINNER/AWARDS CEREMONY
Wednesday, May 8, 1996

Opening Remarks: Ronald H. Brown's Legacy

I am honored to join you this evening to celebrate the export successes of those businesses and individuals who have been honored tonight. Your success in exporting is a true example of the benefits as well as the realities of succeeding in today's fiercely competitive world. The past month has been extremely difficult and I would like to thank you all for your heartfelt expressions of sympathy at the loss of Ron Brown and the other dedicated government and private-sector officials who died trying to help to bring peace to a troubled part of the world.

Ron's vision was to use the power of the Federal government to create economic opportunity for all Americans -- and that he did better than any Secretary of Commerce this country has ever had. He accomplished this first and foremost by leading the charge to generate jobs through our nation's first-ever National Export Strategy:

-- He was the first Secretary of Commerce to make advocating on behalf of American companies a pervasive attitude within the government -- personally advocating for over $80 billion in projects, supporting hundreds of thousands of U.S. jobs;

-- he was particularly concerned about the welfare of small businesses -- so he led the government's charge to create a network of "one-stop" export promotion shops around the country, so that small businesses could get, in one place, all the export assistance that government can offer;

-- he believed that with the end of the cold war, the time had come to make sure that the government was helping firms compete overseas, so he worked tirelessly to reduce government imposed obstacles to exporting -- freeing up an estimated $32 billion in high-tech American exports;

-- and, as you know, Ron led numerous business development missions around the World, always looking for opportunities to help American firms take advantage of market openings and to win their fair share in contracts.

In short, Ron Brown made the Commerce Department what it was meant to be -- a powerful tool for U.S. businesses to revitalize the American economy. He believed in the competitiveness of American workers and believed that the products that we make in America are second to none. As the President said, nobody was more determined than Ron that American companies get a fair shake around the world, and Secretary Kantor and I plan to continue his policies and not to miss a beat.

The Critical Importance of Exporting

I know that I am preaching to the choir tonight on the importance of trade to our economy. It is an inescapable truth that globalization and interdependence are here to stay -- and we must take advantage of the opportunities this global economy presents. Nostalgia for a time when we made, bought and sold most products in the U.S. is understandable, but unrealistic. Just take a look at the facts:

-- In 1970, the value of trade equaled just 13 percent of America's GDP. Today it is estimated at 30 percent.

-- in 1995, over 11 million jobs depended upon exports, and by the year 2000 that number could rise to nearly 16 million;

-- and over the past seven years, exports have accounted for one-third of total U.S. economic growth with export-related jobs growing eight-times faster than total employment.

The goal of the Clinton Administration is clear: to build and expand upon this tremendous growth. Our future prosperity will rely on an aggressive pursuit of market opportunities, a strict enforcement of our U.S. trade laws, and an understanding that we must work with the private sector to ensure America's competitive advantage as we approach the 21st century.

Our Key Priorities

To accomplish this task we in the Commerce Department plan to focus on a few key priorities. First, we must work to ensure fair rules and mutuality of obligations in order to build confidence in trade. This Administration has negotiated 200 separate trade agreements. But these treaties will accomplish little if we do not follow through with a strong U.S. presence in these markets. One way to build confidence in the trade agreements we negotiate is to enforce them. And good enforcement is critical if we are to get good future agreements. An absolute prerequisite for enforcement, however, is analysis and monitoring to determine the extent to which trade agreements are being complied with, and that is the task we are setting about to achieve with the new Trade Compliance Center that we are creating. This center will work hand in glove with USTR's enforcement center, and will -- for the first time -- analyze and monitor foreign compliance with the agreements we have negotiated.

Second, we must continue to work to aggressively support U.S. firms bidding on overseas projects -- ensuring that they get a fair shake. Through the TPCC's Advocacy Network we already have an impressive track record -- assisting this year alone in 77 projects awarded to American companies, totaling some $22 billion in U.S. exports, and supporting hundreds of thousands of U.S. jobs. We plan to continue this effort, deepening the expertise of our advocacy team through agency interchanges to bolster our staff.

Third, we must help small and medium-sized firms compete internationally. We will give special and increased emphasis and energy to targeting small and medium-sized businesses, and minority and women-owned businesses that are severely under-represented in the export picture, in order to increase their potential. Small and medium-sized businesses are where the new jobs in the United States are. They represent about 25 percent of our manufacturing output, yet only account for 12 percent of our exports. The International Trade Administration is already aggressively targeting small businesses through our Commercial Service, but we must look for new ways, whether through financial mechanisms, better education, more outreach, improved trade facilitation to broaden the export base of this country. I would welcome your advice in this area and urge you to contact us with your ideas.

Working Together Through the TPCC

Fourth, those in the Administration charged with this task must work more closely together. Ex-Im Bank and Commerce have worked as close partners over the past few years, leading the interagency Trade Promotion Coordinating Committee. Together, along with OPIC, TDA, SBA, State, Treasury, Energy, Transportation and the other agencies, we have implemented an effective export promotion strategy over the past three years. Through our National Export Strategy -- our nation's first-ever blueprint to increase jobs through exports -- we have leveraged federal resources and set some important strategic directions -- like our focus on the Big Emerging Markets and our focus on small and medium-sized businesses.

In fact, Ex-Im's leadership has been the reason behind many of our successful initiatives. As one recent NAM report said, financing is truly the lubricant that keeps the U.S. export engine operating smoothly. Ex-Im Bank plays an integral role in our collective efforts to expand exports through our U.S. Export Assistance Centers -- by providing trade finance expertise around the country. Many of you are well aware of Ex-Im's Tied Aid Capital Projects Fund which has led the way in countering the use of trade distorting tied aid, matching its use when appropriate -- all to the benefit of U.S. exporters. Some of you will also learn more tomorrow about how Ex-Im Bank, working closely with the Small Business Administration, has developed a harmonized working capital guarantee program -- providing greater access to trade finance for small business exporters. We will be looking at ways to improve both of these programs for our 1996 National Export Report, and want to hear from you about their effectiveness.

Working closely with Tino Kamarck and the tremendously dedicated staff of the Ex-Im Bank, as well as the other TPCC agencies, the Administration has built an impressive track record. I've already mentioned a few of our key accomplishments: reducing obstacles to exporting, creating a nationwide network of U.S. Export Assistance Centers, establishing a fully functional and integrated Advocacy Network and Center helping to secure billions of dollars in contracts for U.S. firms, and supporting hundreds of thousands of U.S. jobs. Last year, we refined our National Export Strategy, giving increased emphasis to helping small businesses, especially in the critical area of trade finance. We also deepened our Advocacy efforts to make it part and parcel of the basic mission of every one of the TPCC agencies. This year, we hope to not only strengthen the bonds between the TPCC agencies, but to maintain our momentum and aggressively carry our agenda forward -- particularly by responding to questionable foreign competitive practices.

The Future Agenda: Responding to Foreign Competitive Practices

Last October, the Commerce Department completed a classified study detailing the strategies that foreign governments often employ to help their domestic firms win major contracts around the world. And just a couple of months ago, Secretary Brown held a roundtable with business leaders from around the country on this topic -- and heard first hand about how American firms are losing contracts due to questionable tactics. One conclusion that we have drawn is that the use of these practices is far more widespread than previously known, and that they will likely intensify in the future as the emerging markets shift their development into high gear, leading to intensified competition among firms in the industrialized countries.

We estimate that over the next decade, some 150 large-scale capital projects worth nearly $1 trillion are likely to be undertaken spawning intense competition as your companies -- and your competitors -- seek to win these lucrative contracts to modernize telecommunications, transportation and infrastructure systems around the world. The emerging markets alone have scheduled more than $220 billion worth of megaprojects -- with the promise of follow-on contracts to those firms which get in on the ground floor.

While our competitors are investing more and more of their resources to help their firms win these critical projects, the U.S. is trying to do more with less. As a proportion of GDP, the U.S. spent three cents per thousand dollars, while France spent 18 cents and Great Britain, 25 cents per thousand dollars of GDP, on their non-financing export promotion budgets.

The use of bribery alone is costing American companies billions of dollars. Since 1994, we have learned of almost 100 cases when foreign firms used bribes to undercut U.S. businesses competing for $45 billion in overseas contracts. This is especially troublesome when the numbers indicate that foreign firms that practice bribery typically win 80 percent of the contracts they bid on.

We are now working together -- through the TPCC -- to develop a comprehensive, U.S. government-wide policy response to counter these foreign competitive tactics which we will release this summer as part of our next annual report to Congress. Our plan is to develop concrete recommendations which the Federal government can begin to implement as soon as possible. Already, some of the TPCC agencies have taken the lead in a number of areas, like countering bribery, and we will rely on their expertise when developing our strategy.

Clearly, if these questionable practices continue to go unchallenged they will severely handicap the competitive position of U.S. companies and workers as we approach the next century. We hope that our plan will spur other nations to see the logic of greater disciplines and rules for the use of export credits, foreign aid for commercial gain, and other non-market means of winning contracts. While this achievement is some distance away, the agencies of the TPCC have begun a concerted effort now to begin to create a new regime of conduct that will ensure fair, open and transparent international competition for all.

Let me give you some examples of where we are headed:

- On ***bribery***, we have laid much groundwork already through international fora like the OECD. We are looking toward a strategy that will not only encompass these and other multilateral efforts, but will provide measures that will be meaningful for American businesses in the short-term;

- in the areas of ***technical assistance*** and ***standards*** will hope to develop proactive strategies to better enable U.S. firms to take advantage of pivotal opportunities;

- in the area of ***trade promotion***, we will revisit the issue of how best to deploy our limited trade promotion resources;

- and we hope to develop some creative options for ***small and medium-sized*** businesses in the crucial area of trade finance.

Conclusion

In sum, we have made great strides over the last three years. But there is still much more to do. Competition for lucrative projects is heating up, and we must continue to negotiate global disciplines and develop government programs to ensure that our companies get a fair shot at these opportunities, -- and that our trading partners live up to their obligations.

Clearly, in the post-Cold War era, trade has taken its place at the foreign policy table, alongside strategic and political concerns. It is the new connecting link between nations -- a way to build confidence, prosperity and peace. Ron Brown knew this. He understood that national security cannot be separated from our economic security -- and worked for a day in which prosperity and opportunity for all Americans, and for all those who would do business with us, would create a more peaceful and stable world. Our job will be to make sure his vision becomes a reality as we look toward the next Century.

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Contact: Jim Desler
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Opening Statement Ambassador Stuart E. Eizenstat
United States Senate - Committee on Finance
Confirmation Hearing to be Under Secretary of Commerce for International Trade
February 14, 1996

Mr. Chairman and members of the Senate Finance Committee, it is an honor to be here today, particularly because of my deep and long-standing respect and admiration for Chairman Roth, Ranking Member Moynihan, and so many members of this Committee with whom I have worked over the years in both public and private life.

I had the privilege of appearing before the Senate Foreign Relations Committee in July, 1993, to be confirmed for my present position as U.S. Ambassador to the European Union. Having once gone through the confirmation hearing process, I fully understand its gravity and importance and take this process very seriously. I would also like to thank the Chairman, the Committee, and the staff for the effort and sacrifice they have made in scheduling this hearing today. I appreciate and welcome the opportunity to share with you my thoughts and to respond fully to your comments and questions.

Today's hearing in this building is indicative of where I intend to spend a great deal of my time if I am confirmed for the position of Under Secretary of Commerce for International Trade. I have deep respect for the crucial role of the Congress in both foreign policy and trade policy. If confirmed, one of my top priorities will be to work in close consultation with both the Members and staff of the Senate and the House. I shall solicit your advice, seek your views, and inform you of our activities. You can be certain that I will keep the Congress in general, and this Committee in particular, fully apprised of activities and developments on the international trade front which are within my jurisdiction.

By President Clinton having nominating me to this position, he and the Secretary of Commerce, Ron Brown, have given me the opportunity to work on the full range of trade issues on which I had been working within Europe, but now on a worldwide basis. Throughout my years in both the public and was developed with the leadership of USTR and the Department of Commerce, and seeks to engage Europe in the reduction or elimination of many tariff and non-tariff barriers to trade. Our initiative in this respect will continue the momentum for trade liberalization from the Uruguay Round and instill a new dynamic to the World Trade Organization.

My experience in Brussels has given me a deeper appreciation of the important nexus between jobs and growth, trade and competitiveness. Trade and exports are essential to the creation of high-paying American jobs. Estimates are that every $1 billion in additional exports supports between 15,000 and 20,000 new jobs. Exports today represent over 12 percent of our GDP, up 45 percent since 1980, when it was 8.5 percent. In 1995, 12.7 million jobs depended upon exports, and by the year 2000 that number will rise to nearly 16 million. On average, jobs related to exports pay about 15 percent more than the hourly wage in the rest of the economy. Over the past seven years, export-related jobs have grown eight times faster than total employment, and exports have accounted for one-third of the total U.S. economic growth, even though they represent only 12 percent of the overall economy.

Our future economic growth and prosperity rely on an aggressive pursuit of market opportunities, a strict enforcement of our U.S. trade laws, and an understanding that we must work with the private sector to ensure America's competitive advantage as we approach the 21st century. If confirmed, I will focus on these objectives that are so critical to the Nation's economic future.

I am particularly excited about the prospects of joining a Commerce Department which has been steadily reinvigorated in recent years. There have been several great Secretaries of Commerce in recent years, most notably Malcolm Baldrige, during the Reagan Administration, and Ron Brown today. Under Secretary Brown's leadership, the Department of Commerce has successfully focused on a mission of providing jobs and economic opportunity to all Americans and serving as a voice for the business community in the senior policy-making circles in the Administration.

I have seen this first hand in Brussels, where I worked closely with the Secretary and his senior aides on such projects as the Transatlantic Business Dialogue, which brought public and private sector leaders together to address ways to improve our commercial relations. In Seville, Spain, we invited 100 U.S. and European CEOs in the first-ever conference of its kind, to make recommendations to the U.S. government and to the EU on a variety of issues. The conference adopted market opening initiatives in such areas as: reducing regulatory costs and duplicative testing and certification procedures; encouraging greater trade liberalization; reducing investment barriers; and dealing with competition in third country markets. Many of these recommendations have already been incorporated, with my assistance, in the New Transatlantic Agenda. Other recommendations will be considered by a follow-up group now being organized and chaired by Alex Trotman, the CEO of Ford Motor Company, and Juergen Strube, the CEO of BASF. If confirmed, I hope to continue to work closely with this private sector group from this side of the Atlantic.

While in Brussels, I also participated in the International Trade Administration's Showcase Europe initiative, a comprehensive program to expand U.S. business penetration of the European market. "Showcase Europe," which builds on the "Showcase Germany" strategy launched in FY 1994, seeks to further open transatlantic trade and investment by encouraging the reduction of tariffs and standard barriers, mutually recognizing product testing and certification guidelines, providing full and transparent access to government procurement opportunities, and assuring rational treatment for investors.

The Transatlantic Business Dialogue is just one way in which the Commerce Department in general and the International Trade Administration specifically have focused on areas that satisfy the important international commercial objectives of the United States.

ITA is in a unique position to support these objectives, through its ability to provide strategic support to the development of U.S. international trade and commercial policies. It is the only agency of the U.S. government with the proven capacity to provide hands-on assistance to U.S. companies that seek to broaden their markets by exporting or doing business abroad. ITA can assist in interpreting foreign rules and regulations, help arrange joint ventures with foreign partners, and help U.S. companies navigate an often strange and sometimes foreboding foreign marketplace. ITA offers a full service global network of resources through its Commercial Service; provides leadership in the U.S. government for trade promotion and advocacy through the Trade Promotion Coordinating Committee; analyzes U.S. competitiveness on an industry-by-industry basis in the Trade Development unit; provides business counseling and market access assistance on a country-by-country basis through its International Economic Policy unit; and through the Import Administration ensures a level playing field for American businesses through enforcement of the anti-dumping and countervailing duty laws. The Department's Advocacy Center in the Trade Development unit last year alone assisted in 77 successful projects totaling some $31 billion, accounting for some $22 billion in U.S. exports, and supporting 350,000 U.S. jobs.

ITA has accomplished a great deal over the past few years with the leadership of Secretary Brown, former Under Secretary Jeff Garten and former Acting Under Secretary David Rothkopf. We are well on our way to achieving the goal of the Administration's National Export Strategy of increasing U.S. exports to $1.2 trillion by the year 2000, supporting over 6 million American jobs. In addition, I have several clear goals that I would like to accomplish in the coming years to ensure America's competitive advantage, to create jobs through exports, and to maximize our trade potential.

I am a strong believer in the value of free trade. I believe protectionism in today's interdependent, global economy is self-defeating. We are dependent upon exports to create jobs, to provide greater choice for our consumers, and to strengthen the competitiveness of U.S. companies. We cannot expect to have open markets abroad if we close ours at home. Under Republican and Democratic Presidents, and Republican and Democratic Congresses, the United States since the end of World War II has been the world's champion in trade liberalization and in creating a rules-based system for the adjudication of trade disputes. This has helped foster more open markets around the world and has helped bring unparalleled prosperity to the United States and elsewhere, while significantly reducing global tensions. Among the most important achievements of the Clinton Administration has been the successful negotiation of NAFTA and the Uruguay Round and its support by Republicans and Democrats alike in the Congress.

To maintain the current bipartisan consensus for free trade against the chorus of protectionist voices, one crucial ingredient is to more effectively and visibly endorse our existing trade laws and trade agreements -- including the some 180 agreements successfully negotiated by the Clinton Administration.

ITA has a very effective Import Administration that impartially enforces our anti-dumping and countervailing duty laws. I will work closely with them to assure them of my support and to see that they have sufficient resources to do their important job of protecting American industries against dumping and subsidy practices that distort the marketplace.

With this in mind, if confirmed, I will create a Trade Compliance Center, within the International Economic Policy unit of ITA, devoted to monitoring foreign compliance with our trade agreements. This Center, which will utilize existing ITA resources, will draw on the sectoral and geographic expertise of ITA, its skilled economists and industry experts, and its history of monitoring and enforcing trade agreements. The Center, which will be headed by a senior ITA official, will serve as a central repository of monitoring expertise. It will bring together in a synergistic way monitoring efforts already undertaken by our sectoral and country experts, and will complement these efforts through providing a central source for data collection, analysis of foreign compliance, and the development of monitoring techniques. It will complement and work closely with the welcome initiative of Ambassador Mickey Kantor and USTR to establish an enforcement office, as well as with other agencies of the government and with the Congress to ensure that American firms and workers receive the full benefits from the trade agreements the United States has negotiated over the years. The ITA has a mandate from the 1979 Executive Order to monitor compliance in non-agricultural trade agreements, and I want to assure you that we will focus more than ever on using this authority, in close cooperation with USTR, to help identify priorities for enforcement and to develop strategies for obtaining compliance by our trading partners. ITA's sector-specific analytic tools will be particularly helpful, from NAFTA standards and obligations to WTO rules on intellectual property rights and investments, to bilateral agreements with countries like Japan and China.

We can also help sustain a public and congressional consensus for free trade by encouraging rapidly industrializing countries, particularly in Asia, and more developed nations like Japan and China, to open their markets to foreign products. The U.S. trade deficit with China is expected to surpass $35 billion, exceeded only by our deficit with Japan. The perception that the U.S. market is far more open to their products than they are to ours fans protectionist flames among ordinary working people. These countries, because of their reliance on the U.S. market, have a greater stake than anyone in opening their markets to assure a continuation of the free trade orientation of the United States.

A second goal is to strengthen our Administration-wide advocacy efforts for exports through our Advocacy Center, which I want to enhance, and the Trade Promotion Coordinating Committee (TPCC). I want to broaden the inter-agency participation, regularize its meetings, and work with the TPCC to develop a unified advocacy effort and make effective use of the unified trade promotion budget. I also intend to work with the TPCC to continue the efforts begun by Secretary Brown last year to develop a response to foreign competitive practices, such as bribery and subsidies, that unfairly disadvantage U.S. companies in global competitions.

Third, I want to give special and increased emphasis and energy to targeting small and medium-sized businesses, and minority and women-owned businesses that are severely under-represented in the export area, in order to increase their exports. Small and medium-sized businesses are where the new jobs in the United States are being created. They represent about 25 percent of our manufacturing output, yet only account for 12 percent of our exports. ITA is already aggressively targeting small and medium-sized business through its Commercial Service, but better education, more outreach, and improved trade facilitation, and, possibly, new export financial mechanisms, must be in place to broaden the export base of this country, and to increase the profits and job opportunities in this key sector of our economy. Small businesses often lack the resources for market research overseas. ITA can and does help, counseling over 41,000 small businesses each year on how to break into foreign markets.

Toward this end, I will initiate, if confirmed, a series of conferences around the country, specifically targeting small and medium-sized, minority and women-owned businesses, and workers in industries with export potential, which ITA would sponsor with the Senators and Members of the House from those areas. Working with you -- not just in Washington, but around the country, where it really counts -- I hope together we can promote U.S. exports, help businesses overcome the hurdles to exporting into foreign markets, and sustain support for free trade and open markets both here and abroad. As the world's most competitive economy, we have enormous opportunities.

Fourth, I want to align more closely the efforts of ITA with the foreign policy goals being advanced by the Department of State, the achievement of which increasingly depends upon bringing U.S. commercial interests to bear. Having served for two and one-half years as Ambassador to the European Union, I bring to Commerce a first hand understanding of the importance of the ways in which our trade and commercial efforts support and work hand-in-hand with our foreign policy goals.

An example of this coordination is the undergirding, with U.S. business, of new democracies whose viability depends upon improving living standards for their citizens. This is evident in South Africa, in Haiti, and other areas in which I am particularly interested: Central Europe, the Baltic States, and Russia, the Ukraine, and the NIS. If these fledgling democracies are to flourish, it is absolutely essential that we work together with the private sector to increase trade and investment. We can no longer rely solely on foreign assistance in an era of budget stringency.

Trade and investment also play an important role in our foreign policy interest, namely in supporting the peace process in troubled regions throughout the world. In the Middle East, Northern Ireland, and Bosnia, peace and stability are intrinsically tied to jobs and prosperity. The best way the peace process can take hold and become durable is by creating a better way of life through jobs in the private sector. We can contribute mightily to this end by encouraging American trade and investment in these regions.

A fifth goal of the Commerce Department and the ITA, which I will continue with enthusiasm, is the emphasis on trade with Big Emerging Markets (BEMs). I fully recognize the importance of the BEMs initiative, for it is here that the lion's share of the incremental growth in world imports will occur in fewer than a dozen markets -- the Chinese Economic Area (China, Hong Kong, Taiwan); South Korea; the ASEAN countries and India; South Africa; in Europe via Poland and Turkey; and in Latin

America (Mexico, Brazil, Argentina). In 1994, U.S. exports to the BEMs exceeded exports to either Japan or Europe. If present trends continue, by the year 2000, they will exceed exports to Japan and Europe combined. These markets offer the greatest opportunity for future export growth, given the significant growth rates of these countries -- with some 2.5 billion people. The BEMs' share of global GDP may double from 10 percent now to more than 20 percent in just twenty years. This initiative has helped bring our trade promotion activities into better balance after many years of emphasis on our traditional trading partners. The BEMs initiative has redressed this historic imbalance.

But the support of the United States government is essential to help U.S. businesses take full advantage of this phenomenal growth, particularly in infrastructure development. In a sampling of over 200 overseas competitions in the past eight years, the Commerce Department estimates that U.S. firms lost approximately one half of these competitions due to political and economic pressure by other governments, including concessional financing, promises of technology transfer, and linking foreign aid flows -- totaling some $25 billion in lost contracts.

Having represented the United States to the EU over the past two and one-half years, and having seen things from a European perspective at the same time, makes it more clear, however, that we cannot ignore our mature markets in Europe, Canada, and Japan. The trade flows there are huge -- for example, some $230 billion in two-way trade with the 15 countries of the European Union. Fifty percent of our merchandise exports go to traditional markets (20 percent to the EU, 20 percent to Canada, and 10 percent to Japan). Even a 3 to 5 percent increase in our exports to these countries represents an enormous increase in our exports. This is not an either/or proposition. We must continue to stress our Big Emerging Markets initiative while at the same time continuing our strong relations with mature markets that have historically been the foundation of our trade and export growth.

Last, I hope to better communicate to the American people the benefits of trade in very clear and concert ways. Only with public understanding and support can we be successful in expanding exports and maintaining a political consensus for trade liberalization. Workers must see trade as job creating, not job destroying. Trade is not some esoteric policy issue. Approximately 12 million jobs in the United States depend on exports and imports. To those people, trade means jobs -- good paying jobs. It means better buys for consumers. It is the means by which we as a nation create future economic growth, ensure future prosperity, and provide jobs and opportunity for our people. There is a vast global marketplace out there for American products. I hope that you will give me the chance to work with American business to more fully expand and develop it. This is an area in which we can make a real difference in our people's lives.

I thank you once again for the opportunity to share these views and goals with you today, and would be pleased to answer your questions or respond to your concerns.

TESTIMONY OF UNDER SECRETARY STUART E. EIZENSTAT
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

May 15, 1997

Introduction
I would like to thank the Committee for the opportunity to testify today as part of our shared pursuit of the truth and quest for justice on behalf of the victims of World War II. I am pleased that this subject, particularly issues surrounding the recovery and restoration of gold and other assets looted by Nazi Germany during World War II, and the acts of restitution which must follow, is not only the focus of our government report released last week, but also a continuing concern of this committee. In fact, one of the most crucial explanations as to why this subject has captured the attention and concern of the international community has been the work of this Committee under the leadership of Chairman D'Amato.

Mr. Chairman, your work to push this issue front and center and the work of this Committee and its staff, particularly Greg Rickman, has been critical in our effort to search for the truth.. Nearly a year ago, I testified before this Committee on the issue of dormant accounts in Switzerland. That hearing was a landmark in the road towards truth and justice -- it was the first public demonstration of the courageous work that has been so critical to our efforts. Together with the leadership of the World Jewish Congress, particularly Edgar Bronfman and Israel Singer, you were there at the ground floor -- you have been lone voices in the wilderness. Through sheer energy and determination, you, along with President Clinton who commissioned this study, forced this issue and raised the consciousness and conscience of the world and of countries who, after 50 years, have now opened up this dark chapter in their histories.

U.S. Government Report
I am here today to discuss the findings from our comprehensive report in the same spirit of cooperation and consultation that has characterized our efforts to date. I want to share with you my thoughts and engage in the important discussion of our next steps to achieve justice.

As you know, last week, we issued a preliminary Study, entitled "U.S. and Allied Efforts to Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II." The report, which was prepared by the State Department's Chief Historian, Dr. William Slany, is the product of an extraordinary seven-month effort on the part of eleven U.S. government agencies I coordinated at the request of President Clinton. Along with a selection of some 200 documents to support the findings, it also includes a summary and an interpretative Foreword presenting my own conclusions.

Our mandate from President Clinton was clear. He tasked us to describe, to the fullest extent possible, U.S. and Allied efforts to recover and restore gold and other assets stolen from governments and civilians in the countries Nazi Germany overran, and the initially valiant, but ultimately inadequate, steps taken by the U.S. and the Allies to use these assets for assistance to attention over the last year. It is a study of the past, but one that has real implications for the future. The report documents one of the greatest thefts by a government in history: the confiscation by Nazi Germany of an estimated $580 million of central bank gold--around $5.6 billion in today's values, along with indeterminate amounts of other assets from individual victims of Nazi atrocities during World War II. Around $400 million of this looted gold went to Switzerland, either to the Swiss National Bank's own account or the account of other countries at the Swiss National Bank.

The picture which emerges from these pages is often harsh and unflattering, particularly when dealing with the actions and attitudes of the neutral nations. All profited from their economic cooperation with Nazi Germany. Among the neutral countries, Switzerland receives the most attention in this report because of its crucial financial role. We have no desire to single out a country that is a robust democracy, a generous contributor to humanitarian efforts and a valued partner of the United States today. But given the purpose and scope of this study, Switzerland figures prominently.

The report also shines a bright spotlight on our own country's shortcomings. America's leadership during and following the war were admirable and commendable. Of course, the War would not have been won without the enormous U.S. effort nor could the remarkable rebuilding of Europe have occurred without American leadership. The U.S. Government took the lead in economic warfare against the Axis by initiating the Safehaven program with our Allies. The U.S. scored significant successes in blocking German assets in leaving this country and in tracking the flow of Nazi assets, particularly looted gold, to prevent any Nazi resurgence after the War. The U.S. led the reconstruction of Europe through the remarkably generous and successful Marshall Plan. The report however, highlights U.S. and Allied failures in the areas of restitution and compensation during post-war negotiations to retrieve Nazi assets.

Conclusions of the Report

While this historical report simply lays out the facts in an objective manner, there are certain conclusions one can draw. I have outlined my own personal conclusions in the Foreword to the report. The report should raise questions and serve as a catalyst for further research and action to redress, however belatedly, some small measure of the great injustice that still weighs on so many people today. Let me share with you the major conclusions I reached in my own review as coordinator of this effort.

First, the massive and systematic plundering by Nazi Germany of gold and other assets from conquered nations and victims was no rogue operation. It was systematic, intentional and essential to the financing of the German war machine. The Nazis used neutral countries as banking and financial facilitators. With the Reichsmark largely unusable, to obtain war materials, the Nazis used looted gold, shipped largely to Switzerland, to convert into Swiss francs to help meet their war needs. The German central bank -- the Reichsbank -- knowingly and willingly received gold plundered from the central banks of the countries the Nazis overran and had a special account -- the "Melmer" account, for the SS officer Bruno Melmer, for the deposit of jewelry, watches, even dental fillings of civilian victims of the Holocaust. The gold from monetary and non-monetary gold was smelted or resmelted and its origins often disguised with false markings. .

Second, in the unique circumstances of World War II, neutrality collided with morality. Too often being neutral provided a pretext for avoiding moral considerations. Of course, neutrality was historically a well-established principle in international law, but the report makes painfully clear that neutral countries -- Argentina, Portugal, Spain, Sweden, Switzerland and Turkey -- were slow to recognize and acknowledge that this was not just another war. Most never did. Nazi Germany was a mortal threat to mankind. Their cooperation was motivated in part by fear of invasion, although this receded during the latter stages of the War; in part by Nazi sympathies in some countries; and by a desire for profit in all. All helped support and prolong Nazi Germany's capacity to wage war at a time of grievous Allied and civilian casualties.

Third, of all the neutral nations, Switzerland had the most complex role in World War II. Because of the financial role played by the Swiss National Bank and Swiss commercial banks, it had the deepest and most crucial economic relationship with Nazi Germany, involving banking, trade, industrial production and use of its railways. It, like others, had reason to fear Nazi attack. Many of its actions benefitted the Allies. It bought more gold and hard currency from the Allies than from the Nazis; it served as a protecting power for Allied POWs and property; and it provided a crucial intelligence base for the OSS during the war. But without question Switzerland and other neutral nations benefitted from their trade and financial dealings with the Germans and helped prolong the War effort.

In the second phase of the War, when Nazi Germany's threat to the neutral nations was diminished, commerce with Germany continued. Despite Allied requests, German assets in neutral nations were not frozen and the neutrals continued to profit form their trading links with Germany.

Swiss actions after the War are the least understandable. After the war, despite appeals from Allied negotiators to consider the moral imperative, the Swiss demonstrated an obdurate reluctance to cooperate with Allied efforts to retrieve and redistribute looted gold. Despite repeated Swiss protestations after the War that they had never received any looted Nazi gold, *this report is incontrovertible:* the Swiss National Bank and Swiss bankers had to know, as the War progressed, that the Reichsbank's own coffers had been depleted, and that the Swiss were handling vast sums of looted gold. In postwar negotiations, Switzerland used legalistic positions to defend their interest, regardless of the moral issues also at stake. They first contended they had purchased Nazi gold in good faith, and only later did they admit to having obtained looted Belgian gold. After long, difficult and contentious bargaining, agreement was reached in the form of the 1946 Washington Accord -- obligating the Swiss to return $58 million to the allies, far less than the range of $185-$289 million in looted gold the U.S. Treasury and State Departments estimated was in Swiss national accounts. The Swiss were even less forthcoming in implementing the other part of the Washington Accord -- providing the Allies with 50 percent of the liquidated value of

German assets in Switzerland after the War, in part for the benefit of refugees. Six years later, in 1952, the Allies accepted a total token payment of $28 million compared to Allied estimates of $250 to $500 million in German assets. Even this was effectively paid for by the German-Swiss compensation settlement between the two nations reached at the same time. Until last year, the Swiss banks were notably uncooperative in helping identify dormant bank accounts.

Fourth, American leadership in the post-war negotiations to retrieve Nazi gold and other assets was well-intentioned, but unfortunately, limited. There was a demonstrable lack of senior-level support for a tough and consistent U.S. negotiating position with the neutrals. Moreover, there was an even greater lack of attention in ensuring implementation of negotiated agreements. Wartime objectives were replaced by new Cold War imperatives, to rebuild postwar Europe and create NATO to contain the Soviet threat. Putting a democratic West Germany on its feet and other security concerns with all neutral countries also took precedence. And yet the U.S. took a far more aggressive position to recovering Nazi gold and German assets than our Allies. Our Allies put an emphasis almost immediately after the War on restoring full commercial cooperation with Switzerland. The British demanded early on to remove restrictions on Switzerland. At the time they were also hesitant to provide money to Jewish refugees because it would conflict with restrictions on the number of Jewish refugees who could enter Palestine.

Finally, the report concludes from the pattern and practice of Reichsbank resmelting and other evidence, that some Nazi victim gold was sent abroad and gold from individuals as opposed to central banks was also included in the Tripartite Gold Commission (TGC) gold pool. This looted central bank gold was to be redistributed to the governments from whom it was stolen during the War. The decision to define monetary gold by appearance and not origin as well as other evidence obtained in our review has established that the TGC gold pool was tainted with gold from individuals. Although there is no evidence that Switzerland or other neutral countries knowingly accepted victim gold, the study also provides clear evidence that at least a small portion of the gold that entered Switzerland and Italy included non-monetary gold from individual citizens in occupied countries and from concentration camp victims or others killed before they even reached the camps. Further research could determine whether more was included.

Other Neutrals [illegible] [illegible]

While the report focuses on Switzerland, it is important to touch on the role and actions of the other neutral countries not only in our effort to set the record straight, but also in our shared concern for justice and reconciliation.

Other European neutrals were also important commercial partners of Germany, and Allied efforts to throttle trade and financial exchanges between them and Berlin remained difficult. The United States was also determined to halt German trade and the movement of German assets to Central and South America. Argentina posed a particularly difficult problem in terms of preventing financial exchanges and war-oriented commerce. To varying degrees, each of the neutrals cooperated with Nazi Germany for their own economic benefit. Sweden was one of Nazi Germany's largest trading partners, supplying critically-needed iron ore and ball bearings, among other goods. Portugal supplied a variety of vital mineral resources for the Third Reich's war machine, including the ore for tungsten. Spain maintained an active trade in goods and raw materials. Turkey was Germany's source of very scarce chrome. Argentina's pro-Axis regime failed to control the transfer of German funds from Europe.

Negotiations with most of the other neutral countries were also difficult, contentious, prolonged and produced little, with the exception of those with Sweden which were somewhat more productive. Portugal only provided some $4 million of the some $51 million the Allies initially sought, with negotiations dragging on throughout the 1950s. Spain returned only $114,000 in looted gold, despite Allied suspicions that Spain held as much as $30 million in looted gold. The Allies also estimated that some $44 million in German assets and $5 million in looted gold was located in Turkey. However, Turkey never made any payments.

Next Steps

Our report seeks to set the record straight and lay out the facts in a clear, unvarnished fashion. This report will not answer all of the questions, but it will inform our decision-making and enable us to proceed with a greater knowledge of what really happened during this tragic period of our history and with a clearer understanding of the next steps we need to take in the coming months.

There are some who say that the best way to move forward, especially in light of the report's revelations, is simply to reopen the 1946 Allied-Swiss Washington Accord. While we exclude no option, we favor a broader approach. What matters most right now is that the countries mentioned in our report have time to absorb these facts and we take a close look at what actions are forthcoming before making any definitive judgements.

Three steps should be considered in the coming months to provide compensation to the victims.

First, approximately $70 million remains in a gold pool established by the Tripartite Gold Commission, into which gold looted from central banks was placed for redistribution after the War. The gold pool was intended to be made up of purely monetary gold. Our report demonstrates that it was "tainted" by the inclusion of some non-monetary gold taken from individual victims and resmelted into gold bars that were indistinguishable in appearance from the monetary gold bars looted from central banks. For example, the report indicates that coins found in the Merkers salt mine were transfered to the TGC gold pool.

The remaining 5.6 metric tons of TGC gold is supposed to be divided among the claimant countries. But on moral grounds, and because we now know that non-monetary gold was mixed with central bank gold, we believe claimant countries should voluntarily make available a substantial portion of this remaining gold for the surviving victims of the Holocaust and Nazi persecution. Voluntary action would avoid the difficult task of reaching consensus among claimant countries through a renegotiation of the 1946 Paris Reparations Agreement.

Second, other neutral countries that returned far less -- in some cases virtually nothing -- of the looted gold and German assets they had after the War might well consider following the lead of Switzerland in establishing funds for victims. These individuals are elderly, and in many cases ill and destitute. Switzerland has begun to recognize its responsibility to help redress these injustices. Major Swiss banks and companies, along with the Swiss National Bank, have established a substantial fund for needy surviving Nazi victims and their heirs. We encourage other Swiss banks to join in this Holocaust Fund. The Government of Switzerland has also proposed establishing an endowment, based on a portion of its gold reserve, to generate income for survivors and other humanitarian causes. The United States applauds these significant gestures. Due to fact that little time remaining in the lives of these aging survivors, we strongly encourage swift implementation of these funds.

In light of the possibility of a referendum in Switzerland on the establishment of the government humanitarian fund, it is important for private companies to take it upon themselves to initiate actions to bolster and augment the new Holocaust Fund. It is essential that additional companies and banks follow the lead of those few Swiss companies and institutions which have thus far contributed to the fund, to address immediately the needs of those whose lives have been inexorably altered by the painful events of World War II.

It is also important that other neutrals such as Sweden, Spain, Portugal and Turkey follow the Swiss lead and act to do justice to the victims of Nazi atrocities.

Third, we must work towards the return of communal property such as schools, churches and synagogues, particularly in Central and Eastern Europe. This includes income producing property which could be used to support funds for victims. The Government of Hungary has undertaken a dramatic initiative to begin paying compensation, \$20-\$40 a month for the rest of their lives, to over 20,000 Holocaust survivors living in that country. We hope that other countries will follow this sterling example.

One aspect of the study deserves immediate attention and action: the plight of those who were victims not only of war and the Holocaust, but of the sad combination of indifference on the part of the neutrals and inaction by the Allies. The report reveals serious inequities developed in the treatment of victims depending upon where they lived after the war. Beyond immediate emergency resettlement assistance, most governments did not have long term commitments to rehabilitation. The greatest burden of providing ongoing relief fell on private organizations. In administering payment to survivors we believe special emphasis should be given to those in Central and Eastern Europe and the former Soviet Union who survived both Nazism and Communism. These "double victims" have received little or no compensation from Germany, unlike those survivors who live in the West, some of whom have received monthly pensions.

Restitution

Apart from these important financial steps, there is a moral imperative. Each nation involved in these tragic events must fully come to terms with its own past. It is important that a healing process begin, and that genuine reconciliation be achieved. There is reason for optimism --

especially with so many countries now willing to honestly confront the past and draw lessons from it. Following the British study of last year and the launch of our own study, Switzerland, Sweden, France, Spain, Norway, the Netherlands, Belgium, Brazil and Argentina have established, or will soon establish, historical commissions to examine their roles in World War II, their relationship with Nazi Germany and their responsibility to return looted property. In particular, we welcome and applaud the steps Switzerland has taken in establishing commissions to examine assets in dormant bank accounts and to review the entire historical relationship between Switzerland and Nazi Germany.

We also encourage the creation and support of museums, regular conferences and educational curricula and other means to ensure future generations learn the full history of the Second World War, including the nature of their countries' relationship with Nazi Germany. A fuller understanding of the realities of the War will ensure that such a tragic event will never be repeated.

Let me emphasize that we strongly favor the truth finding commissions which many countries have created, but these must not be an end onto themselves. We must balance the effort at education and reconciliation for future generations with the immediate concerns of compensation and restitution for those elderly survivors to allow them to live out their lives in dignity and honor.

Additional Research

To move this healing process forward, it is vital that all the facts be made public. The Clinton Administration has made an extraordinary effort to declassify documents that may shed further light on these issues. In addition, the U.S. favors the immediate declassification of all of the Tripartite Gold Commission documents that bear on the origin of the TGC gold pool. The U.S. and other concerned governments would then need to assess the results of this information. It will be important, for example, to have German Reichsbank records available so that we can all reach a more complete understanding of the origin and flow of looted assets.

The U.S. will also explore the idea of an international conference of historians and other experts to exchange information, insights, and documents about the flow of Nazi assets, the relationship with the Third Reich during the war, and measures for finding surviving owners or disposing of heirless property. The British, in their report released last week, also called for such a conference. Government officials can then profit from historians efforts to discuss other measures and how we can act on the information and facts gathered. We have for instance taken the important step of coming to agreement with the government of Switzerland to share all relevant documents on this subject so that each country may be helped in the search for facts.

Unresolved Questions

This report sought to answer as many questions about this issue and this period of time as possible. But there remain additional unresolved issues which are only briefly mentioned in this report. It is our challenge, to work with you in Congress, to work with our Allies and friends around the world to seek a more complete accounting and to continue our search for the truth and justice. This hearing today is part of this very important process. But further investigation is required to gain more complete knowledge and understanding, particularly in the following areas:

The disposition of heirless assets in U.S. banks and, indeed, whether there may have been looted Nazi assets in U.S. banks -- including the American affiliate of Swiss-owned banks -- is an important matter which requires further investigation by other institutions, including relevant state authorities. Congress took a hard look at this issue following the War. During the War financial assets owned by enemy-country citizens had been frozen and there was widespread Congressional support for the return of seized assets owned by Nazi victims. In August of 1946, Congress enacted an amendment which permitted the return of seized assets to certain victims of various forms of persecution, but the Act did not deal with the problem of those victims who had died heirless. Legislation which would turn over heirless assets of persecuted persons to organizations that would assist surviving persecutees failed in Congress for several years because of the difficult procedures established for restitution and the discrepancies over estimated figures. Subsequent efforts also failed, but eventually, through legislation allotting a sum of $3 million was decreased to a lump sum payment of $500,000 that was provided to the Jewish Restitution Successor Organization.

In a letter to me this year dated March 11, Seymour Rubin, a negotiator at the time of the Washington Agreement stated:

> "To the best of my knowledge, there has never been a reevaluation of this paltry amount. The proceeds of German assets in the United States were paid into accounts of the War Claims Commission which was charged with making payments as it could to American businesses and entities which suffered war related losses. Legitimate as these claims were and are they should not be satisfied out of properties which were vested as "German" but belonging to victims of the Holocaust."

This must be reevaluated and any discrepancy be provided to successor organizations. It will also be important to pursue insurance claims by families of Holocaust victims, as well as securities and artworks, whose policies were confiscated by the Nazis or whose claims were denied due to a variety of circumstances, including the lack of death certificates.

This issue of Nazi gold flows in to the United States, possibly through Swiss-owned banks operating in the United States warrants further investigation. Dormant accounts in US banks are turned over to the state in which the bank operates. The state houses these accounts in an identifiable abandoned property account so depositors or their heirs could eventually recover them. We must determine the most appropriate method and process to examine this information. We think this is an appropriate issue for Congress to examine and support your further inquiry and investigation.

Conclusion

Our task in the months ahead is to complete the unfinished business of the twentieth century's most tragic and traumatic events. Much work remains, but this preliminary study is a major step forward. Ultimately, the United States, our Allies and the neutral nations should be judged not so much by the actions or inactions of a previous generation, but by what we do today and by our generation's willingness to face the past honestly, to help right the wrongs, and to deal with the injustices suffered by the victims of Nazi aggression. Our hope is that our work will advance that broader purpose -- to achieve a small measure of justice, however belatedly, so that surviving victims can live out their remaining years in dignity.

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UNITED STATES DEPARTMENT OF
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NEWS
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PREPARED STATEMENT BY AMBASSADOR STUART E. EIZENSTAT
UNDER SECRETARY FOR INTERNATIONAL TRADE
DEPARTMENT OF COMMERCE

Before the Subcommittee on
Commerce, Justice, State, the Judiciary and Related Agencies
Committee on Appropriations
House of Representatives
March 18, 1997

OPENING
Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you in support of the International Trade Administration's FY 1998 budget request.

ITA's request is for $271.6 million and 2,270 FTE. As compared to FY 1997 appropriated levels, this reflects an essentially flat budget. We are requesting an increase of $1.6 million (0.6%) and a decrease of 90 FTE (-3.8%).

This is the fourth year for which we are requesting a nearly steady level of resources. We have roughly 300 fewer people on board that 2 1/2 years ago. Yet we have taken on successfully major new responsibilities--the new Compliance Center, our Advocacy Center, the Export Assistance Centers around the country, the Big Emerging Markets initiative, and new responsibilities of our Import Administration unit in managing the added workload imposed by the Uruguay Round. The fact that we have been able to retain a flat-line budget in these times of budget constraints and fiscal austerity is reflective of this Administration's commitment to promoting exports as an engine for economic and jobs growth. It also demonstrates the active support we have enjoyed from this Committee, and for that we thank you, Mr. Chairman.

The continued and sustained support for our programs is justified. The Administration understands what many of you on this committee have long recognized -- the importance of trade and export promotion to our economic prosperity. The International Trade Administration stands at the forefront of this government's trade promotion efforts.

By approving our budget request, you will enable ITA to continue serving American businesses and American workers in this most important area. ITA is the only agency of the U.S. government with the proven capacity to provide hands-on assistance to U.S. companies that seek to broaden their markets by exporting or doing business abroad. ITA also has the ability to provide strategic support to the development of U.S. international trade and commercial policies. Through our Advocacy Center, and our restructured Market Access and Compliance unit, and other efforts, we have put the U.S. government -- more forcefully than ever -- squarely on the side of U.S. exporters to level the playing field in a fiercely competitive global marketplace.

Sustained funding levels will enable us to continue to assist in interpreting foreign rules and regulations, help arrange joint ventures with foreign partners, and enable U.S. companies, particularly small and medium-sized enterprises to enter foreign markets. We will continue our full service global network of resources through our Commercial Service; analyze U.S. competitiveness on an industry-by-industry basis in the Trade Development unit; through our Market Access and Compliance unit, formerly International Economic Policy, continue to concentrate on identifying existing and potential market access issues and developing strategies to overcome market access obstacles country-by-country and region-by-region; and through the Import Administration ensure a level playing field for American businesses through enforcement of the anti-dumping and countervailing duty laws.

ITA's FY 1998 request contains two very modest increase proposals within our flat budget request that focus on our priority to strengthen our role in ensuring compliance with trade agreements.

- We request $497 thousand to help us comply with our NAFTA obligations. These funds will be used to fulfill our NAFTA obligations to pay panelists who provide us with dispute settlement services under the accord.

- We also request $532 thousand to enable us to more vigorously enforce new provisions of the AD/CVD laws; these include sunset reviews, subsidies enforcement, and administrative reviews.

The reduction in FTE (and positions) reflects our commitment to meeting the goals of federal workforce downsizing. We will meet our FTE target through normal attrition and selective new hiring.

As the Commerce Department's lead trade unit, the International Trade Administration (ITA) helps U.S. companies sell products and services abroad in support of U.S. jobs at home. This overall mission continues to be carried out by our four working units: Market Access and Compliance (MAC), Trade Development (TD), the U.S. and Foreign Commercial Service (the Commercial Service), and Import Administration (IA). Proposed budget allocations to ITA's four major operating units for FY 1998 remain nearly equivalent to this year.

TRADE AND ECONOMIC GROWTH

What ITA does is critically important to the U.S. economy, and U.S. companies are following through with unprecedented export performance. In just over the last four years, we have seen exports surge from $618 billion in 1992, to $836 billion in 1996. Exports of goods and services have grown at an annual rate of about 8 percent over the period, well above the rate of overall economic growth. We are well on the way to meeting the goal the Administration set two years ago of increasing U.S., exports to $1.2 trillion by the year 2000.

Today, ninety-six percent of U.S. firm's potential customers are outside U.S. borders, and the Big Emerging Markets ("BEMs") alone will account for almost half of the world's market by 2010. These markets are our country's best economic opportunity, with developing countries already accounting for almost 67 percent of world import growth.

The strategy also reflects the fact that exporting is fundamental to our economic health and our standard of living. In 1970, for example, the overall value of trade to our economy equaled just 11 percent of America's GDP. Twenty-five years later (1995), it reached 23 percent. Over the past three years, exports have accounted for about one-third of total U.S. economic growth. In 1995, some 11 million jobs depended on exports, and by the year 2000 that number will have risen substantially, perhaps to 16 million.

What this means to the average American is that his or her company will perform better if that company makes a commitment to export. Ninety-five percent of the world's consumers live outside the U.S. A recent study by a group of leading economists shows that firms that export experience 20 percent faster employment growth and are 9 percent less likely to go out of business than are non-exporting firms. Jobs in export industries also pay 13-18 percent more, provide 11 percent higher benefits and are more productive than firms that do not export.

And because export jobs pay more and exporting firms are more likely to succeed, it is clear that the more we shift our economy into exporting sectors, the more we will contribute to more stable communities and a higher standard of living for all Americans.

Our future economic growth and prosperity rely on an aggressive pursuit of market opportunities, a strict enforcement of our U.S. trade laws, and an understanding that we must work with the private sector to ensure America's competitive advantage as we approach the 21st century.

Our trade programs and initiatives are critical in not only helping to generate economic growth and advance our overall commercial interests, but also in furthering our foreign policy objectives. Trade and investment play critical roles in undergirding and supporting new democracies around the world and fostering stability in troubled regions. Trade is an area that makes a real and positive difference in people's lives.

PURSUIT OF GOALS AND OBJECTIVES

Since ITA is requesting only a very modest budget increase ($1.6 m), our budget plan is aimed at focusing as many resources as possible from within the base towards the high priority activities I identified last spring and which are now part of the Department of Commerce's Strategic Plan. ITA's mission is to help U.S. companies sell products and services abroad in support of U.S. jobs at home. Let me discuss the five goals I have set in meeting this mission and give you some examples of some of our achievements in pursuing them over the past year:

I. -- ***Strengthen trade advocacy, trade promotion, and the Trade Promotion Coordinating Committee*** *(TPCC)* - Through the Advocacy Center, which is the "nerve center" of the TPCC's advocacy network initiative, ITA leads the Government-wide effort to develop and to implement interagency strategies to help U.S. firms win bids for major projects and commercial transactions in foreign markets. In 1998, ITA plans to broaden the involvement of TPCC agencies in advocacy activities.

It is important to note that our advocacy efforts are almost exclusively involved only when the foreign decision maker is a foreign government or government-owned enterprise and, thus, pure market forces are not at work. In FY 1996, ITA's Advocacy Center had its best year since it was established in November 1993. The advocacy network assisted U.S. companies in winning 122 overseas contracts with a value estimated by the companies at more than $41 billion. These projects could result in U.S. exports exceeding $26 billion. Thanks to outreach efforts to small and medium-sized enterprises (SMEs), about 20 of the FY 1996 successes were SME projects. This number does not count the additional positive impact on SMEs that occurs when large companies succeed through advocacy. For example, **Mission Energy Company**'s successful bid for a $2.6 billion power plant in Indonesia will benefit 30 suppliers and subcontractors located throughout the U.S.

The following Advocacy Center "success story" illustrates one of many ways in which the Center assists U.S. firms -- on a daily basis -- in their exporting efforts.

> **Parsons Engineering Science, Inc.** of California, an environmental engineering company specializing in water and wastewater projects and a subsidiary of Parsons Corporation, was awarded a $400,000 contract in April 1996 from the Government of Malawi to conduct Phase I of a water management project which will span several years.
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> Parsons will provide technical assistance to strengthen central water services and improve operational efficiency and management of water resources in Malawi. The overall program is valued at approximately $130 million, the bulk of which will be financed by the World Bank. The potential value of possible U.S. exports of pipe, valves, pumps, meters, etc. for water system improvements could be in the $10 to $15 million range over the life of the contract.
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> For its contract, Parsons competed with firms from South Africa, Israel, the U.K., and the Netherlands. To ensure a level playing field, the company sought U.S. Government advocacy support in January 1996. This support took the form of a 5-country Commercial Development Mission to Africa plus a follow-up letter to the Malawi Ministry for Irrigation and Water Development.

A second area of our promotion focus has been the Trade Promotion Coordinating Committee. In September of 1996, the TPCC (with ITA as its lead agency) transmitted its fourth annual report to Congress on the status of the National Export Strategy. Entitled "Toward the Next American Century: A U.S. Strategic Response to Foreign Competitive Practices," the Strategy responds to one of our greatest problems in world markets -- practices our competitors use to obtain market access in the world's fastest growing economies. We heard from U.S. companies that questionable practices, such as bribery and other forms of political and economic pressure, are among the most difficult barriers they confront abroad. And we have seen that, compared to our competitors, U.S. small and medium-sized businesses have more difficulty obtaining reasonably-priced export financing. This year's National Export Strategy sets out the first government-wide plan to address these issues. Let me give you two examples.

> **Countering Bribery:** To counter transnational bribery, the TPCC agencies, led by ITA, are working through the Organization for Economic Cooperation and Development, the Organization of American States, and the international financial institutions to develop strong, multilateral proscriptions against bribery. Domestically, we in Commerce amended our Advocacy Guidelines to ensure that a U.S. firm's foreign parent or other affiliates are not paying bribes to help win a contract for which they have sought U.S. government assistance. Ex-Im Bank and OPIC strengthened their efforts to counter bribery by amending their certificates.

> **Small Business Access to Capital:** The TPCC agencies have launched two new initiatives to improve access to trade finance for small businesses. SBA will extend its 7 (a) program -- which currently guarantees working capital for small businesses; and the Ex-Im Bank is designing a pilot program to provide guarantees for bundles of small business loans for a period of time to help jump-start a secondary market for trade finance for small business.

II. -- ***Increase trade assistance targeted to small and medium-sized businesses.*** - ITA will continue to provide export assistance to small and medium-sized enterprises through the Commercial Service's network of domestic and overseas field offices. In FY 1996 former Secretary of Commerce Mickey Kantor converted the final 53 district offices into Export Assistance Centers, continuing our commitment to the EAC initiative. In 1997, we will complete our domestic field's transformation into the Export Assistance Center Network with 19 operating U.S. Export Assistance Centers (USEACs) connecting a total of 96 Export Assistance Centers in a "hub and spoke" network.

The transformation has already produced extremely positive results. Using our resources efficiently, our Export Assistance Centers achieved a total of 8,177 "export actions" in FY 1996 helping 3,970 different U.S. firms realize new and expanded export sales. This represents 80% growth in "export actions", that is, export sales which are directly facilitated by our trade specialists, over the past two years. Please note, these are conservative figures since many of our clients prefer not to disclose financial and sales information.

Working hand-in-hand with the private sector, ITA organized overseas trade missions as well as trade exhibitions and product literature centers aimed at small and medium-sized businesses. ITA organized trade missions including the historic return mission to Bosnia and Croatia, led by Secretary Kantor, which resulted in the closing of $2 billion in commercial deals in Croatia and the launching of an integrated commercial strategy to support the rebuilding of Bosnia, a mission to India, in which bridges were established with the new Indian government; and a software trade mission to China that successfully built upon the recent U.S.-China intellectual property rights accord.

ITA industry representatives met one-on-one with U.S. businesses -- most of them new to exporting -- in hundreds of thousands of counseling sessions, providing advice and strategies on entering sector-specific markets in foreign countries. ITA's award-winning Trade Information Center, which is the principal point of contact for ITA and TPCC counseling services, handled more than 72,000 inquiries, 90% of which were from small businesses.

The Market Development Cooperator Program (MDCP) was created by Congress as a public-private partnership that is industry driven. With small amounts of public money, matched two-to-one with private sector funds, ITA works with industry to create solid market-expanding programs. Seventeen cooperator projects, generally involving small firms, are now in operation, and four have been completed. Sixty-three proposals were submitted for the FY 1996 MDCP award competition, and on March 4, 1997, four awards were made.

ITA has assisted many small and medium-sized companies in increasing their exports. Here are just a few very concrete examples of our successes:

> **Carrier Vibrating Equipment, Inc.**, a Louisville, Kentucky-based small manufacturer of vibrating conveyor systems, has seen its exports grow from 10 percent to 30 percent of total sales since 1990 as a result of aggressive marketing and direct assistance from ITA's Louisville office. With growing sales in South Korea, China, India, and other Pacific Rim countries, the 100 - employee company plans to add 15-20 new workers to its payroll.
>
> A client of the Louisville office for many years, Carrier attributes much of its success to trade missions and overseas travel supported by ITA programs. Carrier President Ken Panel is enthusiastic about the Gold Key and Customized Market Analysis (CMA) programs that helped make recent trips to China, Taiwan, and Mexico a success. Mr. Panel returned to the United States from China with an order of nearly $850,000 for equipment to be used in a petrochemical plant. Carrier is also poised to appoint an agent in Taiwan as a result of a Gold Key Service provided by the American Institute in Taiwan. In addition, much of Carrier's current export volume is due to strong sales in South Korea, generated by an agent contacted during a 1991 trade mission supported by the Louisville office. Mr. Panel shares the experience he has gained by serving as a member of the Kentucky District Export Council (DEC).
>
> **FCX Systems, Inc.** is a Morgantown, West Virginia manufacturer of frequency

converters used in a variety of applications, but primarily used to power jet airplanes. Company officials met with Wheeling Export Assistance Center trade specialists in February 1996 to identify possible export markets. After conducting extensive market research, the EAC staff contacted the Commercial Section in the American Embassy in New Delhi to initiate FCX into the Indian market. As a direct result of this assistance, FCX sold five units worth $200,000 into India by July 1996. Says FCX President and Chairman of the Board, Don Gallion: "FCX tried on several occasions to enter the Indian market and was getting nowhere. The Wheeling EAC provided us a winning combination of contacts in and information on India that has made our first sale into India a reality."

ARINC Inc. is a well known provider of aerospace related products and services based in Annapolis, Maryland. Our Post in Beijing has been working with ARINC on negotiating a contract in China. The contract called for ARINC to provide products and services for the expansion of the Harbin International Airport in China. Through value added counseling, program usage, assistance from the Post and the Advocacy Center, the firm was able to complete the contract valued at $30 million. In a joint counseling session the firm was introduced to EX-IM programs. The firm recently disclosed that EX-IM has approved a $27 million direct loan to the bank of China in Beijing to support the contract.

Construction Marketing Services (CMS), a Surrey, England based construction marketing firm, in February 1996, contacted the telecommunications firm, Business Communications Management, Inc., based in Lake Oswego, Oregon, as a result of BCM's advertisement in Commercial News USA. BCM had advertised for distributors of its "My Calling Card", a discount overseas calling card for international travelers. By March 1996, CMS entered into a partnership with BCM to act as its U.K. agent and distributor; CMS presently provides over 50,000 cards per quarter to U.K. travel agents.

In a talk with CS London, BCM expressed satisfaction with its sales through Commercial News USA ads. BCM's Lee Marona told CS "In the U.K. monthly sales to CMS grew from $100 in April, 1996 to $4,000 in December 1996, with the volume up every month. BCM said its ads in Commercial News USA gave its product legitimacy and credence in the world market. BCM did not have to prove itself to new and potential distributors.

We will continue to improve these services by providing better education and outreach, improved trade facilitation and by identifying new export financing mechanisms. As the world's most competitive economy, we have enormous opportunities. We are committed to helping our firms benefit from them.

III. — Strengthen trade law enforcement and compliance monitoring, including continued operation of the recently established Trade Compliance Center. - ITA's Import Administration unit impartially enforces U.S. antidumping and countervailing duty laws. In line with guidance from this Committee, our Market Access and Compliance (MAC) unit, formerly International Economic Policy (IEP), has refocused its goals and its functions, and is concentrating on identifying existing and potential market access problems and initiating U.S. government action to overcome market access obstacles country-by-country and region-by region to expand the opportunities for U.S. business worldwide. MAC is now reoriented and totally focused on obtaining expanded market access for U.S. companies in foreign markets, leveling the playing field by opening foreign markets to U.S. goods and services and ensuring foreign compliance with trade agreements.

A key element, again with support from this Committee, was the creation of our new Trade Compliance Center (TCC) in MAC to monitor foreign compliance with 200-plus agreements the United States has in force. The TCC is developing a comprehensive data base of agreements and is developing quantitative means of measuring compliance, so that U.S. business can be in a position to take full advantage of market opening agreements. MAC utilizes not only its own country market access officers but also the Commerce Service's overseas expertise and Trade Development's industry expertise in identifying compliance issues and priorities.

We are pleased to report that the restructuring of MAC has already had a dramatic effect on the U.S. government's ability to act on foreign market access barriers and to monitor compliance with trade agreements. Some of the examples include:

> **Western Europe:** ITA has taken the lead in conducting critically important Mutual Recognition Agreement (MRA) negotiations with the European Union that will dramatically reduce the costs and difficulties U.S. companies face in getting their products tested and inspected for sale in Europe. The MRA's will affect $50 billion of U.S. bilateral trade and particularly will reduce costs for smaller U.S. companies. MAC also led the U.S. government effort to bring about changes in German government regulations to give non-European companies access for the first time to the multi-billion dollar German market for electric power generation equipment.
>
> **Eastern Europe, Russia, and the NIS:** MAC identified and then took the lead in generating government-wide action to prevent Poland from implementing costly new product entry requirements that would have frozen many -- perhaps most smaller U.S. exporters out of the Polish market. Their continued access is now assured by MAC's action. MAC also developed and led the implementation of the U.S. Government's strategy that successfully reduced duties in the Czech Republic allowing Westvaco to export raw materials from the United States to its specialized paper plant in the Czech Republic instead of having to buy materials from European suppliers. Many smaller U.S. companies were assisted in entering the Russian and NIS markets.
>
> **Japan:** MAC played the lead role in negotiating and monitoring key trade agreements with Japan that substantially improve market access and sales for U.S. medical equipment, pharmaceutical, and construction firms. Executives representing the U.S. medical equipment industry indicated in March that as a result of a successful effort by the Deputy Assistant Secretary for Japan to prevent Japanese officials from lowering the national health insurance reimbursement price for U.S. products, the U.S. medical equipment industry was spared $500 million in lost revenues over the coming year.

ITA also played a lead role in implementing and monitoring the U.S.-Japan Automotive Framework Agreement (signed in August 1995). Big Three motor vehicle exports to Japan increased by 34%, and U.S. auto parts exports to Japan increased by 20% during 1996. ITA was also instrumental in the successful conclusion of a new semiconductor agreement with Japan, which builds on prior market access accomplishments by mandating continuing U.S.-Japan industry cooperation and the collection and analysis of market and trade flow data.

NAFTA: MAC's NAFTA experts seek out regulatory or policy barriers that will impact our exporters and devise strategies to solve the problems. MAC, for example, played an integral role in obtaining a delay in a Mexican government labeling requirement that would have cost U.S. exporters billions of dollars in lost sales and time delays. Also, MAC was instrumental in opening up to U.S. bidders a contract that a Canadian agency had designated as NAFTA-exempt. The contract was eventually won by a small U.S. firm.

Middle East and Africa: MAC has been leading Commerce's effort to obtain better market access in the Middle East. Much of this progress has been achieved through the annual U.S.-Gulf Corporation Council Dialogue, the Gore-Mubarak Partnership meetings with Egypt, and the Joint Economic Development Group discussions with Israel in which MAC plays a key role. MAC has also played a key role in promoting privatization in the Near East that has opened up new investment opportunities for U.S. firms, particularly in the power field.

Asia-Pacific: During my visit to China last month, I made it clear that our rapidly growing trade deficit is not sustainable and will have a corrosive impact on our economic relationship if not adequately addressed. One of the key ways in which we are doing so is through the premier USG bilateral economic forum with China, established by MAC -- the Joint Commission on Commerce and Trade. MAC also played the lead role in establishing the U.S.-India Commercial Alliance -- the leading public-private partnership between the United States and India. It provides us with opportunities to further market access issues as well as to pursue business opportunities.

Through our Import Administration unit we also were successful in carrying out our trade law enforcement responsibilities, having completed more than one hundred antidumping case reviews. Also, we provided technical advice and negotiating support on a variety of multilateral and bilateral issues.

ITA represents Commerce on the World Trade Organization's (WTO) Antidumping and Subsidies and Countervailing Measures Committees. ITA has participated with the USTR in the working group on subsidies and antidumping under the Free Trade of the Americas Agreement (FTAA) and the competition working groups under both the FTAA and the Asian Pacific Economic Council (APEC). Bilaterally, ITA has worked with the governments of Brazil, India, Kazakhstan, Ukraine, South Africa and Thailand to clarify and explain the workings of our respective AD and CVD laws. ITA also participates as part of the USG delegation on various negotiations including the shipbuilding agreement and the Multilateral Steel Agreement.

IV. -- ***More closely align trade objectives with U.S. foreign policy.*** - Our trade and commercial efforts frequently support our foreign policy goals. Trade and investment flows can play a significant role in facilitating incentives for peace and prospects for sustained economic growth and stability. ITA will continue its efforts to provide economic incentives to promote these ends. We place emphasis on encouraging U.S. exports and U.S. business leads to emerging democracies, like those in the former Soviet Union, Central Europe, South Africa, and Haiti; to regions with fragile peace processes like the Middle East, Northern Ireland, and Bosnia; and to countries like Turkey and Egypt, facing threats from radical forces.

ITA is utilizing various bilateral and regional mechanisms to expand the participation of U.S. firms in Middle Eastern economies and to support the peace process. ITA provided support for the Gore-Mubarak Partnership and the President's Council Meetings in Cairo and Washington. ITA organized a Taba Trade Leaders follow-up meeting in Cairo and recommended steps that were approved to reduce barriers to regional trade and trade with the U.S. Also, working through the U.S. Gulf Cooperation Council on Economic Dialogue, ITA pressed for the continued reduction of barriers to bilateral trade and investment, and for greater trade cooperation and integration.

Last fall in Pittsburgh, ITA hosted a Trade and Investment Conference for Northern Ireland in support of both commercial and foreign policy objectives. Nearly 500 matchmaker appointments were scheduled, making this the largest business matchmaker program Commerce has undertaken. Early results are promising: at least two contracts have been executed with Northern Ireland firms to provide software technical services, and another company announced that it is forming a wholly-owned software development company in the Belfast area that will eventually employ more than 100 people.

V. -- ***Continue emphasis on trade with the "Big Emerging Markets" without losing focus on mature markets.*** - Since the inception of the BEM initiative in 1994, we have increased staff levels stationed in those markets by 38% (or 125 positions). As part of this build-up, we are right now in the process of adding 14 new Commercial Officer positions in BEM countries. Also, we have opened Commercial Centers in three BEM's: Sao Paulo, Brazil; Jakarta, Indonesia; and, just a few weeks ago I opened our newest Center in Shanghai, China. We are working closely with state offices that have expressed an interest in co-locating with us in the Centers; for instance, in Shanghai the States of Washington, Maryland, and Michigan are already in our office. We are awaiting Government of India approval to establish four new satellite Commercial Service offices in India, our only BEM in South Asia. In addition, ITA will continue to assist U.S. companies that are already exporting to more mature markets in Western Europe, Japan and Canada and aid them in expanding their markets.

ITA's FY 1997 PLANNED PROGRAM INITIATIVES

In order to help U.S. firms meet today's challenges in the world market, we have formulated a substantial number of trade promotion, policy, and enforcement initiatives for FY 1997. (We plan to redeploy as many resources as possible from our static FY 1997 budget base towards implementation of these initiatives.) We have presented below only a select few of these initiatives because our strategic focus continues to evolve in response to changing conditions in the global marketplace.

- Continue to vigorously enforce our trade laws, particularly in key cases (supercomputers, uranium, lumber, etc.).

- Complete the refocusing of the Market Access and Compliance unit, including implementation by the Trade Compliance Center of a computerized data base, efforts to systematically monitor specific trade agreements, and investigations and analyses of specific compliance problems.

- Ensure implementation of the 1996 National Export Strategy recommendations, particularly those on small business finance, anti-bribery, and standards; and develop our strategy for the 1997 report.

- Improve our advocacy efforts through electronic interconnection with the finance agencies, focusing on fighting untied aid that is in fact tied, and fighting corruption in foreign deals.

- Continue our series of outreach seminars to small, medium-sized, and minority businesses.

- Support ongoing Administration efforts with China (implementation of agreements and WTO accession) and Japan (implementation of framework and other agreements).

- Follow-up on efforts to support foreign policy goals through economic efforts (Bosnia, Middle East, Northern Ireland, Haiti, Panama, Central America).

TRADE MISSIONS ABROAD

On March 3, 1997, Commerce Secretary William Daley announced a comprehensive new policy governing all aspects of our trade missions, from private-sector recruitment to post-mission reports. This, the first comprehensive written policy governing our trade missions, is now in place. It is a fully transparent, non-political process, where documentation relating to our trade missions--why we are doing them, who participates in them, and what we see as results--will be available on the public record. Moreover, the policy includes an express prohibition against consideration of referrals from political parties or references to political contributions or political activities.

Trade missions are an important part of ITA's export promotion efforts, and I wanted to assure this committee that they will be operated in strict accordance with both the letter and the spirit of Secretary Daley's statement.

CLOSING

As I stated at the outset, by maintaining a level budget for ITA while many domestic agencies are experiencing significant reductions, this Administration is showing its commitment to create jobs and promote economic growth through expansion of exports and enforcement of trade laws. In addition, Mr Chairman, I want to thank you personally and the members of the subcommittee for your help over the past year in sustaining this level of resources for ITA. This enables us to increase U.S. exports and to help create more U.S. jobs. With the guidance and continued support of this subcommittee, ITA will continue to focus on those objectives that are so critical to the Nation's economic future.

I thank you once again Chairman Rogers, Ranking Member Mollohan and members of the Subcommittee. This concludes my prepared statement, which has been reviewed and cleared by the Office of Management and Budget. I will be pleased to answer any questions or respond to any concerns you or the Subcommittee members may have.

UNITED STATES DEPARTMENT OF
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WASHINGTON, D.C. 20230

INTERNATIONAL
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TRADE IN THE AMERICAS: WHAT NEXT?

Ambassador Stuart E. Eizenstat
Undersecretary for International Trade
Before the Institute of the Americas
Washington, D.C.
March 10, 1997

Thank you Ambassador Boeker for that kind introduction. We at the Commerce Department deeply appreciate the work that you and your fine staff do every day and the cooperative projects that we undertake together.

I have been asked to talk about "What is Next in Trade in the Americas," but first I want to put our work into a broader context than just trade. We are at a unique point in our hemisphere's history generally, and in the U.S. relationship with it specifically. A foundation of democracy and free markets finally is in place. If we build on that foundation -- increase economic integration and trade; lock in the gains of democracy; and, find common solutions to shared problems, we can make the Americas a cornerstone for years of security and prosperity.

While a worthwhile effort on its own, our goal for the hemisphere is not motivated solely by altruism. A secure, prosperous and democratic hemisphere is in our own domestic interest, and it will bring tangible benefits to the American people as well. If we are successful in building a community of free market democracies, our neighbors will enjoy far more freedom than is present today -- greater human rights, worker rights, a safer environment, and the opportunity to increase wealth. It will allow goods and services to trade more freely and fairly, fueling economic growth. Increased cooperation will make fighting drug trafficking, organized crime, and immigration problems that much easier. And I should add that we would welcome a free and democratic Cuba to join us in this great endeavor.

We are embarking on this great effort at freer trade to make the Americas a model for the rest of the world. The Americas can be a model if democracy delivers responsive government, better educational and business opportunities, with no tolerance for corruption. If this works, then we will have shrunk the gap between rich and poor and increased wealth for all.

But my focus today is on the trade aspect of this grand endeavor.

Since December 1994, U.S. trade objectives for Latin America have been framed by the Summit of the Americas, at which President Clinton and 33 other hemispheric leaders committed to conclude the negotiation of the "Free Trade Area of the Americas" (FTAA) no later than the year 2005. They agreed it must be a comprehensive agreement, and that it would cover all the substantive areas of the Nafta. When fully implemented, the FTAA would comprise the largest free trade arrangement in history, encompassing an area with an overall GDP well in excess of the current $9 trillion figure and a market of over three-quarters of a billion people.

Our experience in the hemisphere suggests that further liberalization makes sense for good business and good policy reasons:

- Latin American markets are among the fastest growing in the world. Economic growth in Latin America is expected to average 5 percent or more through the year 2000.

- According to some experts, Latin America can anticipate an additional 1.5 % of annual economic growth from concluding an FTAA.

- Further, Latin America will be particularly heavy demanders of the kinds of goods and services in which the united states is very competitive. Last year, our exports to the western hemisphere accounted for almost 40% of total U.S. exports and nearly 50% of the total increase in our exports,

- we sell more to Central America than we do to East Europe and the former Soviet Union and,

- we sell more to Brazil than we do to China.

We want to negotiate an agreement for the 21st Century, one that will address and protect the emerging technologies of the information age.

The Nafta Experience

The Nafta has played a vital role in helping trade expansion strengthen the U.S. economy. Two-way trade between the United States and its Nafta partners, Canada and Mexico, was $420 billion in 1996. While Canada and Mexico have long been our first and third largest trading partners, almost one-third of current trade levels is new trade that has taken place in the three years since Nafta was implemented, that is a $127 billion trade gain under Nafta.

Nafta has demonstrated two very valuable lessons: first, as trade barriers come down, dramatic trade gains are possible; and two, free trade agreements cannot dictate economic circumstances, but they do lock in obligations, creating the certainty businesses need regarding the "rules of the game."

U.S. exports to Mexico were down by only 9 percent in the year following the 1994 peso devaluation. despite the fact that real Mexican GDP fell 7 percent. It was clear that Nafta helped limit the extent and duration of the fall and helped spur the recovery of the Mexican economy. And the recovery of the Mexican economy has been much quicker and sharper than most observers forecasted. With the return of Mexican economic growth (5.1 percent) in 1996, U.S. exports surpassed their pre-Nafta peak by $15 billion to reach a record $57 billion. Moreover, there are indications that this export growth is accelerating. By the fourth quarter of 1996, U.S. exports to Mexico were growing at an annualized rate of $64 billion, compared to $52 billion earlier in the year. As Mexico's economy grows, it will consume more of what it is now exporting and demand for U.S. products will increase. If the trends of late 1996 continue into 1997, we can expect to see the merchandise trade deficit, which was $16 billion in 1996, narrow this year.

While U.S. export sales to Mexico in recent years have been strongly impacted by macro economic conditions, important elements of this trade clearly would not have taken place without Nafta. For one thing, as Mexico kept its market open to U.S. exports and met its Nafta requirements to further lower tariffs, the U.S. market share in Mexico grew from 69 percent in 1993 to 76 percent in 1996, a gain which should position U.S. exporters well as the Mexican economy continues its recovery.

In addition, Nafta has encouraged steadfastness in Mexico's economic reforms. The Zedillo Administration has continued to move forward with privatization or concessions of important sectors of the economy, such as railroads, seaports and airports. Greater competition has been encouraged in telecommunications, natural gas distribution and financial markets.

What Next

With that background, it should be clear that a free trade area of the Americas would serve both the United States and its hemispheric partners very well. And you may well ask "why don't we get on with it?" Candidly, not having fast track to date has certainly had a dampening effect on FTAA momentum, but it would be wrong to attribute the pace of the talks solely to the United States. There are a host of reasons why progress has been slower than we might have hoped, including the peso crisis and the tequila effect, Mercosur's desire to consolidate, and countries' domestic adjustment problems related to the remarkable market opening measures we have seen throughout the region.

We intend to seek fast track authority early this year. While the exact scope and terms aren't known yet -- we are still consulting the Congress -- this Administration has made it clear that it expects to have at least the same kind of authority that every other president has had since 1974. We cannot afford to sit on the sidelines while other countries move ahead to take advantage of the growing markets of Latin America and other regions of the world.

That said, we are making progress in the FTAA context and the United States continues to provide intellectual and political leadership to the construction of the FTAA. We are among the countries advocating the most ambitious objectives and time frame for the actual negotiations. And we, along with Mercosur, are at the forefront of incorporating private sector perspectives into the process.

In fact, there has been much progress since the Miami summit. Meetings at the highest governmental levels will help impel FTAA progress and the fast track debate including:

- Chilean President Frei visited Washington last month, with a free trade agreement with Canada in hand (I hope we have a comprehensive FTA with Chile by the time of the next Summit of the Americas in Santiago in March 1998). During his meeting with President Frei, President Clinton reaffirmed his desire to obtain fast track authority from the Congress.

- Two presidential visits to the region are scheduled for early this year.

- Two trade ministerials (in Brazil and in Costa Rica) will take place before the next Summit of the Americas in Santiago de Chile in March 1998.

At the third ministerial meeting in Belo Horizonte in May, decisions will be taken on when and how to launch actual negotiations. It is critical that this meeting set a date and determine how to negotiate.

Two weeks ago at the vice ministers meeting in Recife, Brazil there seemed to be an emerging consensus that the negotiations will be launched at the Santiago summit.

But we need to decide how to negotiate as well. At that meeting in Recife, the United States, Canada, the Caribbean countries and Mercosur tabled their views on how the negotiations should proceed. The United States has made its views known on the level of obligations, structure and support issues, and the private sector role for these negotiations.

We think that the negotiations should be based on the WTO obligations plus the best appropriate elements from regional trade arrangements, and additional obligations that neither currently addresses. We also suggested that there should be fewer negotiating groups than we have currently, establish a secretariat to support the negotiations logistically, and conduct the negotiations at a single site so all countries can participate easily. We think that we must find a way to incorporate private sector views at all levels of the negotiations.

It is no secret that we want to move as fast as possible on these negotiations. Some in Mercosur would prefer that it devote attention to its further consolidation and expansion first, but all agree that we *will negotiate* and we *will finish* the negotiations by 2005. I would like to make some points clear here:

- The United States accepts that some countries will want to negotiate *en bloc*, like Mercosur, as long as they can assure that the obligations their representatives accept will be adopted by all members of the bloc.

- Sub-regional agreements can continue to build on economic reforms and deepen their internal trade liberalization. Ultimately they can make hemisphere-wide negotiations easier by beginning the process of opening markets and accepting market disciplines. Of course, they must not raise new barriers, nor should they impede the broader talks. They also should be comprehensive in scope, especially when they involve developed industrial powers, like the European Union.

- The faster we can get started with the FTAA framework, the more quickly we will be able to resolve issues which create friction in our relationships and that can only be addressed in the context of multilateral trade negotiations. Long-standing nettlesome issues on both sides can and should be resolved in this context.

- I understand that there is concern in a few countries about the U.S. desire to begin negotiations soon, and some worry about U.S. competition. Yet as Mercosur and other regional arrangements expand and conclude additional free trade agreements, they are already preparing for additional competition. Plus, a market access negotiation involving 34 countries inevitably takes time to conclude -- and two years, as Mercosur proposes, is clearly not enough. I think there will be plenty of notice.

- Also, I might comment that the United States has advocated strongly for a Nafta-Mercosur dialogue at public and private level because greater understanding is essential. But merging these two great agreements is not necessarily the best approach since the systems, scope and levels of obligations are very different.

In our view, negotiations should proceed along parallel tracks. As we say in the U.S., "we can walk and chew gum at the same time." The U.S. has been one of the strongest advocates of implementing practical steps that will facilitate the conduct of business on a hemispheric scale while we *also* negotiate principles. Among the possibilities:

- harmonization of certain customs forms,

- adherence to principles of transparency in government procurement; and,

- mutual recognition of product standard test results and testing laboratories.

These then are our initial suggestions. While some are shared by our partners others will have to be worked through. You will hear from our other speakers today and tomorrow about their country's views on these matters but I am confident that we will find common ground. That is after all the purpose of negotiations. No one ever said it would be easy, but the Administration remains committed to the region, its economic and political development; and our stake and role in that process. I am confident that, with your help and suggestions, our ministers at Belo Horizonte will point out the way to a truly prosperous and democratic hemisphere.

Thank you.

THE BIG EMERGING MARKETS:

... *Challenges*
... *Opportunities*
... *Strategies*

Remarks by
JEFFREY E. GARTEN
Under Secretary of Commerce for International Trade

Before
Santa Monica College
Santa Monica, California

January 31, 1995

This speech builds on several others which explain in more detail how we have been thinking about Big Emerging Markets. These include:

- *The Big Emerging Markets: Changing American Interests in the Global Economy* (January 20, 1994)

- *The Journey of a Thousand Miles: America's First Steps on the Road to the Pacific Century* (March 3, 1994)

- *A Defining Moment for the Western Hemisphere: Reform, Integration, and the Social Agenda* (March 25, 1994)

- *The United States and Brazil: Partners in Change* (March 29, 1994)

- *The U.S. and China at a Crossroads* (April 11, 1994)

- *Forging a Deeper Commercial Relationship between the United States and Argentina* (September 13, 1994)

- *Trade and Foreign Policy: Reflections on Economic Diplomacy* (September 13, 1994)

- *After the Uruguay Round: Competing to Win in the Global Marketplace* (January 9, 1995)

- *India and the United States: Ending The Era of Missed Opportunities* (January 12, 1995)

In addition, the Administration issued a report to Congress on the National Export Strategy, on October 5, 1994, which discusses Big Emerging Markets in some detail.

All are available from the Office of Public Affairs, International Trade Administration, Department of Commerce, telephone (202) 482-3809, fax (202) 482-5819.

Summary

Since its early days the Clinton Administration has been analyzing America's longer-term interests in the world economy. One major conclusion: over the next two decades, the markets that hold the greatest potential for dramatic increases in U.S. exports are not our traditional trading partners in Europe and Japan, which now account for the overwhelming bulk of our trade. Rather, the greatest commercial opportunities are to be found in ten Big Emerging Markets (BEMs): the Chinese Economic Area (including China, Taiwan, and Hong Kong), India, Indonesia, South Korea, South Africa, Poland, Turkey, Mexico, Brazil and Argentina.

These ten could account for the same value of exports as either Japan or Europe by the end of this decade. By 2010, they are likely to exceed our exports to both Japan and Europe combined.

The Big Emerging Markets ("BEMs") concept was first announced in January of 1994. This speech discusses what has been accomplished since we launched it. It focuses on changing attitudes in Washington toward export promotion; activities of key departments and cabinet officers; the growing links between government and business strategies; the development of country strategies for each BEM; the focus on Big Emerging Sectors; the creation of bilateral forums to promote long-term commercial cooperation; the establishment of commercial centers within the BEMs to promote U.S. exports; the effort to win projects for American firms in the BEMs; the development of a global marketing network to help U.S. firms in the BEMs; the establishment of a strategy center in Washington; and the relationship between global initiatives and the BEMs.

In light of recent economic problems in countries like Mexico, Turkey, and China, this presentation also discusses how we think about the rocky trajectory of many of the BEMs over the next decade or so, and why we believe that an intense focus on deepening our ties with these countries should remain one of our highest national priorities.

Finally, the point is underscored that pursuit of U.S. commercial interests in the BEMs is only one part of a broader foreign policy strategy that must also take into account such critical issues as human rights and non-proliferation. But as the twentieth century ends, we will need to integrate our commercial interests into our foreign policy as never before. The Big Emerging Markets -- enormously promising, often volatile, and always challenging -- will be a critical testing ground.

At the outset of the Clinton Administration, we set out to identify those markets that offered the most opportunity for U.S. export growth in the decades ahead. What we found was that our traditional trading partners, while still important, were being overtaken by a small group of very large, dynamic markets, many of which were unfamiliar to many American businesspeople and policymakers. We called these markets the "Big Emerging Markets"; we picked ten of special importance to us; and we intensively focused our efforts on increasing U.S. marketshare in each of them.

This effort has led to high-profile missions by Secretary Brown to most of the ten, and we expect he will have visited all by the end of 1995. Coupled with our strategy of providing high-intensity support for U.S. firms trying to enter these markets -- a strategy based on doing real deals with real, tangible positive consequences in the U.S. economy -- our Big Emerging Markets initiative has led to tens of billions of dollars in transactions in which the U.S. government has played an important role as business' ally. Substantial resources have been devoted to developing individual strategies for each of these markets and we have worked with a great sense of purpose to bringing these strategies to fruition, country-by-country.

In the past several weeks, a number of these markets have figured prominently in the press. Mexico has undergone a serious financial crisis. Brazil and Argentina, caught in Mexico's wake, have been faced with the consequences of the so-called "Tequila Effect." China has been embroiled in a variety of trade and human rights disputes with the United States, and concern has arisen about some of its economic policies. Turkey's economy has been struggling. Even India, a country from which I just returned from a trade mission that generated over $7 billion in transactions, has been rocked by election defeats for the party that has been the champion of Indian reform. While there have been many other positive stories as well, these have been overshadowed by the more troublesome news. As a result, in recent days I have been asked with increasing frequency, "Are you still committed to this focus on Big Emerging Markets? Are you having second thoughts?"

In the next half hour I'd like to explain why we are more committed today to our focus on the Big Emerging Markets than we have been at any time in the almost two years during which they have been our principal focus. I want to discuss who the Big Emerging Markets are, how we came to identify them, and why they are so important. Then I will focus on the major elements of our Big Emerging Market strategy. Finally, I'd like to point out some of the broader policy challenges that we will be facing in implementing this strategy.

A RESPONSE TO RECENT HEADLINES

Before I get into the heart of my presentation, however, I feel it is important to address the developments of the past several weeks, since they are on so many people's minds. I am convinced that any objective analysis of those events must lead to the conclusion that prospects of the BEMs are better today than they have been at any time in our lifetimes and that persevering with our strategy is critical.

Compare for a moment where the Big Emerging Markets are today versus where they were just a few years ago:

- Two years ago Mexico was not part of NAFTA, the most promising trading arena anywhere. Indeed, the prospect of a NAFTA defeat was real. Today, Mexico is not only part of NAFTA, but the Mexican government has responded to the crisis not with market closing and an end to reforms as it might have in its pre-NAFTA days, but with more openness, with more accelerated reforms and with a commitment to greater fiscal restraint. There is no question in our minds that Mexico will surmount its current problems and emerge as an exceptionally strong bet for the future.

- Just a few years ago, Brazil faced inflation of over 2000 percent a year. Its President was indicted for corruption and there were questions about the effectiveness of a caretaker government. Since then, a Finance Minister from that caretaker government produced a new monetary program that has crushed inflation, bringing it to just .5 percent for the month of December. That Finance Minister was subsequently elected President on a platform of further reform.

- Argentina, while the beneficiary of a successful reform program itself two years ago, had questions about its future. With Brazil faltering, the Mercosur regional trading area -- comprising a good deal of the southern cone of South America -- was in jeopardy. Today, Argentina's

Central Bank has solidified its currency by offering to trade each peso for a dollar and Mercosur became a functioning customs union with a market worth $1 trillion anchored by a recovering Brazil.

- As recently as 1993, China was locked in an annual struggle with the U.S. over the renewal of MFN. Today, that is behind us. And the process of reform has come further in the past two years, even if it has not gone as far as we might have hoped.

- Two years ago Indonesia was hardly on the radar screen of most investors. The Jakarta summit, which took place last November, not only put the country solidly on the world's geoeconomic map, but it institutionalized the government's commitment to economic reform. Moreover, the growing strength of the trade group know as ASEAN -- of which Indonesia is a key member -- now bolsters Indonesia's prosperity more than ever before.

- India was embroiled in a debate over the future of GATT and reforms were just beginning. The stock market had been recently rocked by scandal and distrust of foreign firms was still prevalent. Today, GATT has been ratified, a new textile agreement with the U.S. signed, reforms in pharmaceutical, telecom and financial services are coming on stream, and our recent trade mission and our new U.S.-Indian Commercial Alliance were warmly embraced by a country that has now committed itself to the future as part of the global market.

- Poland was buffeted by the political uncertainty that comes from a fragmented parliament and concerned about the threat of a return to power of former communists. Today, Prime Minister Pawlak has shown that even former communists are committed to continuing market reforms and integration in the global system.

- In South Africa, there had been no elections, violence was possible, even likely. There had been no constitution drafted or ratified, no Nelson Mandela elevated from prisoner to president. Two years later, the nation has turned its attention to reconciliation and rebuilding, Africa's last best hope still alive.

I don't have to describe the changes in every market. It should be clear that what has happened in the past two or three years is an indisputable evidence of the promise of these markets. And if, in that time, we have also seen volatility and uncertainty, it must be acknowledged that they are the handmaidens of rapid change. Clearly, we believe that our interest is not premature. In fact, in some cases where other countries have gotten a head start on us in competing for infrastructure and other big deals, we're way behind. We also don't believe that the growth we are discussing is anything like a temporary phenomenon, or even a "spurt" of any sort. China, to take one example, has grown at an average of six percent a year for the past 30 years, in good times and bad, communism or market socialism, cultural revolution or economic revolution. That is not to say it has been faster in the good times. It has. And we believe faster growth will come with more reforms. But China is not a maybe proposition. This is the world's largest country. Indeed, for all but the past few hundred years it has historically always been the world's largest economy. It is now poised to resume that position. Pointing to longer- term trends, I can make parallel arguments about most of the other BEMs.

We think it is not only responsible to study the BEMs now; the fact is, it would be irresponsible to ignore them. Certainly, all will endure setbacks. That is in the nature of the changes these countries are making. It is also in the nature of global markets in which capital can move very quickly -- almost as quickly as bad news or the hint of an opportunity. But we are not advocating a speculator's approach here. We are pursuing this strategy because of irrefutable market fundamentals. Large economies that have by and large adopted sensible practices and are in the process of adopting more reforms every year. Significant natural resources. Economies that are part of vibrant, regional economic pictures. Economies that are committing themselves to entering the global economy, that are plugging in to the global markets in a way that is really irreversible. Huge labor forces. Promising consumer markets. Great infrastructure demands. Strong attractions for global capital. The markets that American businesses will need if they are to be global leaders in the next century.

History supports our approach. There have been markets like this in the past. We are sitting in one of them. In the 19th Century America was the world's Biggest Emerging Market. We were the magnet for British, Dutch, German, French and other European investment. We were the country that demanded capital for great infrastructure projects like the trans-continental railway, the canals that linked the Great Lakes to the urban centers and transportation systems of the east and midwest, telegraph networks, roads and at the century's close power grids and then early in this century, highways.

It is the most inspiring economic story in the history of the world. But, let's not forget that part of that story was the American Civil War. Part of the story was our battles with the Native Americans from whom we wrested great tracts of land that would later become America's breadbasket. Part of that story was also stock market panics and currency crises and pitched battles with labor unions and natural disasters. Those didn't stop in the last century either. But, with each additional year of growth, with each crises and eventual solutions, we grew sounder in our approaches and ultimately became a country whose currency was the world's reserve currency that set the standard for investor confidence.

We don't predict that Chinese Renminbi or Brazilian Reals will be the reserve currency for the planet. In fact, I've learned to leave commentary on currencies to my colleagues at the Treasury Department. However, the parallels with our own history are instructive. We must keep our eye on the fundamentals that make these markets so attractive. We must be cautious and we must expect turbulence. But we must also learn not to panic or give up hope too quickly. We are talking about a historical change that will take decades and in some respects even longer. We will be left behind if we wait until it is absolutely safe to enter these markets. Indeed, we would invest nowhere but our own matresses if we did not accept some degree of risk. And here the potential rewards are so absolutely clear.

To conclude my opening point concerning the growing appeal and importance of the BEMs, one simply needs to look to the headlines each day, to the fact that issues like Mexico's financial crisis or China's MFN or the Summit of the Americas or APEC or Brazilian economic reform or South African elections make the front pages where once there were only stories of Europe, Japan and the Cold War. Or you may look to the strategic plans of business, a better place to look given our purposes, and you will see it is the

BEMs that are the battlegrounds of tomorrow's competition for company after company, large and small, American, Japanese, European or even those from the emerging markets themselves.

In short, the Big Emerging Market strategy is more critical than ever. It is a long-term strategy, not a flavor-of-the month fad. Its underlying objective -- closer ties between America and the BEMs through deeper commercial engagement -- has not changed one iota.

To those who say that there have been setbacks, we say "Of course, that's why the markets are called *emerging*. Our goal is to help them emerge."

To those who ask whether our policies will change, we say " Of course, we may alter some of the details of our approach in response to changing circumstances. But this should not be confused with altering our fundamental goal -- which is deeper and broader ties with the BEMs."

THE BIG EMERGING MARKETS

As I said at the outset, during the first year of the Clinton Administration, we conducted a good deal of analysis to answer the question on the minds of every business strategic planner, "If you look toward the next century, where do our greatest commercial opportunities lay?" It seems like a rational enough question, I suppose. But I know from my experience in three previous administrations that such strategic issues are rarely posed in the international economic arena, let alone answered. Well, in this instance we broke with tradition. We put an enormous amount of effort into looking over the immediate horizon, and we came up with some interesting conclusions.

We concluded, for example, that the markets in Europe and Japan will be growing much more slowly over the next two decades than a good deal of the rest of the world. Moreover, we discovered that, despite optimism about future prospects for East Asia as a whole or for all of Latin America, the economies that will account for the overwhelming incremental growth in world imports can be narrowed down to a particularly dynamic core group, which we called "The Big Emerging Markets," or "BEMs."

Who Are The BEMs?

These are the BEMs: In Asia -- the Chinese Economic Area (which includes China, Hong Kong, and Taiwan), South Korea, Indonesia, and India; in Africa -- South Africa; in Central Europe -- Poland and Turkey; and in Latin America -- Mexico, Brazil, and Argentina. **(See Chart #1)**

Our calculations indicate that by the turn of this century -- less than six years away -- the ten BEMs as a group will be importing more than either Japan or the European Union import from us. By the year 2010, their imports could well exceed those from both Japan and Europe combined. In fact, during the period 1990 - 2010, the BEMs could account for $1 trillion in incremental U.S. exports. That is the prize -- the focus of our efforts.

Our exports to the BEMs totaled $106 billion in 1992, approximately a quarter of our exports. But while the ratio of Big Emerging Market GDP to the Industrialized World's GDP is 1 to 4 today, it will be 1 to 2 in less than 20 years. We expect that BEMs will more than double their share of world imports, as well, rising to nearly 27 percent by 2010. No other category of market shows such dramatic growth potential. **(See Chart #2 and #3)**

We certainly understand the limitations of long-term economic projections, and also the possibility that economic policies in certain BEMs could fail. Our outlook, in fact, is based on some critical assumptions such as the belief that world trade will remain open and increase, and that policy reforms initiated in the BEMs will continue. The BEMs list is, therefore, always seen as one which could evolve depending on trends. If the Russian economy really turns the corner, Moscow could be added to the list. Certain rapidly growing economies such as Malaysia or Thailand might also join this group. Some day, some countries might "graduate," having completed their emergence into the ranks of the world's developed nations. By the same token, it is also possible that a country that endured a prolonged setback might be taken off of the list. A little later on I will talk about why I say a "prolonged" setback, but suffice it to say that this is a long-term strategy and we expect that all of these markets will undergo the volatility that is endemic to all emerging nations.

At the risk of overkill, let me describe the BEMs another way: in Latin America, two BEMs -- Mexico and Brazil -- account for 61 percent of the

Southern Hemisphere's GDP and 53 percent of its population. Two Asian BEMs -- China and India -- account for 40 percent of the world's population. In Africa, one BEM -- South Africa -- accounts for 45 percent of the entire continent's GDP. Poland is Europe's fastest growing major economy. Indonesia is the world's fourth most populous nation. The distinctions are clear.

And look at where so much high priority Administration effort has been aimed these past 18 months: Mexico and NAFTA; China and MFN; South Korea and the nuclear threat from the North; Poland and the President's visit there; South Africa and the onset of a new democracy; Indonesia and the summit of Asian heads of state last November; and the Summit of the Americas in Miami, last December in which Mexico, Brazil and Argentina were the central players.

In this sense, the BEM category is illustrative of a certain kind of market. They have large territories. They have big populations with massive future demands for infrastructure, like auto parts and telecommunications, and for consumer goods, like computers and washing machines. They are countries which have undertaken significant economic policies that have already contributed to faster growth and expanding trade and investment with the rest of the world. They all aspire to be technological leaders. They are countries whose economic growth would have enormous spillover in their respective geographical regions. They all have significant political influence in their backyards and beyond. They all have excellent long-term prospects.

Washington didn't discover the BEMs, of course. They have been emerging on the world scene for years, and quite a few big U.S. companies have been active in them for a long time. In fact, we noticed the BEMs precisely because some of the more farsighted American firms were moving into these markets already. But the U.S. Government has only recently begun to focus on them with the attention they deserve -- not as foreign policy problems, which they have often been perceived as being, but as major and essential opportunities to work together in the future.

Role for U.S. Government

Because of the changing nature of these markets, there is an important role for our Government to play in helping to stimulate our trade with each of them. The BEMs are unlike our more traditional trading partners, such as Great Britain or Germany. There are frequently severe barriers to entering these markets, including high tariffs, quotas, and protectionist regulatory barriers. Commercial systems, including full respect for intellectual property rights, smoothly functioning capital markets, national treatment for foreign investors and open government procurement procedures are either still developing or lacking. In some of the BEMs, impartial legal systems are missing, too.

In these markets, therefore, we can and should help American businesses in a variety of ways -- from securing market access, to providing financing, and to supporting U.S. companies seeking to win major projects on deals in which foreign governments play an important decision-making role.[1] In addition, good information on the BEMs is often in short supply, and through our embassies and Foreign Commercial Service, we can marshal and analyze much of what is available and provide it to our firms. Finally, we need to work with the Governments and private sectors of the BEMs in order to assist them in developing the skills and the institutions to build open, modern capitalist systems. The approach must not be patronizing, but based on common goals of expanding trade in their markets and our own. Indeed, one reason for our focus on the BEMs is that in these markets, the U.S. Government can really play a meaningful role assisting U.S. companies. This is much less so where our trade with mature markets is concerned. But in the BEMs, very often the decision-maker is another government and just as often the principal competitors are foreign companies and governments working together in a public-private partnership. The fact is, if we want to succeed in these vitally important markets, it is critical that the U.S. Government forge a new kind of active partnership with our businesses seeking entrance into these "markets of tomorrow."

It is, of course, much easier to proclaim a new policy than it is to implement it. In the several months that the Administration has focused on the BEMs, however, a good deal has already been accomplished.

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[1] See, in particular, "Competing To Win In The Global Marketplace," presentation to the Council on Foreign Relations, New York, New York, January 9, 1995.

ELEVATING THE IMPORTANCE OF EXPORTS

Perhaps the most important achievement so far has been the evolution in the Executive Branch of an intense export consciousness. Export promotion has moved out of the shadows of trade policy and into the center, as the Administration fully described on October 5 with the release of the second annual report on our "National Export Strategy." The evidence can be seen in the significant deregulation of export controls in areas such as telecommunications and computers; in the expansion of trade financing facilities to meet fierce foreign competition; in the aggressive support the Administration has given to U.S. firms bidding on big projects in countries such as China, Brazil, and Saudi Arabia; and in the establishment of several major export assistance centers around the United States where trade promotion and trade financing services are considered for the first time. Indeed, with these policies in place, and with more to come, we anticipate a major expansion of U.S. sales abroad, with exports alone reaching over $1 trillion by the year 2000, supporting some 6 million additional U.S. jobs. **(Chart #4)**

A focus on the Big Emerging Markets is a crucial and pervasive part of this export push. It is not a substitute for continued efforts to open markets and promote American sales in Europe, Japan, or Canada. Nor does it mean we will let up on commercial efforts to draw closer to Russia, the other newly independent states, or entire regions like Latin America or Southeast Asia.

But a Big Emerging Market strategy deserves special emphasis and requires an extraordinary effort, because it represents a radical departure from traditional policies and because it is oriented way beyond the usual government policy time horizons. The focus of this strategy is more intense, and its implementation is more aggressive than any export strategy the U.S. government has mounted.

PRESIDENTIAL AND CABINET-LEVEL ATTENTION

The Big Emerging Markets concept has been underlined by President Clinton in various public statements. It has been discussed in several cabinet-level gatherings and it has been endorsed by 19 agencies, the National Economic Council and the National Security Council in the cabinet-level Trade Promotion Coordinating Committee. It is driving the future orientation of not only the Department of Commerce's trade apparatus, but also many of its international technology programs. The Export-Import Bank is orienting many of its programs towards the BEMs. So is the Overseas Private Investment Corporation (OPIC), which insures U.S. investors against political risk.

In addition, the foreign itineraries of the Clinton cabinet and subcabinet show increasing emphasis on the BEMs. Secretary of State Christopher could have been expected to visit most of these countries anyway. But Secretary Brown visited nine of the ten in 1994. Secretary Bentsen spent time in Mexico, China, and Indonesia. Secretary of Energy Hazel O'Leary has travelled to India and China. Poland, Indonesia, India, and South Korea will have all been on a well-worn path. Ken Brody, Chairman of Ex-Im, likes to say that his itineraries follow the BEMs. Ruth Harkin, President of OPIC, has travelled widely to them, too.

LINKING STRATEGY TO BUSINESS AND THE BROADER PUBLIC

Dialogue with Business

Beyond high-level discussions and travel, the Administration has begun an extensive dialogue with groups outside the government. Since last winter, Secretary Brown has asked groups of CEOs from a wide range of industries to attend seven separate conferences with him and other top Administration officials to discuss issues related to the BEMs. On these occasions, U.S. officials are listening more than talking. We are hearing about how U.S. firms have been approaching the new markets, the problems and the opportunities they see, the help they want from the U.S. Government, and where they would just as soon see government simply get out of the way.

Public Discussions

This summer we began a series of meetings with business groups around the country. New Export Assistance Centers from Long Beach, California, to Baltimore are now gearing up to disseminate information and engage in consultations on Big Emerging Markets with firms of all kinds. Beginning late last year, Commerce officials have led discussions in thirteen additional cities, from Los Angeles to Atlanta, and from Minneapolis to San Antonio, concerning our BEM strategy. Requests have poured in from communities from Silicon Valley to Tampa for briefings and information. Companies and universities are offering ideas for technical assistance programs in the BEMs. In response, we will soon inaugurate a BEMs flash fax and information service designed to give businesses instant access to information about each of these dynamic economies.

This spring, moreover, we plan to have a major conference in Washington on BEMs, and a "White Paper" going into greater depth on these markets than ever before.

The Administration's efforts to reach beyond the Beltway are just beginning. There is, however, a need to do much more with small- and medium-sized businesses, and with Labor. It will take years to build up a mindset that we, as a country, need an export strategy that looks beyond the next year or the next election cycle. And we must do more than cultivate a mindset. We must put in place the programs we need to get the results America deserves.

Pilot Projects

Time, lack of adequately trained people, and severe budgetary limitations make it impossible to do everything at once. We have, therefore, begun by instituting several pilot projects. The idea is to experiment in individual BEMs with new policies and programs; the ultimate intention is to transfer what works from one country to another with appropriate modifications for individual circumstances.

COUNTRY STRATEGIES AND COUNTRY TEAMS

For decades, agencies of the Executive Branch have been notorious for pursuing many different commercial approaches to a particular country with little or no coordination. Every Administration has tried to fix the problem without much luck. In our case, however, we are making significant progress. Indeed, a successful BEM strategy requires fully coordinated export strategies toward the ten countries.

Example: Mexico

Mexico has been our fastest growing major export market. There are problems right now, to be sure, but we are optimistic that they will be overcome quickly, and that past growth patterns will be resumed.

Our approach toward Mexico predates the establishment of the BEMs strategy, but it is nevertheless highly significant in the overall BEMs context. Much of what we do is driven by one effort to implement NAFTA and to make it a success -- which it has assuredly become, as recent statistics show.

Our links with Mexico are becoming so broad and so deep that it is hard to know where to begin in describing them. From cooperation on trade to cooperation on finance, from deeper integration in the corporate sector to integration of transportation systems, from the growth of joint secretariats to manage problems to continuous meetings of our top officials -- the ties between our two countries are moving in the right direction, for sure.

Regarding exports, the Administration began a program on the heels of the NAFTA agreement called "Export Mexico." This has become a highly successful effort to reach small- and medium-sized businesses around the United States, to make them aware of new opportunities south of the border, and to provide technical assistance for the act of exporting itself. We have reached tens of thousands of firms, and will reach many more this year.

We have also mounted a major effort to assist with infrastructure development at the border. Projects have been identified, and financing is being mobilized. There is much more to do, but efforts are intensifying now. In fact, we have recently revitalized a task force composed of agencies throughout the government to look afresh at a broad range of new initiatives and programs to further deepen our ties with our southern neighbor.

Example: Indonesia

Indonesia is another pilot project. We selected it because it holds enormous importance to us in the most dynamic region of the world, and since virtually every one of our export promotion programs are operating in this country already.

We began with a far-reaching interagency study of U.S. commercial interests in Indonesia through the year 2000. The analysis examined how American firms had been doing over the last decade; it evaluated the efforts of U.S. agencies in working with them; and it took stock of how foreign competition had been performing. We noticed, for example, that although we had large Ex-Im, OPIC, and other programs in Indonesia, they were not well coordinated. Moreover, despite the amount of resources we were pouring into Indonesia, we were still losing market share to Japan, Europe, and several other Asian countries.

The study zeroed in on those sectors and projects that held the most promise for U.S. firms, relating them as best as possible to the potential benefits to the American economy. On the basis of this examination, a subcabinet trip was made to discuss the findings with the American Embassy and the U.S. business community in Indonesia. Consultations were held with Indonesian Government officials and local business leaders to see how they perceived the U.S. effort. An interagency task force was then reconvened to formulate a strategic plan.

A senior Deputy Assistant Secretary in the Department of Commerce -- a significant upgrade from the usual country desk officer -- was appointed to be the day-to-day point person for the Administration's export efforts in Indonesia and the surrounding ASEAN countries. He will have a team composed of people with both country- and industry-specific backgrounds. The team itself will have special training on many cross-cutting issues such as intellectual property rights and human rights.

The strategy is now unfolding. A commercial center has been opened in Jakarta. A program of matchmaker business missions to Indonesia and ASEAN is underway. It will take time to evaluate. But we are going to roll out similar efforts for Argentina, China, India, and other countries in the months ahead.

Big questions remain, of course. It will be important to measure the success of what we do, but concrete results stemming directly from Government action will not be easy to separate from the efforts of the competing firms themselves. At a time when the effectiveness of all U.S. Government programs is rightfully under intense budgetary scrutiny, however, we will have to find a credible way to assess performance.

BIG EMERGING SECTORS

Part of every country strategy is a focus on selected industries where U.S. exports have particularly good prospects. In our in-depth studies on

Indonesia, China, Argentina, and Brazil, and from additional research, we have formulated a vision of the areas where the BEMs imports are likely to be greatest.

Several clusters of industries are high on the list. They include:

- *Information technology*, including telecommunications, computers, and software;

- *Environmental technology*, including pollution control equipment and consulting services;

- The *transportation* industry, including aviation, automotive trade, and the services and equipment needed to build modern rail systems and airports;

- *Energy technology*, especially for the soaring demand for electric power;

- *Health care technology*, including advanced medical equipment, pharmaceutical, biotechnology, and hospital management services;

- *Financial services*, including banking, insurance, and the securities business.

As in the BEM category itself, these Big Emerging Sectors are illustrative. We also have a great interest in advanced materials, in the chemical industry, and in industrial machinery, for example, all of which could be added to the initial list. But it is crucially important to have a starting point and a focus to our efforts - and I'm happy to say that we do. **(Chart #5)**

A sectoral strategy is not an "industrial policy." It does not involve subsidies. It does not rest on a notion of picking winners and losers, but rather it supports those industries where we know markets abroad are expanding, where the U.S. is already doing well, and where it could do much better with additional U.S. Government help. It is driven by a careful assessment of market potential in each of the BEMs and shaped further by our estimation as to where our greatest comparative advantages lie. (For a more complete analysis of these sectors, please see "The National Export Strategy," Second Annual Report to the U.S. Congress, October 5, 1994.)

Example: Environmental Technology

Take, for example, the case of environmental technology in Mexico.

Having identified the sales of environmental technology and services as a high priority, the Administration sent a mission to meet with federal, state, and municipal officials in Mexico, as well as with trade associations and companies in the Mexican market. A U.S. Department of Commerce-Mexican Ministry of Trade and Industrial Development Committee was established to help Mexico meet environmental standards and to promote sales of U.S. environmental projects. The U.S. Government added an environmental specialist to the Embassy staff in Mexico City. The Environmental Protection Agency committed funds to train environmental inspectors in Mexico. Ex-Im began to provide financing for U.S. firms participating in environmental projects, including municipal waste-water treatment. OPIC issued loan guarantees to capitalize on a Global Environmental Emerging Markets Fund. The Clinton Administration created a new senior position -- Deputy Assistant Secretary for Environmental Technologies and appointed to it a woman who had been our government's first-ever environmental attache. Her first posting in that groundbreaking job was Mexico and her experience has been brought directly to bear in the Mexican market as a part of our concentrated efforts to promote this fast growing sector in what will soon be our number two export market.

We would like to pursue such a full-court press for other Big Emerging Sectors. This would, of course, stretch U.S. Government budgets and human resources. The clusters of industries on which we are focusing are all changing rapidly, and we will be sorely tested to keep up in terms of basic knowledge. But if we succeed, we will be doing little more than our French, German, British, and Japanese competitors, all of whom have had such focused strategies for years.

BILATERAL COMMERCIAL DIALOGUES

It is important to remember that the BEMs are up-and-coming markets that are trying to modernize their commercial infrastructures very rapidly. No two are in an identical situation, but many need to strengthen their systems for protecting intellectual property rights and administering commercial law; many need to make progress in opening their markets to foreign goods and services, both for imports and for foreign investment; and many need to build up a better regulatory framework for such industries as telecommunications and finance.

While the IMF, the World Bank and other international institutions can provide assistance in these areas, stronger bilateral links between Washington and each of the BEMs are critical. America has a wealth of technical expertise and policy experience to impart. Moreover, we have a strong interest in the commercial links that can be developed through this kind of interaction.

In the Cold War, ties between the United States and many of our friends in the world were developed through military exchanges and training programs. Now, and in the future, the most important links will not be men in uniform carrying weapons, but men and women in blue suits carrying laptops.

We have, therefore, set up special commercial forums with several of the BEMs under which a broad range of common concerns can be addressed. To date, these have been established in South Africa, Argentina, India, and China. For Indonesia, we work through an ASEAN-wide forum created at last year's APEC meeting in Seattle, called the US-ASEAN Alliance for Mutual Growth. Whatever the exact structure of these entities, all have a significant role in helping to build solid commercial institutions, but they are all structured in various ways with somewhat different agendas. All have a sectoral industrial component -- a focus on telecommunications, energy, financial services, etc. -- so that commercial matters relating to the promotion of trade and investment have a particular "real world" focus. Some have heavy involvement of the U.S. and foreign private sectors.

Example: The U.S. - China Joint Commission on Commerce and Trade

A good example of such a forum is the U.S.-China Joint Commission on Commerce and Trade (JCCT).

Last April, China Trade Minister Wu Yi brought a government-wide delegation to Washington to hold high-level talks on U.S.-Chinese commercial interests under the JCCT. During the two-day meeting, three working groups were established to operate in parallel. One discusses generic commercial issues, such as intellectual property rights and market access. Another focuses on tariffs, trade, and investment in particular sectors like telecommunications and energy. A third looks at the development of commercial law in China. The activity consists of defining problems; identifying ways to resolve them, and preparing of reports and recommendations for senior officials within the two Governments.

The JCCT gives Washington and Beijing an important venue outside the glare of heated trade negotiations to identify problems, and to seek long-term remedies. It serves as a mechanism to build stronger relationships between the two Governments. It provides an opportunity for the United States to offer technical assistance -- in such areas as building a framework for intellectual property rights, upgrading environmental standards, or instituting a system of export controls on sensitive technology -- in a way that is mutually agreeable by both sides.

In August, Secretary Brown travelled to Beijing to further the dialogue. He brought with him 24 CEO's and a senior intergovernmental delegation. During his visit a wide range of agreements were signed specifying formal work programs, upcoming events, and goals for the JCCT. In 1995 we are planning for close to 40 follow up events -- meetings, missions, etc. -- to make the JCCT a productive forum.

Example: U.S. - Indian Commercial Alliance

During his trip to India, January 14-20, Secretary Brown and his Indian counterpart established the U.S. - Indian Commercial Alliance. The idea was to facilitate more trade and investment between the two countries by promoting closer ties between the two business sectors. The core of the Alliance is a board of directors composed of the Secretaries of Commerce of both countries and representatives from each nation's private sector. The Alliance itself will focus on business development in several sectors, beginning with energy, telecommunications, transportation, and agribusiness. There will be trade missions, conferences, and discussions dealing with such policy impediments as insufficient protection of intellectual property rights in India.

In the case of India, we are also revitalizing the U.S.-India Commission or economic policy, a government-to-government forum, devoted only to trade and investment policy issues.

Importance of Technological Cooperation

As we think about the evolution of our commercial relationships with the BEMs, it becomes clear that the technological component looms increasingly large. Almost all of the BEMs see themselves as becoming technological leaders in their regions, and all have that potential. In Indonesia, the Government is preoccupied with gaining twenty-first century telecommunications facilities and will invest almost $15 billion on telecom infrastructure in the next 5 years. In China, India, Brazil, South Africa, and South Korea the technological infrastructure is rapidly developing. A host of important issues are raised for the United States: How to integrate technology into the trade discussions? How to foster the kind of economic development in the BEMs that comes with the availability of advanced technology while not giving away our commercial advantages -- all against the backdrop of fierce commercial competition on the part of France, Germany, Japan and others who will be supplying similar technology? And, of course, how to control the transfer and sale of civilian high-technology that also has military applications? We are planning to integrate technological communications into all of our commercial discussions, but the approach will vary by country, of course.

Emphasis on Training Programs

In all of our commercial efforts, we have become aware that commercial policy means much more than trade, exports or financing. One of the major constraints faced by many of the BEMs is the lack of trained people to manage modern enterprises, public or private. We believe that the United States has a lot to offer in this regard, both through our government and our private sector.

Last September in Shanghai, Secretary Brown announced some pilot efforts that we will be making to provide training in China. We have been in intensive dialogue with Shanghai officials about how this is best done -- through universities, through more corporate exchanges, and through the encouragement U.S. private sector efforts. In November, a roundtable focusing on training needs and opportunities in Indonesia and other Southeast Asian nations was held at the time of the APEC meeting. During my recent trip to India similar discussions took place. The same is true of Secretary Brown's trip to India during which we had a series of discussions focusing on technology in Bangalore -- India's Silicon Valley.

We also want to take advantage of the phenomenal technology that the United States now possesses for imparting information -- technology that is nowhere so advanced as it is here. Our corporate sector has all manner of training programs that can be beamed around the world via satellite, for example. We are in a position to have a global classroom for a global market. Why shouldn't we try?

I might add that the concept of expanded training, while providing many benefits to China, is not a purely altruistic venture by any means. Managers and technicians trained by Americans are surely apt to be inclined to buy American goods and services. In addition, one of the major problems for U.S. firms in China is lack of Chinese personnel who have the requisite skills for modern-day work.

It would be misleading to say that we have all the answers -- or even many of them -- to this complicated issue. But this much we do know: in the 1950s, '60s, and '70s, a good deal of our ties with key developing nations revolved around military training and exchanges. Now, and in the twenty-first century, the rules will be different. And just as our armed services brought more than military training, so will the links brought about by people-to-people contact in the commercial areas carry with them much broader benefits to both sides.

COMMERCIAL CENTERS

In all the BEMs, we hope to create special commercial centers outside the American Embassies. The idea is to elevate the commercial objectives of our foreign policy by enhancing U.S. trade promotion facilities and by making them more accessible to American and foreign business people.

Example: Sao Paulo, Brazil

The prototype is the new facility in Sao Paulo, Brazil, which was opened this past summer. Located in the central commercial district, this four-story building makes available to business people from America and Brazil a comprehensive commercial library with the latest computerized databases on the two countries. It houses the Commerce Department's Foreign Commercial Service, and provides one-stop export advising services. One floor is reserved for the exhibition of American products. There is an auditorium with simultaneous translation capability for company presentations. It is our hope that the center will become a magnet for more American trade fairs and missions and for U.S. business people needing help in penetrating the Brazilian market. In the few months since its opened, all this is already happening.

Jakarta, Shanghai

It's a long way from having to enter an embassy or consulate and pass by Marine Corps guards in order to get business help. In November, we opened another commercial and information center in Jakarta. We recently announced plans for a center in Shanghai. Down the road, we are planning similar facilities for India.

FINANCING AND GOVERNMENT SUPPORT FOR U.S. FIRMS

A major reason why the BEMs constitute such important markets for us is that some of the world's largest infrastructure projects will be mounted in these nations, with billions of dollars of potential sales for U.S. companies. The truth is, however, that in most instances the projects are awarded by governments or are under heavy government influence. This means that the bidding process is highly political and that companies vying for contracts often receive help from their own governments, particularly in the area of long-term financing. Before 1993, Washington's support for American business had been episodic at best. President Clinton, Secretary Christopher, Secretary Bentsen, Secretary Brown, Secretary O'Leary and others have instituted a radical change in this policy, mounting the most consistently aggressive effort on behalf of U.S. firms in memory.[2]

The Commerce Department has set up a special advocacy "war room" to track the largest projects around the world and to work closely with the other agencies -- State, Treasury, the Export-Import Bank, OPIC, and the Trade and Development Agency, to name a few -- to marshal all the muscle in the Administration when it comes to winning large contracts. The new policy is

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[2] See "Competing To Win In The Global Marketplace," presentation to the Council on Foreign Relations, New York, New York, January 9, 1995.

what Ex-Im Chairman Ken Brody calls "aggressive defense." That is, we will never be the first to provide below-market-rate finance in violation of the OECD rules, but if we find other governments breaking those rules, we are willing to match the financing. In addition, we are mobilizing high-level Administration support for individual projects -- via trips, phone calls, and other contacts between Administration officials and their counterparts in the governments awarding the contracts. Suffice it to say, we are turning up the heat as never before. When you consider that we estimate that over $1 trillion in infrastructure projects will come on stream in the Asian BEMs alone before the turn of this century, our approach is hardly surprising. What may be unsettling, however, is that it took us this long to realize this was the way we had to go.

Example: Brazil

In one recent Latin American case, which involved a $1.5 billion environmental technology project in which Raytheon was leading an American consortium, Interior Secretary Babbitt, EPA Director Browner, and NASA Director Golden all weighed in with their Brazilian counterparts. Secretary Brown went to Brazil with the chairman of Raytheon and with high-level representation of U.S. agencies. The Export-Import Bank stepped up to the plate with one of the most far-reaching financial packages in memory. And, in the clearest signal of all that we meant business, President Clinton contacted the President of Brazil on this project.

Needless to say, the rival European consortium received at least as much backing from its government. Such is the nature of the ferocious competition our firms face. The big change for Washington is that we are finally learning to play this game after years of sitting on the sidelines.

In the end, we won the project in a highly dramatic contest.

Example: China

A much broader advocacy effort was recently mounted in China when Secretary Brown led a Presidential Business Development Mission comprised of twenty-four CEOs to Beijing, Shanghai, and Guangzhou. Secretary Brown met with the President of China, the Premier, two Vice Premiers, and several ministers. He pressed hard for contracts for American firms in specific projects. The ground had been well prepared by previous trips of Secretary

Bentsen and others, by several subcabinet trips, by around-the-clock efforts on the part of the Advocacy Center, and by close coordination between the entire Administration and the U.S. firms involved. Over $6 billion worth of transactions were announced while he was in China, and we are hopeful that a good deal more will come to fruition in the months ahead. We certainly will be continuing to push.

Incidentally, no discussion about commercial ties with China should ignore the top priority we accord to human rights, too. Let me address this issue in a second.

Example: India

The most recent example of high-intensity advocacy is India: In mid-January Secretary Brown led a Presidential Business Development Mission comprised of 26 CEOs to New Delhi, Bangalore and Bombay. Over $7 billion in transactions took place in industries ranging from energy to transportation (aircraft, autoparts) to health care services to the environment.

Advocacy: Playing to Win

Advocacy is a tough game the way we are playing it, and the stakes are high. Millions of American jobs depend on our successful advocacy in the future. During the past year alone, we estimate, for example, that the Administration has helped American firms win over 70 major projects accounting for well over $17 billion in U.S. sales and 275,000 jobs. We, therefore, must continue to press, and press hard. But, while we want the contracts -- and the U.S. jobs they bring -- we do not want to see a trade finance war in which governments are fighting to see who can deplete their treasuries the fastest. That's why we only respond to below-market financing from others. And our hope is to show that it doesn't pay to cheat on the OECD rules, because everyone will pay dearly. But we will not stand by and watch others capture markets by subsidizing.

The BEMs will be -- indeed, they are already -- the battleground on which these tensions will be played out.

GLOBAL MARKETING NETWORK

The implementation of a BEMs strategy is conducted not just by the Washington agencies but also by 250 American men and women, plus 700 foreign employees of the U.S. & Foreign Commercial Service (US&FCS) stationed in 70 offices around the United States and sixty-nine embassies abroad. This entire trade promotion network is now emphasizing the importance of BEMs to interested American firms. They are being armed with important data on the key countries, visits, and trade missions.

The US&FCS is a crucial link for the BEMs strategy but, as in other areas, budgets are badly stretched. In China, for example, less than 10 U.S. professionals, working with 29 local men and women, are responsible for the entire country. So few people could hardly cover adequately the booming southern region alone. Some 60 positions around the world are now unfilled due to budgetary constraints, and the requirements for people is only escalating, particularly in the biggest and fastest-growing markets. Training for our men and women abroad is also crucial. We are focusing now on upgrading the knowledge of trade financing, but more specialized skills regarding the Big Emerging Sectors, where technology is changing so rapidly, is also badly needed.

The domestic part of the network is undergoing major reorganization as we build a new system around some 15 Export Assistance Centers, which bring together, under one roof, all the Federal export-oriented services and, where possible, state and local export facilities, too. It is an awesome undertaking. Providing export promotion services is often more difficult than many other governmental programs because the global economic environment is changing so rapidly.

NEW INSTITUTIONS AT HOME

There is also the need to rethink how we are organized in Washington to deal with the BEMs. We have taken a major step in this regard with the recent decision, announced by Secretary Brown in Beijing last summer, to establish a special center in the Department of Commerce devoted to developing our commercial strategies with China. The rationale was that, given the huge stakes, we need to marshal a critical mass of knowledge and experience in order to develop the broader and deeper commercial engagement we seek. We need to know more about the Chinese economy than we do now; we need to have a better idea of how joint ventures and strategic alliances work; and we need to be in a position to help on everything from Chinese regulatory policies to good employment practices. Our idea is to bring into this Center people from business, academia, and other walks of life to develop new ideas and new approaches to commercial engagement with China. We hope to open this center in 1995.

We have great hopes for this new facility and the long-term strategic approach it signifies, which could well become the prototype for similar facilities for other BEMs.

GLOBAL INITIATIVES

A final element of the BEMs strategy is to add a BEM component to many of the Administration's more global initiatives. A good example is Vice President Gore's proposal for a global counterpart to the National Information Infrastructure (the "Information Super Highway"). Called the Global Information Infrastructure, the proposal calls for far-reaching telecommunications links among nations in the interests of expanded trade, investment, and social development. Several of the BEMs could be prototype "off ramps" of the Global Highway. We are looking seriously at some possibilities in East Asia and in Latin America.

MORE RESOURCES FOR BEMs

In an era of intense budgetary pressure, I am not going to stand here and say that there is a lot of new money for the BEMs -- important as they are. However, over time I believe that we will see a significant shift of resources in their direction.

In the Administration's National Export Strategy report, issued earlier this autumn, for example, a framework for future Administration budgets when it comes to exports was outlined. The top priority were the Big Emerging Markets.

In addition we are likely to see some reprogramming in individual departments. At Commerce, for example, we are moving to expand our Foreign Commercial staff in the BEMs, even if it means reducing them elsewhere. We also plan to put industry specialists in the field in key BEMs, to respond to the need to enhance our exports in very competitive situations.

Beyond money and people, there is the question of how we in this Administration and those after us use our time, and increase our efficiency. For example, we are organizing BEMs teams throughout Commerce's domestic field network to better provide information and assistance to Americans on these markets. Commerce, the Export-Import Bank, and OPIC, are creating pilot programs for cross-training personnel so that the Foreign Commercial Service can adequately represent the financing agencies of the U.S. government outside of Washington.

Indeed, I predict that the BEMs will become an increasing preoccupation for all of us engaged in international affairs.

BIG EMERGING COMPLICATIONS

In every one of the Big Emerging Markets, the Administration's priority of expanding exports -- and creating jobs in the process -- is complicated by a host of other issues.

For one thing, we have many problems getting into many of these markets, and protecting our copyrights, patents and trademarks. I don't want to minimize these issues, because they are major irritants. In China, we are also concerned with human rights, intellectual property rights, and military sales. In South Korea, we have to think about our commercial strategies in the broader context of developments on the peninsula concerning nuclear weapons. In Indonesia, there are problems regarding labor standards. In Turkey, Poland, Mexico, India, Brazil and South Africa, we also have many broader foreign policy concerns.

In thinking about the BEMs, moreover, we need to be conscious of the fact that they will not only be markets for us, but also competitors -- increasingly fierce competitors. In our report on American competitiveness entitled "Competing To Win In A Global Economy," released last October, we cited the increasing need not just to "benchmark" ourselves against Japan and Germany, but also to keep a very close eye on South Korea, Brazil, China, India and Mexico -- for starters.

A Big Emerging Markets commercial strategy must be imbedded in a foreign policy that seeks to balance commercial interests with other American objectives. This is no easy task. We are not a purely mercantilistic nation, nor will we ever be. Our global leadership responsibilities prevent us from being just a salesman, no matter what priority we assign to exports.

Human Rights

Let me say a special word about human rights, because they do loom so large in our values as a nation and in our foreign policy. Perhaps the best example of the dilemmas we face are to be found in China, where our human rights goals and our commercial goals are both so important and receive equal priority.

Last May, President Clinton announced that we were no longer going to tie normalized trade status with China to the human rights situation. Instead, he said, we would pursue both simultaneously and vigorously. The two were not at odds; to the contrary, commercial engagement furthered our human rights goals.

On his trip to China last month, Secretary Brown showed exactly how such a strategy can succeed. In meetings with the top Chinese leadership, all scheduled to discuss commercial issues, Brown brought up human rights questions in a nonconfrontational way. There proceeded in each case a full discussion of our concerns and theirs. Brown asked for a resumption of the very important human rights dialogue between China and the United States, something which had been stalled for some time and that we felt was very necessary. During his visit, the Chinese agreed.

Now, this dialogue is not the entire human rights policy, of course. But it does show that commercial engagement has much broader ramifications.

Commercial engagement, moreover, leads to more economic growth in China, which lifts the lives of millions of Chinese. That's human rights, too. When AT&T or Sprint brings phones and faxes to China, millions of people lead freer lives, because they are, for the first time, connected to everyone else. When Bechtel or GE bring electricity to millions of homes, affording light to read by and power to pump purified water, that helps human rights, too.

I want to make these points to underscore the fact that a commercially focused foreign policy is not one that downgrades other goals. To the contrary. Furthermore, we are not suggesting that commercial diplomacy alone will achieve our goals. We must use the other multilateral and bilateral levers at our disposal. But one thing is clear. Commercial engagement is a powerful tool we should use. Disengagement is a mistake. Think about it. Are we more likely to achieve change by walking away from a problem or by playing an active role in its solution?

CONCLUSION

In terms of U.S. foreign policy, each of the Big Emerging Markets will be requiring the kind of high-level attention that we once reserved for France or Germany or Japan. This is already happening, thanks to the President's direction of both the National Security Council and the National Economic Council. There is much more to do -- but we have made a good start.

The Administration has been clear about the centrality of the economy to its foreign policy. Exports are now central to job creation and hence to what national economic policy should be all about. The Big Emerging Markets are central to exports. **(Chart #6)**

But at stake is even more than American jobs. The overwhelming political issues in all the BEMs is moving up the economic ladder and spreading the benefits of that success among populations with rapidly rising expectations. American products, services, and technological know-how can help enormously. Whether or not the BEMs can grow and prosper will determine whether they can continue the momentum toward more open and pluralistic political systems -- which, in turn, will determine what kind of world we will live in as this tumultuous century comes to a close.

Thank you very much.

Chart #1

BEMS AT A GLANCE

Country	Population (millions)	Total Area (square km)	GDP	Average GDP growth (1993)
Argentina	33,533,256m	2,766,890	$185 billion	6%
Brazil	162m	8,511,965	$785 billion	5%
Chinese Economic Area	1.2 billion	9,636,980	GNP: $809 billion	8.3%
India	920m	3,287,590	$1.17 trillion	3.8%
Indonesia	190-200m	1,919,449	$571 billion	6.5%
Korea	45m	98,480	$424 billion	6.3%
Mexico	92m	1,972,550	$740 billion	0.4%
Poland	38m	312,680	$180.4 billion	4.1%
South Africa	44m	1,219,912	$171 billion	1.1%
Turkey	62m	780,580	$312.4 billion	7.3%