After the Mexican Crisis...

CHALLENGE AND OPPORTUNITY IN LATIN AMERICA

Remarks
by
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"We've arrived at a moment of very great promise and great hope for the Western Hemisphere. Democratic values are ascendant. Our economies are growing and becoming more intertwined every day through trade and investment. Now, we have a unique opportunity to build a community of free nations, diverse in culture, but bound together by a commitment to responsive and free government, vibrant civil societies, open economies and rising living standards for all our people."

President Bill Clinton

"At its most basic, this Summit [of the Americas] is about partnership. Partnership among the 34 democracies of this hemisphere. Partnership between public and private sectors. Partnerships driven by dynamic emerging markets supporting structural reform and engaging the public and private sectors in the ongoing pursuit of free trade."

Secretary of Commerce Ronald H. Brown

It is a real pleasure to be in Miami once again. I arrived early this morning from Rio for the purpose of discussing with you the themes, impressions, and conclusions of eight days in Argentina and Brazil -- eight very special days in which I witnessed first-hand the opportunities and the very real challenges that the United States and Latin America face at this special moment in history.

This was my second trip to the Southern Cone in the last ten months. In the time between the two visits, a tremendous amount of change has occurred. In Argentina, the constitution was modified to allow President Menem to run for a second term. Exports accelerated, as did trade and commercial links to Brazil. In Brazil, there was an election and the institution of a path-breaking economic reform program. A gigantic customs union -- Mercosur -- was formally established consisting of over 200 million consumers, a combined GDP of $550 billion, and over $10 billion of intraregional trade. The Summit of the Americas, which took place here in Miami last December, accelerated hemispheric movement towards free trade, economic integration, and closer cooperation on issues ranging from strengthening democracy to connecting telecommunications networks from Anchorage to Buenos Aires. The Uruguay Round was ratified and the World Trade Organization came into being, giving us all the strongest institutional framework in modern history to expand global trade. In the United States, the Republican Party gained decisive control of Congress, intent on putting its own imprint on American policy. U.S. interest rates climbed steadily, drawing funds from other markets throughout the region. And, as we all know too well, Mexico experienced a financial crisis which has shaken private capital markets, and raised profound questions about the future -- not just of Mexico, but of its Latin neighbors, too.

On the other hand, a lot did not change. The philosophy of open markets and open political societies is still gaining strength ~~in our~~ Hemisphere. Trade and investment continue to grow, pushed not just by liberalized rules but by the inexorable drive of firms to explore ever bigger markets no matter what the obstacles. The truly daunting challenge remains of strengthening public administration so that the benefits of economic change encompass not just the upper class, but the broader population. At the same time, as we strive for economic expansion, we must also find ways to ensure that growth is environmentally sustainable.

Economic and political reform, social progress, preservation of the environment -- these are worthy goals, of course. The difference today -- the difference that should really give us hope and remind us what a special moment this is -- is that we in this Hemisphere have a general consensus as to how to proceed and thus have the unprecedented chance to move forward together as partners and co-beneficiaries.

What I would like to do today is to explore the nature of this unusual moment in history. I'd like to begin with a look at exactly why 1995 is so very important. Then I will reflect on the last week, a visit which started in Buenos Aires, went to Cordoba, then to Brasilia, Sao Paulo, and Rio. Finally, I'd like to offer some views about the United States' most important relationships in the region and how they are likely to develop: the U.S. and the Big Emerging Markets, especially those in Latin America (Mexico, Brazil, Argentina); the U.S. and NAFTA; and finally, the U.S. and the Hemisphere.

It is a lot to cover, to be sure, but my message can be explained in three key points.

First, there has never been a better time for the U.S. to forge closer ties with the two countries I visited, Argentina and Brazil. Never. And as we hurtle towards the twenty-first century -- characterized as it will be by concerns over jobs and opportunity for all our citizens, by brutal economic competition, by threats to our environment, and by the dangers of nuclear proliferation -- there has never been a more important time to draw together.

Second, while the Clinton Administration is taking the Mexican crisis with all the seriousness it deserves, we are not shaken in our strong conviction that seeking broader and deeper ties with Mexico, Brazil, Argentina and the other Big Emerging Markets is in our deepest national interest. If anything, we are determined to move with more urgency and more resolve to strengthen those relationships.

That goes for NAFTA and for our entire strategy towards the Hemisphere. This is my third point. As a result of the Mexican crisis, many critics of NAFTA have tried to rekindle a national debate in the United States over our ties to our partner to the South. However, we in the Administration stand four square behind NAFTA. We have a strategy and a vision, and we will pursue both with great intensity. There are those who have also begun to question the free trade thrust of the Summit of the Americas. But on this score, too, we are committed to moving ahead as swiftly and as forcefully as we can.

Now, let me explain in a bit more detail.

TEN DAYS IN DECEMBER

Given the developments that have taken place since my last visit to the region, you might think that the great transforming acts of our time have already taken place. After all, NAFTA, GATT, the Summit of the Americas, Brazil's elections, Argentina's reforms, the collapse of economic systems dominated by government, and the emergence of a democratic, free market consensus are all behind us. In fact, until recently, it was fashionable to argue that change had swept across the region, and that it was irreversible.

Then, as Mexico's markets were shaken in late December, another refrain was heard. This one was tinged not with optimism, but with doubt. Perhaps we have reached our judgements too hastily, it was said. Perhaps Latin America was still trapped in the cycle of boom and bust that had characterized the past several decades. Perhaps the corner had not been truly turned. If Mexico, the great example of successful reform could falter, if Mexico needed to be bailed out of a crisis yet again, weren't we simply back where we started?

There it was in ten days in December, a stark contrast -- the great promise and euphoria of the Summit and then the stunning crash of Mexico's financial markets.

What to think?

Of course, there is no easy answer. Neither event taken alone defines this moment in our history. Rather, we must take them together and learn from both. How we do that will determine whether or not we have really entered a new era.

If we can somehow acknowledge ~~that~~ the promise offered by Hemispheric Free Trade is as real as the threat posed by fiscal short-sightedness and over-dependence on volatile, short-term investment, we will be on our way to rising to the challenge of this moment. If we can accept that progress moves two steps forward and then one step back, in fits and starts and not smoothly upward like a line in a chart in an over-optimistic sales presentation, then perhaps we will be prepared to look beyond the moment to seize the possibilities of the long-term.

This year will be pivotal, because it will be one in which the markets answer these questions for themselves. They will look to other countries in the region to see whether they make the same mistakes as Mexico; whether they move forward with reforms that open markets or whether they heed the call of short-sighted nationalists and begin to close them; whether they stick with democracy even in hard times or fall back into old patterns; whether they learn to work together better or engage in a destructive free-for-all. These are questions that will be asked and answered throughout this year -- in Argentina as President Menem campaigns for reelection; in Brazil as President Cardoso advances his reform plan; in Mexico as it digs itself out from the aftermath of the peso crisis.

It is possible to imagine a situation in which other problems -- in Mexico or elsewhere in the Hemisphere -- spark a new wave of selling, of capital outflows, and of liquidity crisis. But it is also possible to conjure up a scenario in which Mexico slowly regains strength and the market slowly regains confidence, in which successful Brazilian reforms and continuing progress in Argentina, Chile, Peru, and elsewhere in the region make Latin America one of the world's most attractive destinations for long-term investment.

And in a very real sense, the decisions we make in the next few weeks, and in the next few months, will determine which course it will be.

The ultimate choice will not be made by just a few leaders gathered at a Summit. It will be made by members of Congress in Brasilia and in Washington, by voters in Jalisco and on the Pampas, by traders everywhere watching the moves of governments and their bankers through the electronic windows on their desks.

But what we should recognize is that leaders are not without options; they do not have to wait for the future to happen to us. By working together, we can move forward with the agenda of the Summit of the Americas and the reforms that will both strengthen market performance and improve the lot of all our people..

But we must work together. That choice has been made for us. Because as we open our markets to one another, each of our markets is increasingly linked to the others. All of us compete for capital in the same global pool. Each of our moves increasingly affects one another. We will all fail or succeed together.

In the final analysis, I am an optimist. Not by virtue of some personality trait, but because of what I see around me, what I hear from the hundreds of people I met in the last week -- government officials, business leaders, economists and political commentators.

Let me tell you a little bit about the experiences I had.

PURPOSE OF MY TRIP

We went to Argentina and Brazil for several reasons:

- The Clinton Administration has made Argentina and Brazil two of our highest priorities within our Big Emerging Markets Strategy, and we wanted to examine new ways for our nations to broaden and deepen our ties. In particular, we wanted to meet officials of the Menem and Cardoso Administrations to exchange views on bilateral relations, as well as on developments in the Hemisphere -- Mexico, Mercosur, NAFTA, and the follow-up to the Summit of the Americas.

- We came to visit American firms who are in Argentina and Brazil to get a first-hand view of the opportunities and challenges as they see them, and to see if there are ways the American government can assist them as well as American companies that are not yet here.

- We spent a good deal of time launching a series of new programs to expand trade and investment between the U.S. and the two countries -- with a heavy focus on developing new links between medium and small sized firms in the U.S. and in the Southern Cone.

■ In addition to government officials, we wanted to meet with Argentine and Brazilian businesspeople, economists, and political analysts to exchange views on the changing world scene.

■ We came to attend a two-day meeting of all our senior commercial officers from around Latin America -- held in Sao Paulo this past weekend at our new Commercial Center -- to help invigorate and sharpen the focus of our commercial efforts throughout the Hemisphere.

■ One of my colleagues was leading a very special trade mission to Brazil, composed of small and medium sized U.S. companies owned by minorities and women, and we came to meet with them as well to get first-hand, on-the-spot impressions of the business environment and opportunities as they saw them at the conclusion of some 500 appointments around the country.

■ And we came to prepare the way for Secretary of Commerce Ron Brown's visit next month. This will be his second trip to the region in the last year, too. In our view, his upcoming mission will be the clearest possible demonstration of the importance the Administration is placing on our relationships here.

IMPRESSIONS FROM THE TRIP

It will take me several days to sort out the many impressions my colleagues and I will take with us from this intensive week. But here are some of them:

■ The government officials we met in Argentina and Brazil -- ministers, governors, mayors -- were not only impressive, but optimistic about the ability to face daunting problems. They were all preoccupied with similar issues: empty public purses to meet rising needs; education and training to build a competitive workforce; policies to attract private investment. These men and women all reflected a clear view that the role of the state had to be dramatically cut back, and that market mechanisms and reliance on private investment were here to stay. Their agendas were almost indistinguishable from our own, a fact which reinforced in my own mind the commonality of our interests.

■ The business sectors -- and we met with scores of Argentine and Brazilian business leaders -- are even more confident about the future. They all believe that the economic openings of Argentina and Brazil are irreversible, that new opportunities now await them not just in this Hemisphere, but in places as far away as China and India. Their agendas are not so different from those of our companies, either, including the need to absorb new technology and to locate management and labor with appropriate skills for the new competitive environment.

- While there is a sense of optimism in the region, particularly in the powerful business sectors, but also at the higher levels of government, we had the sense from several meetings with political commentators and from many interviews with journalists that public sentiment is more fragile, more nervous. The Mexican crisis has taken its toll. Intellectually, many people understand the arguments as to why the Mexican situation was unique. Deep down, however, the reaction is less rational. "If it can happen to them," one prominent journalist told me over coffee, "why can't it happen to us?" We sensed the nervousness another way, too. People in Argentina said they were concerned about the possibilities of a crisis in Brazil which would spill over on them. Several Brazilians were concerned that problems in Argentina could ignite a regional economic blow up.

- The Mexican situation looms large on everyone's mind. It is truly a psychological watershed. In Argentina and Brazil, the top government officials, as well as many business leaders, are intent on showing why their countries are in a much different situation -- and they are right (as I will discuss in a minute.) But the lessons to be drawn, aside from not repeating the obvious mistakes which Mexico made, are not so clear in many minds. No one is saying that the direction of economic reform is not right, and, as I said, for some the implication is that reforms are more important than ever. But, at least in some quarters -- if not in the ruling administrations then in the congresses and the public -- there may be a sense that the pace of reform should not move too fast, for that is what they believe happened in Mexico.

- That said, we sensed that everyone felt that there were not many real political choices. From senior ministers to municipal leaders, from theoretical economists to cynical journalists, everyone is conscious of the scrutiny of financial markets. But that is not all. In Argentina, the population is highly sensitive to inflation, which ravaged their society until recently; they will take no chances of going backward. In Brazil, it was harder for me to pin down the sources of public support for economic reform, but it seemed to be a mixture of aversion to inflation, disgust with the ineffectiveness of state services, and hope for the better future which will come from a more open and competitive society. Put it this way: in neither country is anyone we met talking or thinking about changing the basic direction of policies.

■ In both countries, economic reforms have been truly impressive, as the Clinton Administration has acknowledged time and again. But there is a recognition, too, that there is much more to come, and that, in fact, some of the toughest problems lay ahead. As one observer said to me, "Up to now we have heard the overture. The actual symphony is just starting." In Argentina, reforms in the banking system are essential, as is reform of labor laws. In addition, the provinces are far behind the central government in dealing with huge budget deficits. In Brazil, inflation has been tamed, import impediments have been reduced, but everything from the laws regulating state monopolies to needed fiscal reforms still face a lengthy legislative process. There is a sense that 1995 is the crucial year for these changes. The new Cardoso Administration has a honeymoon period, after which politics will be more difficult. In Argentina, it will be essential to move quickly after the May presidential elections. Time is of the essence in both cases because the markets will be watching carefully for any signs of backsliding.

■ Throughout the past week, we became increasingly conscious of the importance of developing modern institutions for a sound commercial footing. Strong laws for the protection of intellectual property rights heads the list -- and the U.S. has made that clear. (We have concerns in both Argentina and Brazil.) But there's much more, ranging from transparent procedures for awarding government contracts to impartial regulatory systems for telecommunications. In Argentina and Brazil, there is a huge distance to travel in all these areas, for until recently, they were statist, closed economies with little pressure to develop such a commercial regime. The absence of progress not only hinders business development, but it also impedes fair distribution of benefits from economic growth.

■ We acutely felt the importance of the new trading region called Mercosur (or "Mercosul" in Portuguese), a group comprised of Argentina, Brazil, Uruguay, and Paraguay. A year ago, few Americans had ever heard the word. A year from now, I predict, the situation will have changed dramatically. Mercosur, a gigantic customs union, with over 200 million people and a GDP of $550 billion, is now the world's third largest regional trading arrangement after the European Union and NAFTA. It will link the economies of the four nations as never before, and intraregional trade is likely to soar. An entire new regional infrastructure -- roads, ports, airlinks, telecommunications -- will be called for. Already the EU is knocking at the door to renegotiate a bloc-to-bloc trade agreement.

While visiting the Argentine province of Cordoba, we heard of the Brazilian companies that were setting up shop there, and of Argentine firms going up to Brazil. We were told of new investments made in the province, designed to serve the broader Mercosur region. In both Buenos Aires and Brasilia, ministers of both nations talked enthusiastically about the first-ever meeting of their two presidents and cabinets -- a gathering that took place while we were in the region. Clearly, something very dramatic is happening to our south.

■ Time and again I was stimulated to think about the awesome challenges that Argentina and Brazil face in the context of a brutally competitive global market. Both aspire to expand exports exponentially. Each was aware of the Clinton Administration's aggressive new export strategy, and wanted insights into "how we do it." (Our own National Export Strategy envisions a doubling of U.S. exports between 1995 and 2000.) In the last few months I have also been to China and India. Exporting is on their minds, big time, too, with the objective of running big trade surpluses. In an environment of rapidly expanding trade, in which we not only sell to one another, but are also one another's good customers, the goals of each nation can be reconciled to some extent. But in the real world, will it work out so smoothly? In Argentina, we were barraged by questions about how to develop laws which protect the economy from an "unfair" flood of imports. In Brazil, we heard that this was a top agenda item for Mercosur.

■ In Argentina and Brazil, we met with scores of U.S. businesspeople intent on winning new markets from the wave of state-owned companies which have been -- or will be -- privatized. From them we gained an appreciation for the fact that just because a state-owned company is put in private hands does not mean that free and open competition exists. In Argentina, for example, there were great concerns that the two private telecom companies which were created from one government-owned firm were still behaving like monopolies, favoring their former suppliers, failing to have an open and competitive bidding process, and operating according to rules and procedures which were not transparent and not well understood by anyone but insiders. In Brazil, there was apprehension that the government's talk of opening up the monopolies would create a similar situation.

■ In Sao Paulo, we met with representatives of 20 small and medium sized American firms, all owned by women or members of minority groups. This group was travelling through Brazil on a special trade mission led by Assistant Secretary of Commerce Lauri Fitz-Pegado. It was the last day of their week-long trip in which they collectively had over 500 business appointments that were arranged by our commercial staff through Washington and through our excellent embassy and consulates. Several in the group were returning to the U.S. with new orders for business. Others had built relationships which they felt would soon lead to business deals. The enthusiasm of the group was truly electric, and we left feeling, more than ever, that tapping into our business sector below the Fortune 500 -- well below -- and taking advantage of our rich cultural diversity will put us in a powerful position in the twenty-first century world economy.

■ Finally, the trip reinforced, in my mind, the increasing complexity of conducting international economic and commercial policy in the post-Cold War era. Not long ago, a mission like ours would have spent all of its time with our government counterparts. Today, that is just a starting point. It is not just that the business sectors are ascendant everywhere insofar as trade and broader commerce is concerned, but that governments and businesses are working in partnership. There are many implications. First, we in the U.S. government need to understand not only the views of our own companies, but of foreign firms, too. Second, to pursue successfully our aims in foreign countries, their firms need to better understand the views of our government. But the challenges go beyond new links between government and business. It includes the need to U.S. government officials to build ties to governors and mayors. We Americans are used to thinking about foreign countries as monolithic entities. This, of course, was never the case, but today, with democracy and free markets in full swing, influence and decision-making in countries like Argentina and Brazil are increasingly decentralized. We tried very hard in eight days to get around. Despite 18 hour days, we barely scratched the surface.

Already I am anxious to return.

Let me turn now to some of the bigger policy issues:

THE U.S. AND THE BIG EMERGING MARKETS: MEXICO, BRAZIL, ARGENTINA

The Original Premise

Early on, the Clinton Administration focused its attention on ten Big Emerging Markets (BEMs) that it believed would gain substantial influence in the world economy and in global politics over the next decade. In Latin America, the BEMs are Brazil, Mexico, and Argentina. In Asia, they are South Korea, the Chinese Economic Area (China, Taiwan, Hong Kong), Indonesia, and India; in Africa, we have identified South Africa; in Central Europe, Poland and Turkey. We selected these markets for several reasons: all have embarked on substantial reforms; all have large populations, large territories, and highly energetic populations; all aspire to be significant technological powers; and all are critically important to their neighboring countries.

Using these criteria, it was a short step to conclude that all of these markets deserve top priority from the United States. Whereas in the past, many were at the periphery of our attention, now they are moving to the center. Whereas in the past, the United States often became preoccupied with a single issue to which the entire relationships were mortgaged, now there must be a balance befitting the complexity of dealings between two major countries. Whereas trade and investment were once often subordinated to other issues, now commercial engagement is at the center of our ties.

To give you some dimensions to the commercial interests involved for the U.S., we have calculated that by the year 2000, American exports to the ten BEMs will equal what we sell to Japan or to Western Europe. By 2010, we project that our exports to the ten will exceed sales to Japan and Europe combined. While the ratio of the combined GDP of the BEMs to the GDP of the industrialized world is 1 to 4 today, it will be less than 1:2 in 20 years.

The BEMs have been growing at twice the pace of the industrialized world for some time now, and all prospects are for that to continue -- Mexico notwithstanding.

The three Latin American BEMs together constitute a highly significant subset of the ten. Together they represent 64 percent of Latin America's population, 51 percent of its landmass, and about 70 percent of its GDP (1993). The combined U.S. exports to the three from January through November 1994 were $57.7 billion, three times U.S. sales to China, India, Indonesia, Poland, Turkey, South Africa combined. We figure that over 40 cents out of every dollar spent on imports in Latin America goes to purchase a U.S. product. Over the last few years U.S. exports have expanded significantly. And while pent-up demand from the "lost decade" of the 1980s explains some of this, given the huge infrastructure requirements ahead, we can still expect a very significant ratio of U.S. sales to Latin growth in the future. For the United States, moreover, the Latin American BEMs are more familiar territory because of strong historical and cultural links.

Strategy Still on Course

In the wake of the Mexican crisis, some questions are being raised in the U.S. about the advisability of so intense a focus on BEMs. "Does Mexico not prove that the BEMs are not stable?" some ask. "Haven't investors soured on these countries? Will the BEMs themselves rethink the direction of their economic reforms?"

These are serious questions which deserve equally serious answers. Here are some:

- The Mexican crisis had several unique features which are not found in other BEMs, such as Argentina and Brazil, including such heavy reliance on short-term finance, bunched short-term debts coming due soon, huge current account deficits, low reserves, and a confluence of tense political situations resulting from two political assassinations, an uprising in an impoverished state, and an election.

- The underlying momentum of economic reform in most of the BEMs is very impressive. There are no better examples than the Latin BEMs, where Brazil brought down inflation from over 2000 percent to double digits in less than two years, and where Argentina privatized its national airlines, its national energy company, and its national telecommunications company within a few years. But it's true in Mexico, too, where budgets went from huge deficit to balance, and where years of protectionist trade policies were dismantled.

- The long-term trends in the world economy bolster the prospects for the BEMs. All are moving toward free markets, with all the productivity and ingenuity they release. World trade has been expanding. NAFTA and Mercosur will help expand trade, as will the new World Trade Organization.

- In my view, the Mexican crisis will make BEMs much more conscious of the imperatives of economic reform which will lead to more long-term direct investment. It should, for example, underscore for Brazilians the importance of the constitutional changes that President Cardoso is seeking. It should help the Menem Administration make difficult fiscal decisions.

None of this means there will not be setbacks. There surely will. However, from the standpoint of the Clinton Administration, there is a recognition that the BEMs are, by definition, "emerging." They still have a long road to travel. And we want to help along the way.

That is why so many of our top officials have spent time in Mexico, Argentina, and Brazil; why we have invested so much in expanding trade and investment and deepening economic integration in the region; why we set up a special Commercial Center in Brazil; why we have just launched a U.S.-Argentina Business Development Council to expand trade and investment (and we are looking forward to doing something along these lines with Brazil shortly); and why we will be developing a far-reaching, post-stabilization commercial policy with Mexico.

THE U.S., NAFTA & THE FOLLOW UP TO THE SUMMIT OF THE AMERICAS

Turning now to broader hemispheric issues, my bottom line here is the same: we understand clearly our long-term interests, and are intent on not wavering from the course we set last year.

Latin America has been, after all, our fastest growing export market. Today our exports in the region are three times what they are to ASEAN

(Thailand, Malaysia, Singapore, Indonesia, Brunei), one-and-a-half times what we sell to the Asian "tigers" (Hong Kong, South Korea, Singapore, and Taiwan). Our foreign direct investment in the region stands in excess of $100 billion, a two-thirds increase in just the past four years. And investments are increasingly pulling more American exports.

Then, of course, there are Latin America's massive infrastructure needs -- requiring perhaps some $500 billion in investment in transportation, telecommunications, energy, environmental technology and other areas over the next decade. There should be great opportunities for U.S. firms.

NAFTA

One of our major commercial building blocks in the Hemisphere is NAFTA, and the Clinton Administration remains committed as ever to strengthening this framework.

In the one year of its existence NAFTA has achieved a great deal. It has added momentum to expanded trade between the three NAFTA partners, and it has contributed to the competitive position of North American industries such as autos and food processing by providing the opportunity for restructuring and rationalization throughout a market of 380 million people. It has stimulated national, state and local efforts to build an integrated North American transportation network, which will only enhance the competitiveness of our firms and build more prosperous communities. It has helped Mexico to lock in policies for a more open economy. I am convinced, in fact, that NAFTA was a critical factor in Mexico's outward-looking adjustment policies to the current crises -- in stark contrast to protectionist responses to past crises. NAFTA has stimulated serious trilateral discussions on the environment and on labor practices. It has focused much needed attention on the "nuts and bolts" of facilitating business -- on product standards, regulatory disparities, customs impediments, and labeling requirements, for example.

Not bad for one year.

I'm not going to stand here and say we don't expect problems now. Mexican growth will slow and so will U.S. sales. We may see more illegal immigration because of the economic turmoil south of our border (although we are stepping up cooperation with Mexico on all border issues to prevent this.) There could be other complications, too.

But NAFTA is not a "light switch" treaty, to be turned on and off in response to changing conditions. The Mexican economy will stabilize. The economic reforms will continue. Growth will resume. It is still a great market for U.S. firms, a conclusion that was reinforced two weeks ago when I interviewed executives from over 40 U.S. firms based in California, all of whom were "caught" in the Mexican crisis, but all of whom said that Mexico still loomed large and positive in their future. NAFTA is still a framework to make an integrated North American market the most competitive and prosperous one in the world.

President Clinton displayed great political courage in pushing for NAFTA in the first place. You will see the same qualities in keeping up the momentum in the period ahead.

In its first year, NAFTA's market openings facilitated almost $50 billion in <u>new</u> trade among the three countries, an incredibly impressive performance. Nonetheless, wholesale changes in NAFTA's trade regime have necessarily meant that some trade irritants have arisen in implementation. We will be working hard over the next year to smooth out any confusion over the application of new customs, standards, or regulatory requirements.

We also will be expanding efforts to further develop NAFTA's institutions -- on the environment and labor, on administrative matters, and on border infrastructure and financing. NAFTA's first year was a "bricks and mortar" year in which locations, directors, and operating rules were established. As we enter 1995, we intend to make these institutions work.

We will be redoubling our efforts on the U.S.-Mexican border to develop critical infrastructure such as desperately needed waste water treatment plants, power generation plants, housing, roads, and modernized border crossing facilities. Since Secretary Brown convened the first infrastructure conference in this area in 1993, almost two dozen projects worth $1 billion are well on their way to completion. Moreover, the North American Development Bank (NADBank), which began operating last Fall, will provide $3 billion worth of project financing for critical environmental projects over the next five years.

We will continue to counsel U.S. exporters and investors who have an interest in the Mexican market. While demand may be down in some areas, Mexico still remains a huge market at our doorstep, with enormous requirements. Moreover, those with vision beyond the current crisis will have the chance to position themselves for better times.

Follow-Up to Hemispheric Summit

The Hemispheric Summit, held here in Miami less than three months ago, set in motion a process which will move all the nations of our Hemisphere toward a more open trading system and deepening economic integration. I believe that everyone understood that the Summit itself was just the beginning of a longer term process and that the Clinton Administration is committed to several follow-on actions and to full steam ahead.

First, as announced in Miami, we will begin discussions with Chile on accession to NAFTA by the end of the Spring.

Second, Ambassador Kantor will host a meeting of trade ministers from the Hemisphere in Denver at the end of June to review next steps.

Third, immediately following the trade ministerial, Secretary Brown and Ambassador Kantor will host a Hemispheric Trade and Commerce Forum at which ministers and private sector leaders will gather to discuss what we call "commercial integration." This is a concept that is much broader than the kind of integration that is only brought about by traditional trade agreements. Commercial integration is about harmonizing standards and regulations, about building the kind of infrastructure that connects markets and encourages the free flow of commerce between them. It is about eliminating customs barriers and ensuring open, fairly-regulated capital flows. Very often commercial integration doesn't require the approval of legislatures; sometimes it doesn't even call for the active involvement of governments. But in every case, it serves our ultimate objective of moving toward a free trade area in the Americas by 2005.

We also expect to have other intensive discussions. One area of focus will be financing infrastructure development, where we expect a series of hemispheric meetings and conferences. Telecommunications will get special attention beginning with the telecom ministerial to be held in Chile next month (with Secretary Brown leading the U.S. delegation.)

We look at the liberalization of trade as an important step toward ensuring the fulfillment of our broader economic and foreign policy objectives. Without more liberal economic policies, it is difficult to see how nascent democratic institutions can be supported. Markets and political institutions function best when both are free, but neither is sustainable when the other is not.

THE SOCIAL QUESTION

When I was in Brazil and Argentina nearly a year ago, I was extraordinarily optimistic about the possibilities. The biggest challenge, I felt, was the social dimension of reform, the need for more people to feel the benefits of the region's dramatic economic liberalization. Not only does Latin America have the greatest disparities in income distribution anywhere, but in democracies the political support for tough decisions to pare budgets and restructure bloated state-owned enterprises will be very difficult to make and implement if large portions of the electorate feel they are not the beneficiaries of the changes taking place.

Today, the social challenge remains even more pressing -- and more difficult. It has become intertwined with the need to strengthen government administration so that essential services can be effectively delivered, while at the same time cutting back government itself, and relying more on private long-term investment, both domestic and foreign, to raise living standards.

It's hard to imagine a more difficult balancing act. There is no painless path, no smooth road from a political perspective. But there is no more urgent imperative, either.

CONCLUSION

The Clinton Administration understands the challenges in the Hemisphere, and the opportunities. It intends to be an active and helpful participant in the Hemisphere's future. We have an enormous amount to gain if things go well. We have an awful lot to lose if they don't.

Our involvement can come in many forms: in keeping our markets open as Latin countries themselves continue to liberalize their own trade regimes; in providing technical assistance in areas such as strengthening regulatory systems; in working closely with Latin American nations as a partner and friend.

Our role extends further to being a leader befitting the great, powerful, and rich nation we are. That means articulating a vision of what this Hemisphere can be, how the lives of over 700 million people here can be improved, and how we can achieve those goals in the new global economy.

In 1994, the vision took shape in the progress made in NAFTA, in the historic Summit of the Americas, and in the more cooperative relations which the United States and its 34 democratic partners in the Hemisphere developed.

In 1995 and beyond, we -- all of us working together -- must keep the vision that was articulated at the Summit alive. We can do this not by repeating slogans, nor just by drafting position papers or trade agreements. We will only do it by rising to the challenges that we face together and, for the first time, facing them together, recognizing that just as Mexico could not face her crisis alone, nor was it hers alone to face.

At the outset, I posed the question that many have asked: are the changes that swept Latin America irreversible or can we return to the problems of the past? I believe the answer is that yes, the changes are irreversible because new technologies and the imperatives of the global marketplace have made permanent our interdependence. But, having said that, we must acknowledge that for all the promise such interdependence offers, it also starkly presents the prospect not of old problems perhaps, but of shared new problems.

The United States, Argentina, and Brazil (and, of course, Mexico) have a special responsibility in this new era. We are the most populous countries in the Hemisphere, the dynamic engines of tomorrow's growth. We can set an example that will surely result in the fulfillment of the promise articulated here in Miami last December.

In the experiences of this trip, in the actions of the Cardoso, Menem, and Clinton Administrations, and in the actions of the peoples and governments of all of the Americas, however, I see many reasons to be hopeful. In 1995, we should set our sights on preserving the gains that have been so hard won over the past several years. It is one of the great imperatives of our times, and if we do not rise to the occasion, we will deserve a harsh judgement from history.

Thank you very much.

CHALLENGES TO AMERICA'S INTERNATIONAL ECONOMIC STRATEGY

By
Jeffrey E. Garten
Under Secretary for International Trade

Before
The Institute for International Economics
Washington, D.C.

October 13, 1995

The following has been transcribed verbatim.

Institute for International Economics Luncheon

Farewell Address Reflecting on

"Challenges to America's International Economic Strategy"

By

Jeffrey E. Garten

Undersecretary of Commerce for International Trade

Willard Hotel Ballroom
Washington, DC

Friday, October 13, 1995

C. FRED BERGSTEN (Institute for International Economics): Let me welcome all of you to this very special luncheon session for the Institute for International Economics today to say farewell in one context, but, of course, welcome in another to Jeff Garten. This very sizable turnout in both quantity and quality, I think, is an indication of the deep respect and deep affection with which Jeff is held in most quarters around town.

At the head table I'm delighted to say we've got a number of Jeff's close colleagues from the government: Bow Cutter; Winston Lord; Bob Kyle; Dan Tarullo; Carol Lancaster, deputy administrator of AID. Now, they have forewarned Jeff and me that at some point they're going to get up as a group and walk out. (Laughter.) But I'll tell you that it's not to be regarded as walking out on Jeff's comments, whatever they may be, but rather because they've got a very important meeting that they have to go to together. So simply, when you see them go, don't take umbrage and Jeff won't either.

It's a real pleasure to be able to have this session for Jeff literally on his last day in the government. Jeff's still a very young guy by most criteria. He's 48, but he's really had a spectacular career, one that I like to think of as a triple threat.

He's had a series of very important positions in government, going back to the early 1970s at the Council for International Economic Policy in the White House, subsequently at the Policy Planning Staff in the State Department, and of course, as undersecretary of commerce for International Trade for the last two years.

He has had an extensive career in business, both as a senior partner at both Lehman Brothers and at the Blackstone Group, but also running his own investment bank as an individual entrepreneur in the investment business.

He's had an academic career, having done his PhD here in Washington at SAIS and having taught both economics and finance at the Columbia Business School, having published a very good book a few years ago called "A Cold Peace: American, Japan, Germany and the Struggle for Supremacy," plus a number of articles in foreign affairs. And, of course, he is now returning to the academic world, going to the Yale School of Management where he will become dean of the school and also join its faculty in the area of international trade and finance.

Now, if that triple threat background is not enough, he was also a Green Beret in the military back in the late '60s and early '70s. So obviously, a well-rounded career in many respects.

When I told Jeff's staff that we had 300 people coming today, they groaned and said, "Uh-oh, he's going to want a 100-page text." (Laughter.)

The thoughts, according to Chairman Garten, are well known around the city over the last two years. I personally have applauded his desire to speak out publicly to articulate the administration's strategy, particularly to develop what they've been doing in his direct areas of responsibility: the outreach to the big emerging markets, the U.S. export promotion efforts, the initiatives that they've taken to forge much closer and new forms of partnership between the government and the private sector in the interests of promoting U.S. economic objectives around the world.

It is, therefore, with enormous pleasure that I introduce Jeff today. He's going to talk for 20 to 30 minutes, then we'll have questions for as long as they go running up until 2:00 o'clock. Jeff, it's a great pleasure and privilege for us to have you on our podium here on your last day in office. We look forward to your reflections on challenges to America's international economic strategy.

Undersecretary Garten. (Applause)

MR. GARTEN: The reason Bow Cutter is standing up, he's about to walk out in a few minutes. (Laughter.) I will not be convinced that this alleged meeting which is taking place wasn't scheduled, so in case I say anything that's controversial, they will not be here for it. (Laughter.)

Let me just say it is a great pleasure, it really is, and an honor to be here under the sponsorship of the prestigious institute. I can't think of a better place, I can't think of a place that I'd rather be to set out some reflections on my past 30 months in Washington. And I'd like to give a very special thanks for this event to Fred, who has been a friend of mine since the Nixon administration.

In my many incarnations, I have had the pleasure of dealing with Fred. He's been a great friend; he's been a great source of advice. I learned how to speak simple economics when I watched him coach Henry Kissinger. (Laughter.) I learned how to sidestep the bureaucracy when I watched him run circles around me and the State Department when he was at the Treasury. Even when I was on Wall Street, I used to call him for advice, and I think that maybe that's why the stock of Lehman Brothers declined so quickly during those years. (Laughter.)

But Fred was actually the first stop, my first stop when I came back to Washington this time. Before I even had an apartment, I called him. I had a long session with him, and it was a very, very important orientation for me.

And before I get started, I would also like to just recognize a couple of people who have been exceedingly important to me, to the Department of Commerce, to Secretary Brown over these last 30 months. One of them is not able to be here, David Rothkopf, who has been one of my deputies. David -- a great intellect, a tremendous imagination, tremendous drive, and has been a part, a major part of every initiative that has come out of the International Trade Administration.

And Tim Hauser, who I believe is here. Tim. Tim is my other deputy. I can say without any question that without Tim, who incidentally represents the very, very best of our civil service, without Tim, this enormous complex that I sat on top of consisting of 2,500 people and a 140 offices around the U.S. and around the world, without Tim, the operation simply couldn't go forward. He kept the trains running and he kept me straight, and I will be grateful to him for a long time.

And Cecile Ablack, who's sitting right next to Tim, who's headed up our Office of Public Affairs, Congressional Affairs, Intergovernmental Affairs, has been the person most responsible for our ability to have a message and communicate the message. A couple of weeks ago somebody described me as a media hound. If it's true, I owe it all to Cecile and she's the one who's responsible.

Today I'd like to say a few words about the thoughts that are on my mind as I leave this job. These are reflections of the moment, and I say that because I'm sure that many of these thoughts will be revised as I have a little bit more time to think. But the starting point for my thoughts is that I am extremely proud to have served in the Clinton administration. I'm deeply indebted to the president and to Secretary Brown for giving me the chance to serve in this government at this time and with this team.

Secretary Brown himself has been a wonderful boss. He's been forceful, he's been clear, and he gave me the widest possible scope to run the International Trade Administration. My colleagues in the administration have been the smartest and the most thoughtful group of people I've ever interacted with, and they have been true colleagues. We've not agreed on everything, but the close personal ties were never frayed by disagreements that we may have had over one policy or another.

And I leave the administration extremely proud to have been associated with some of its achievements: NAFTA, the Uruguay Round, the further opening of Japanese markets, the efforts to strengthen our commercial ties with the European Union, the establishment of a national export strategy, an aggressive approach to helping American firms win contracts abroad, the focus on big emerging markets, just to name a few. I leave the administration as a total supporter of what it is trying to do in the international economic and commercial realm, and I leave with the fondest memories and the greatest hopes for the administration's continued success.

I'd like to make some observations, as I said, but I want it to be clear that from now on, I am speaking as a private citizen and not as an administration official, and in that capacity, I would like to look ahead. I'd like to look, as we head up to the end of this century, and if I could put my finger on one theme which resonates in my mind as I leave, it would be this: My time in Washington has been marked by a shift in our foreign policy focus, a shift towards more emphasis on economic and commercial issues. Candidate Bill Clinton said he would do this, and he did it.

The policies have moved in the direction that he said they would. The government was reorganized in the form of the National Economic Council to do that, and I'd just like to recognize some of the people who made that happen -- Bow Cutter and Bob Kyle sitting here at the front table. Many new initiatives have been developed. Trade negotiations have taken on increased importance. Export promotion has taken on increased importance. The administration has strengthened the links between government and business.

In fact, the administration is often criticized for being too commercial, by some even mercantilistic. My own view is not just that this is the right direction, the right kind of shift, but that in the years ahead, we will have to go even further in this direction. If you conceive of our foreign policy as scales with traditional, political and security issues on one side and economic and commercial issues on the other, I think that the imperatives of the 21st century will compel even more re-weighting in favor of commercial diplomacy.

There are two reasons for this. The first is a hard-headed calculation of our economic interests at a time when more and more jobs are associated with exports and at a time when finance has become so global. At the beginning of this decade, seven million Americans owed their jobs to exports. By the end of the decade, it will be 16 million. A decade ago, U.S. holdings of foreign stocks were $40 billion; today it's $330 billion, an increase in one decade of 800 percent. So our connections with the rest of the world are indisputable, and our foreign policy has to reflect that.

But the second issue, and maybe this is even more important, is that the economic and commercial issues are what is most important to virtually every other country in the world, and unless we can relate to them on that plane, we will lose enormous influence, not just in the commercial realm, but across the board. We have to be at the table that counts if we want a voice on the other tables.

And I would like to illustrate this theme of a need for a greater shift towards economic and commercial diplomacy with five different examples. And I want to emphasize that I'm talking about the evolution of policy in the future. This administration has come an enormous way in two and a half years. Change cannot occur overnight. So my focus really is, as I said, on the lead-up to the 21st century.

The first issue that I'd like to discuss is the tension between bilateral and multilateral trade. In my travels around the world, and they've been quite extensive over the last 30 months, whether I was in Ottawa or Buenos Aires, whether in New York or Jakarta, the single issue which arises in my discussions most, in my discussions with government officials and business leaders around the world, is the perception that the United States is abandoning its support for the multilateral trading system.

In fact, this charge is made by many of my close friends, many of them in this room. I've been seized enough by this issue to write a long article in Foreign Affairs, which is coming out in a couple of weeks, so I won't go into great detail. Suffice it to say the charge is wrong. I have been and I remain a strong defender of how the administration has gone about trade policy. Under the leadership of Ambassador Kantor, I think our policies have been unusually effective. His toughness, his clarity, his persistence is an excellent example of how our economic and commercial policies have moved to the center of our foreign policy.

But the perception that we are turning our back on the multilateral trading system cannot be ignored because it is a perception. My argument is that it's not that we don't support multilateral trade. In fact, we have a tremendous amount to gain from a strong multilateral trading system. What has changed is this: We used to base a lot of our trade policy on political interests, on keeping like-minded countries in the camp, in the free market camp. This is no longer necessary. Now we pursue multilateralism on commercial grounds, and the commercial reasons themselves are compelling enough.

But that means that we have to look at multilateralism a little bit differently. We have to be tougher. We have to make the judgments, we have to have criteria that are more commercial in nature. Our notion of multilateralism for the 21st century is one that really places more responsibility than ever on other countries to open their markets so that their openness is commensurate with ours. We need a multilateral system that achieves real liberalization in the tougher issues, whether it's competition policy, investment rules, or others.

This is a big issue, and I can't do justice to it here, but the angle that I want to stress is the need, as we pursue these objectives, for more sophisticated multilateral commercial diplomacy. This doesn't mean that we shouldn't be really tough. It doesn't mean that we should abandon our objective, but the key issue is, how can you be effective in pursuing those objectives. And when I talk about the sophisticated multilateral economic diplomacy, I'm not using the terms as they are customarily used inside the

Beltway. I'm not just talking about working within the WTO or other multilateral institutions, but in using the full force of our foreign policy to mobilize coalitions of countries in support of our objectives.

It isn't as if the administration hasn't tried. We have. It's been extremely tough because many countries see that it is easy to get a free ride on the hard work that we do alone. But I believe we have to continue to try, and we have to put more foreign policy effort into gaining allies for our trade policy. For, by the end of this century, both the European Union and the East Asian region will have GNPs that are much larger than ours. We'll have more and more trouble going it alone, whether it's with regard to a WTO, with Japan, or even with regard to Iran-type sanctions. Sophisticated, multilateral economic diplomacy will require people who have backgrounds in both economics and diplomacy. For my money, the Clinton administration has more than any other administration ever had, but the requirements are enormous, and for the future we are going to need more and more.

The second issue on my mind relates to the need to be much more realistic about meeting foreign competition overseas. Here is another area where the administration has made tremendous strides. Yesterday, Secretary Brown gave extensive testimony in the House and the Senate on everything that we are doing to promote exports, and he dwelled particularly on the practices of our competitors, making the point that we are being outgunned everywhere.

I don't want to spend a lot of time here documenting the practices of other countries, whether they're legal or otherwise, except to say that U.S. funds are under assault from foreign companies supported by their governments everywhere in the world. The big issue, of course, is what should we do about it.

For starters, it is totally insane to try to dismantle the Commerce Department at a time like this. It is totally insane to reduce support for Ex-Im, OPEC and TDA. We must expand our advocacy center, which some people call the Economic War Room, a group which just started 18 months ago, but has been extraordinarily effective. We must step up our policies to combat bribery. We've started in the OECD, but that effort should be extended to the WTO, to APEC, and to every single forum that we're in. And we should work with big, emerging markets to develop national codes, national anti-bribery codes; codes which countries would put up and demand that every foreign company doing business in that country would sign on to.

I think we should also look very hard at the structures of our embassies. Many of the staffing patterns still reflect Cold War legacies. I want to say that, as someone who worked in the State Department for several years, I believe I can appreciate more than most the very dramatic changes that have taken place in the last several years. My congratulations go to Secretary Christopher, Strobe Talbott, Joan Spero, Dan Tarullo, who is here; assistant secretaries like Winston Lord, and several, or dozens, of great ambassadors, who have really focused on commercial issues in the context of our changing foreign policy. It has been a dramatic change.

But the fact is that a recent GAO study showed that less than one percent of all the people in our embassies come from the Foreign Commercial Service. And if you look at many of the countries -- and we have the numbers -- the staffing simply doesn't reflect, the ratios don't reflect, what I consider to be the importance of commercial policy. Just take one country, Malaysia, where we have no troops. We count two Americans doing commercial work, 28 doing political and security. Or take Brazil -- no troops, six Americans doing commercial work, 42 doing political and military.

And I know it takes a long time to change this, and I know that a lot of effort has been put into it. Just looking towards the 21st Century, I think that some shifts are in order.

My third issue is big emerging markets. And, here, I can be real simple. The crying need is for us to stay the course. When we started talking about big, emerging markets, most of them were in boom periods. Mexico, Brazil, India, China -- now most of these countries are in a period of retrenchment. I believe that this retrenchment trend is understandable. A lot of market opening has occurred in these last couple of years, and it's necessary to have a period of digestion, or at least understandable.

American firms did the easy thing; they got in. Now they're finding out how hard it is to actually put the shovel in the ground after signing a deal. And, you know, for the longest time we wanted all of these countries to be democracies; now they are, which means that they have politics, too, and foreign investment is going to be a very natural target.

I believe what we're seeing here is two steps forward and one step back, and I'd like to make just two points:

The first is I'm very worried about typical American "short-termism." Will our government and will be businesses lose interest in the face of some of these trends in big, emerging markets, or will they stay the course? There's not that much that the government can do. I think we've started what we can do, and I think we should continue a massive education job around the United States about what the big emerging markets are all about -- big emerging markets conferences in virtually every state and aboard, big emerging markets roundtables with business leaders from all over the country, annual reports, business development committees with each of the big emerging markets in which American business leaders, leaders of the foreign countries, and government leaders all sit together. We've done that with South Africa, with Argentina, with Brazil, with China, with India, but these things have to be kept up.

But I also believe that we will need to intensify our effort to look at big emerging markets in a much broader context than we have. The administration has been extraordinarily successful in focusing on exports when it comes to big emerging markets. But a big emerging market strategy is really much more than that. It should include all the other issues: nonproliferation, human rights, military sales.

So I think that we must continue to bring big emerging markets into the central focus of our foreign policy. It started. It started, for sure. I just think, as we get to the 21st Century, we have to continue to move in this direction. And even when we bring them into the heart of our foreign policy, I think it will be clear that it's on the economic and commercial axis that our relations will really evolve, and it is through economic and commercial ties that we will develop the closest, deepest relationships, relationships which would allow us to have greater influence in the other issues that are so important to us.

My fourth issue has to to with the relationship between government and business. Here, the administration has again made great strides by recognizing the reality of the international marketplace. We know that governments are involved and will stay involved. The administration, I believe, has broken new grounds with a whole range of imaginative public/private partnerships. The need, in my view, is to push ahead with these links and make them even stronger.

I'd just like to cite two examples of some of what I think are the more imaginative mechanisms that the administration has backed.

On the European front, the so-called Transatlantic Bnusiness Dialogue, which is going to get off the ground next month, is a real innovation. For the first time, business leaders of the EU and the United States, together with Cabinet ministers on both sides and, very interestingly, together with the top regulators -- the head of our FCC, the head of our Environmental Protection Agency, all the other major -- FDA -- all the major regulators on both sides of the Atlantic are going to get together, a three-way discussion about the future of commercial relationships across the Atlantic.

We did something else, and I could give you 10 examples and I'm just citing two. The administration signed a memorandum of understanding with the public authority in Brazil called the Tiete-Parana Project. This is a public authority -- public-private -- in Brazil, that is overseeing some $30 billion worth of infrastructure projects in the Tiete-Parana Basin. And with this memorandum of understanding, we're getting an early look at all the projects. We're able to get our Export-Import Bank, OPIC and others involved if they want to be at a very early stage. We're able to bring these projects to the attention of small- and medium-sized businesses all over the U.S.

These are the kind of efforts which have been started and which I believe should be considered. And I raise this in the context of a talk about commercial diplomacy, because I believe that this is what commercial diplomacy is all about. Many of you in this room --

and I must say I, myself, when I came to Washington -- would have thought that commercial diplomacy was traditional trade and exchange rate policy, and everything else really didn't matter. As I leave the government, I think much differently. These business-related issues, these issues of how the government and business relate to the each other, are at the heart of our commercial policies going forward.

I would say that, in the two and a half years that I've been in the government, the administration has taken the lead in developing these partnerships. What I would like to see is for the private sector to step up, to take more of a lead, and to inject the energy and the imagination and the resources, which will really be required to carry this effort out.

And my final issue is what I would call commercial diplomacy in foreign policy crisis situations. During my time in government, I saw economic packages put together for Russia, the newly independent states, Haiti, and Northern Ireland. Down the road, we are, no doubt, going to be confronted with packages for Bosnia, perhaps even Cuba. Once there is peace in these kind of areas, the next requirement is real clear. The government comes to the economic agencies, they ask for commercial instruments, they ask for fast-disbursing funds, longer-term investment, technical assistance.

Once we had a lot of foreign aid to do this. That, clearly, is no longer the case. Once, Ex-Im and OPIC were easily ushered into the situation, but today these institutions are, rightfully, increasingly commercial in their orientation, and they want to avoid the kinds of risks in the situations that I mentioned. Even the Commerce Department would like to spend its time on the big, promising markets and not in these crisis areas. So a lot's changed. And, in addition, the theory and the mission has changed. The issue is no longer how to provide aid to other government; it's how to develop private sectors; it's how to create autonomous investment that brings with it jobs. I'm not sure anybody really knows how to do this.

And, as in the other areas I discussed, I think the administration has done a marvelous job in marshalling the resources that it has, but if we are going to continue along these lines, if we want to be involved, if we want to have influence, if we believe that after all the effort to win the peace, politically and militarily, it's worth winning it economically. Then I think it would make sense to really think through how this can be done better in the future.

And among the issues that need to be examined are the following:

Who should be in charge? We have an ad hoc process. Every administration that I've been in we've had an ad hoc process to come up with an emergency package. Sometimes it's NSC. Sometimes it's NEC. Sometimes it's the State Department. Who can be in charge of this in a systematic way?

Secondly, where is the institutional foundation for these kinds of packages? Saying inter-agency simply doesn't do it.

Third, what kind of instruments do we need? In my view, and I say this as a former investment banker, there is no way to attract foreign investment in these crisis situations in the amounts that are needed without real incentives -- low cost loans, tax breaks, guarantees. I know that's an anathema in Washington these days. I know it's difficult to do. But we shouldn't fool ourselves into thinking that rounding up the usual suspects for a trade mission brings the money that is required to bring the peace.

And I would also look at the example of our Federal Emergency Management Agency, FEMA, which was created for something much different, but obviously created to have an institution that can deal quickly and readily and effectively with an institutional memory and with qualified people in crisis situations.

Well, there are many other issues that I would like to bring up if time permits, but let me just go down a couple that I haven't really addressed but are very important.

We obviously face some great challenges with Japan. Here, we have made the shift to a much more emphasis on economic and commercial. The challenge now, in my view, is to maintain that thrust.

In China, to me, this is the most important, difficult, strategic challenge that the United States faces over the next couple of decades. In my view, the challenge here is to continue broad commercial engagement, even in the face of the ups and downs which we are clearly going to experience.

And in Western Europe, here, commercial ties are already at the center of our relationship, but I think the risk is that we take those ties for granted, and I wonder sometimes if we should think even more boldly than we do about ways to replace the links the existed between the U.S. and Europe when military relationships were very important.

So, let me end where I began. I leave with the strongest praise for the administration. I leave with great admiration for the initiatives that have been taken and for the people that have taken them, and I hope that all of the things that have started will continue with the same degree of energy and the same degree of sincerity.

It's a great honor to have been in the administration, and I thank you very much for hearing me out. (Applause.)

MR. BERGSTEN: Jeff, thank you very much. You've raised an enormous range of issues. We've got a lot of people who have thought a lot about them.

The floor is open for questions, comments and observations.

Let me start, Jeff, with one myself. You, in essence, have called for a sharp -- continuing, but sharp -- reorientation of U.S. foreign policy in the commercial economic direction. It's congenial to me. I've advocated that for a long time. But you do it now at a time when there is an enormous effort in the Congress to reorient U.S. foreign policy. Secretary Christopher and the president are both saying almost daily our foreign policy is in crisis because of its erosion in terms of congressional and public support. Do you see the path that you are recommending as an answer to that problem? And do you have indications from your own talks with Congressman, the public and others in your 30 months that the avenue that you're advocating might provide a response that would win you national support for the kind of outward foreign policies you want to see?

MR. GARTEN: Well, my thinking is not based on what would sell in Congress, but what what I think is in our national interest as we look ahead to the way the world is changing. I have been extremely disappointed in the level of understanding in both the House and the Senate. I think that what we face here is one of the biggest challenges in terms of just educating the members about what this world is like. It is almost impossible to overstate what I consider to be the level of ignorance, the inward-lookingness, and the preoccupation with issues that simply are at the periphery of our national interest.

Now, I don't know how we're going to to do this, but I do know that this administration and others are obviously going to have to devote much, much more time to interaction with Congress. It never would have crossed my mind when I came here that, if I spend 50 percent of my time on the Hill, it wouldn't be wasted, but in my discussions and a lot of those revolved around extinguishing the Commerce Department because trade doesn't matter or because exports really don't have anything to do with jobs, all I can say is that this is, on the one hand, a major challenge; on the other, I don't know exactly how we can organize to deal with it.

A commercial focus might have some resonance, but I think the worst thing in the world is to try to device a foreign policy simply so that it has support. Now, it obviously has to have support. I think this will, not because it has some buzz words but because it responds to what is very much in our national interest, which is a very strong economy; and, as I said, a need to relate to other countries in those areas which are most important to them. But you've put your finger on something which I don't like to talk about, because, of all the things, it just seems to be the one that requires a real leap of faith, that the people that we are electing to national office are going to really be up to the task of guiding the United States in a world economy -- in a world which is just changing so rapidly.

MR. BERGSTEN: Okay. Question in the back. A mike will be coming over to you.

Yeah, a mike will be coming over to you.

MR. GARTEN: Yes?

MR. BERGSTEN: I thought a mike was coming.

Q Speak now?

MR. GARTEN: Speak.

MR. BERGSTEN: Just go -- yeah, gee, I thought a mike was coming, but I guess not. Go ahead.

Q I try to speak out loudly. My name is Fritz Fischer, sir, and I'm the German representative on the board of the World Bank, and I make my remarks in my virtual capacity, but also in the background of the annual meeting of the World Bank and IMF which we just had and against the common impression that your president may be making a very dramatic plea for the -- (inaudible). And I may, with your indulgence, elaborate on that.

MR. BERGSTEN: Don't elaborate too much. We don't want speeches from the audience. Just ask the question.

Q (Off mike) -- and enhanced U.S. exports, and it doesn't constitute any problem for the emerging markets in Latin America and Asia, but for Africa, the other side of the coin is that the international community has enabled Africa to grow so that they can import more. And we have no problems with the U.S. administration. We have tremendous problems with the U.S. Congress. And I won't touch on the marginal impact of this, but we are in a very, very serious situation, and I just wonder how we can assist the administration in this very managable -- (inaudible) -- of not defining national interests by popular -- (off mike). Thank you.

MR. GARTEN: Well, all I can say is I agree with you. I think the president has put his full force behind our stepping up to the plate in his multilateral assistance and I fully support that.

MR. BERGSTEN: Yes?

Q Paulo de Tarso Maderios, Banco do Brasil, Washington. (Inaudible) -- U.S. -- (inaudible) -- looks for its national interest. It's so much more powerful than emerging markets. We've got a situation -- (inaudible) -- gain too much at the expense of other countries -- (inaudible) -- north-south -- (inaudible) -- increase and to have a more equal, more -- (inaudible) -- than now. There is -- (inaudible) -- there is no restraint on United States' powers, so to speak, that you do too much in looking for national interest and being against the national interests of some other countries.

MR. GARTEN: Well, I think that what we're trying to do is to work with countries like Brazil for mutual interests. To my way of thinking, when we try to promote U.S. investment in a country like Brazil, both sides are going to gain. So certainly the idea here is not to take advantage. I think that when I talk about the big emerging market, certainly in my mind is the fact that these are much more powerful than most people realize, and that the game is becoming much more equal than it was eight, ten years ago.

Q I see a lot of people here from the business community, and I notice you made a brief reference to the role, more active, aggressive role you'd like to see them take. I wonder if you could elaborate on that.

MR. GARTEN: Sure. Well, if you start with the premise that -- can everybody hear the question? It had to do with any thoughts I have about the business community and its relationship to the government, and as I said, I think that the links between the two, at least from my perspective, have strengthened considerably during the period of the Clinton administration.

But in my experience, the government keeps taking the initiative. Let's just take the Transatlantic Business Dialogue, where we had the idea that it would be great for businesses on both sides to really discuss in a strategic way where Europe and the United States were heading and to identify those issues that really need to be addressed. After all, how would the governments know? I mean, we don't really know how capital is moving, how technology is moving. All this stuff is much more in the business community now. And I think it's going to be a really successful conference with many follow-ons.

But it seems like the business community is passive. They come, they participate, and I don't think the balance is quite right. I'd like to see much more activism on the part of the business community saying, "Hey, we're going to do X; we ought to get the government in here and make sure that they're either not going to stop us or inadvertently screw us up and to come up with ideas." I mean, I feel like our engines are straining and, you know, we don't have, in any administration, that many reserves in terms of ideas and energy, and the huge business community, so much more involved in the international community. I'm just looking for a different balance within the context of the public/private partnerships.

I'll give you another example. We have something called the U.S. Commercial Alliance -- U.S.-Indian Commercial Alliance, where we put the U.S. business community and the Indian business community together, basically to try to match up small- and medium-sized companies for investments. A lot of that is really pulling teeth. I mean, when the business people get there, they contribute, they participate, but somehow, we were expecting that once this match was lit, the balance would change and basically the business community would run with it. And I'm not saying they're not, but I think in the future -- all this is, you know, in the future -- there's a lot more room for initiative.

It's almost as if the business community -- and I'm speaking very generally obviously -- says, "Well, if the government wants to do something, we'll play there, but basically it's only because they're calling for this kind of meeting." But I think the need for the partnership is much deeper.

MR. BERGSTEN: Over here.

Q Jim Hoagland, Washington Post. Jeff, I wanted to ask you to look back over your past 30 months and identify some of the specific things to support two remarks that you made in your talk, when you suggested that the real way of bonding in the future between the major powers is on an economic merchant basis. You then went on to talk about how we will have to find an economic dimension to replace the security dimension in our relationship with Europe. I don't disagree with either necessarily, but I find them a little bit at variance with your own thesis for peace, where I think you lay out the competitive strains between certainly Germany, Japan and the States. And I wonder if you can identify specific things that you've seen over the past 30 months that have led you to a new assessment to support that thesis, particularly when you look at the kind of competition, say, in Brazil with the Raytheon case with France. It does not seem to me to give any -- (inaudible).

MR. GARTEN: Well, I think what we have here is two trends that are occurring at the same time. One is brutal competition waged legally and illegally. The other is the need to maintain alliances and the need to expand trade and investment. In the real world, they're going to go on together. I think the issue is, if you don't try the second, if you don't really put tremendous emphasis on the cooperative angles, then the competitive one will govern.

Now, I think that we do have tremendous competitive pressures with Japan, with Europe, even with some of the Asian countries now, but I don't think it's at the point where it necessarily overshadows all the things that we want to do together. I admit that this tension exists, and when I wrote "A Cold Peace," I didn't understand the competitive part. And if I were to write that again, I would write the same book, but there would be a whole section on competition in China, in India, in Brazil and big emerging markets, and the strains those will cause and the need to deal with those.

Now, one area where both of these trends come together is, I think that we should have a framework for managing the success of competition, not competition among firms that are operating arms- length. That's good. But competition that is government-backed or government-induced. And we don't have, right now, in any one place, a discussion, an international discussion, of lending at below market rates; using foreign aid in contravention to the rules about foreign aid, untied or otherwise; bribery; industrial offsets. These issues are always discussed in separate forums as though they were technical and as though they could be seen in specific channels. They need to be brought together and there needs to be a framework, in my view, that at least attempts to deal with some of the excesses.

We have actually in the Commerce Department proposed this and talked to the European Union about it in some detail, but we've not received any response.

MR. BERGSTEN: Jeff, would you just push that a little further because it seems to me that is one of the most important implications of your whole thesis. There will have to be a framework, systemic agreements of that type or else this thing really gets out of hand. You talked about hearing all over the world complaints about America's unilateralism. I hear complaints all over the world about your activities from our competitors in the other industrial countries as well as in some of the recipient countries.

And they say it's unfair for the president of the United States to call up the king of Saudi Arabia because even if their chancellor or prime minister or president tried it, he wouldn't have the same clout and that's unfair competition. Now, what are you going to do about that? Are you going to have some kind of cease-fire agreement on the use of landing rights to get air contracts on the calls from heads of state to exploit military relationships?

How are you going to handle that? Are you going to be able to get International restraints on that? Or are you going to run a risk, do you think, failing such arrangement, of generating new kinds of cut-throat competition that are going to make all the past mercantilist battles look like child's play?

MR. GARTEN: Well, there's no easy answer to this. I'll tell you the way we've thought about it and certainly the way that I think about it as I leave the administration. We would rather not be in this business. I think the notion of governments competing with each other to deplete their treasuries and subsidies is absolutely pernicious, and all the governments are strained for finances. There are a lot better things that we can do.

But reality is reality, and if the president of the United States picks up a phone to call the head of state of another country, I can guarantee you he's doing that 100th of the time that Chancellor Kohl is. In fact, if I just look at the last month, Chancellor Kohl has gone to South Africa, he's on his way to China for a second trip to China. This is not the trade minister, right? He just received the premier of China in Germany.

Once I had a long discussion with some of the directors-general in the EU and they posed the same thing you did, and they said, "You know, we're just going to have to emulate you guys if that's what you're going to do." And I pulled out a chart showing all the missions that the EU countries have mounted, heads of state and ministers, over the last eight months. And they looked at that and said, "It couldn't be right." I said, "I just got it from your own embassies." And they're looking at it and studying it and looking at it and said, "My God, is this what we do?" I said, "This is just the tip of the iceberg of what you guys do."

I think that we cannot unilaterally disarm, but I think that we can do two things at the same time, and that is, we continue our aggressive approach towards winning these contracts, but at the same time, we hold out the possibility with the Europeans and the Japanese that we would like a multilateral disarmament. But if we stop, there is no chance. In my mind, there is absolutely no chance of getting that, of getting that equivalent to a cease fire. There's an analogy here, obviously, in other areas, but unless we're really clear, unless we're really forceful, unless we're really tough, we're just going to be whistling in the wind.

MR. BERGSTEN: Yes?

Q Yoshi Komori of the Sankei Shimbun. In response to your reference to Japan, we have perhaps witnessed in the past two years an unprecedented degree of friction and arguing in U.S.-Japanese trade and economic relations. And some observers on both sides of the Pacific attribute to the very shift of emphasis you mentioned --

MR. GARTEN: Are what? I'm sorry. Are?

Q A shift of the emphasis from the traditional political-security alliance to the commercial aspect of the relationship, which only has created some perception in Japan at least that -- (inaudible) -- of the traditional security tie. How do you respond to that?

MR. GARTEN: Well, I would say, first of all, that everyone that I know in the administration shares the view that there is no country that is more important to us than Japan and that our alliance with Japan is of critical significance, and there is not one person who wants to weaken that.

On the other hand, when the administration came into office, its judgment, which I fully share, is that that alliance is not sustainable if one part of it, namely the trading part, is so unbalanced. So we had to put more emphasis on that, not as a mercantilistic approach, but as a way to inject more stability into an alliance that we see as being necessary for as long as anyone can see.

I know that there have been a lot of frictions and I would not be surprised if there are more, but I think this relationship is strong -- I'm sure this relationship is strong enough to take that. The real issue is not whether there's friction or not. The real issue is how do we effectively manage our joint economic and commercial relations between us, in the multilateral system, and with regard to some of the competitive issues in third countries.

And I think, you know, that we need, as we look ahead, we need to have more strategic discussions about these kinds of issues. And as I've said before, so much of the time has been preempted by actual negotiations. I think a lot of that is over now. I think we made lot of progress and I think that the time is ripe for much more strategic, economic and commercial discussions among the two countries that count for so much, vis-a-vis, each other.

MR. BERGSTEN: Could you identify yourself?

Q Robert Dunn from GW. I understand that what's being considered on the Hill is not to abolish the function of -- (inaudible) -- Commerce, but to reorganize it so that there might be a single organization that handles international trade and maybe even international financial matters, where now you've got Commerce, the special trade office or OTR, Ex-Im, ITC often seeming to pull in different directions; certainly Treasury sometimes having a point of view different from the trade folks. My thought was that, if you had a single organization, obviously with Cabinet status, which combined international trade with the financial roles for various of these departments, you might save on overstaffing and duplicative roles, and you might have a single thrust to the policy where it sometimes seems that is not the case. What is your view of the possibility of a single department to combine various of these functions and handle them?

MR. BERGSTEN: Who would like for secretary? (Laughter.)

MR. GARTEN: Well, if you put it that way. (Laughter.) Look, I think there's a difference here between theory and reality. It might be that sometimes consolidation works, but I think I know from my mergers and acquisition experience, there's just as many times it doesn't work.

The real crime of this situation is that the Congress has gone onto reorganization, some of the people very sincerely to save money, some simply for political reasons. If there is any merit in reorganizing the economic bureaucracy, and I say if, it can't be done by 500 people each marching to some different drummer, most of them totally ignorant of what the objectives of the policy should be.

Have a study done. Take some time. Have some recommendations where there can be hearings. And let's debate it as a democratic society should. This is a total joke right now. The current proposals that are being floated not only would undermine the entire trade bureaucracy, but would be more expensive. Some of these proposals are headed towards the direction of six or seven or eight agencies, each with their own bureaucracy.

Prominent congressmen have said, "The issue is no longer whether you save money, because obviously we're not going to save money on this." So you ask, "What is the issue?" I don't want to pre-judge. I mean, any organization ought to constantly reexamine itself for effectiveness, but this is a circus, and it is impossible, out of this procedure, that we will end up with something better.

And it is likely, unless that train is derailed -- and incidentally, I think it will be. I think the Commerce Department will survive, but let me just say this. It will survive, but we can measure the cost of the last six months in terms of a tremendous amount of effort that has been wasted in dealing with the Hill on these issues, totally defensive at the expense of lots of other policies that should have been given more attention.

A cost in the morale of the civil service. I mean, we have a huge problem. You know, we have not cultivated the civil service like other governments have. And the cost to them of seeing this circus go on, I don't know how you measure that, but if you think that tomorrow this ends, suddenly everybody goes back to work with the same enthusiasm that they had before, I think, it's dreaming.

MR. BERGSTEN: A question back here.

Q Helen Constable (ph), State Department. When you and I were working for Paul Volcker back in 1979, we were working on the issue of international bribery, and we were trying to convince them at least to get something done politically and multilaterally. I don't think we've made an awful lot of progress -- (off mike). But in the meantime, we have taken a number of steps which disadvantaged U.S. companies rather severely. And I'd be interested in your comments about what, if anything, we can do, if we pursue the multilateral line, to remove that burden from U.S. companies, and/or to look for some creative bilateral ways to address that issue.

MR. GARTEN: Well, I don't think that -- I'm not sure that whether you're suggesting that we could liberalize or reduce the burden of the Foreign Corrupt Practices Act because I don't think that's a possibility and I don't think that's desirable and I don't think it will ever happen. So I just rule that out. American firms -- that is our law. That is going to stay our law. And I can't even relate to the notion that somehow -- I can relate to the notion that we will meet subsidy for subsidy, but not under-the-table payments. It's just not us.

But I do think that it would be very important. When I go around the world and I talk to all the American chambers of commerce, they have a lot of ideas that I think, you know, are worth looking at, and one of the ideas, which I'm not sure where it came from, is to go to the governments of big emerging markets, all of whom profess to find corruption pernicious and certainly undercutting their development and say, "Why don't you have an anti-bribery code and why don't you ask every foreign company operating in your country to sign it?" And there's the beginning of responsibility.

A lot of companies will sign it and they'll violate it, but for the first time, it's not open season, it's not totally open season, and those codes might eventually find themselves into law. But if someone is caught, and we have the means to catch a lot of them, and is exposed and they have signed this code, suddenly it's a different thing than if somebody says, "Well, I only am adhering to the local customs."

And if we spend all our time, if I'm right, and you know more about this than I do, trying to multilateralize this thing with other industrialized countries, I think we should go to the countries that are suffering the most from this and see if we can't do something as well. A long process, slow process, but I don't think we can ignore it.

MR. BERGSTEN: By way of advertisement, I just might mention, the institute has launched a big project on this corruption issue. We're going to have a major conference on it and hope both to find out in a little more depth what is the economic impact of it, but also then to come up with some creative ideas for dealing with it both at the national and at the multilateral level.

MR. GARTEN: I'd just say this. I think it's a wonderful idea. In several of my travels when I've been with Secretary Brown, and one or two times when I haven't, and met with a head of state, they bring this up. It's very awkward for us to bring it up with them. We can bring it up with the French or the British or whatever, but we can't bring it up with, you know, saying, "Hey, there's a lot of corruption here." (Laughter.)0

But, in fact, more and more of these people are bringing it up and asking the question and recognizing that in a very competitive environment for investment, a lot of stuff that's coming in is not the best and it's coming in on terms that are very odd and therefore, there must be something going on. So I think that examining the development impact as well as everything else, I think it's a very rich field.

MR. BERGSTEN: Jim Currie.

Q Jim Currie with the European Commission. Jeff, you've made some fascinating remarks, but you didn't mention the WTO by name specifically, so I'd like to hear your views on how you see the WTO development at at time when a lot of people, I think, are quite concerned about the real risks of weakening it so soon after we've been certainly trying to strengthen the whole mechanism and get the multilateral system up and moving. I see that against the background not just for the fact that a lot of us are concerned about the kind of unilateralist approach coming from Congress, but also in terms of the administration's approach in a couple of respects. Let me just mention two. One, the fact that one of the kind of guiding principles now seems to be reciprocity, and if you take reciprocity is an extreme, you're talking about mercantilism.

MR. GARTEN: You're talking about?

Q Mercantilism in a sense.

MR. GARTEN: Mercantilism, okay.

Q There will be some -- (inaudible) -- mercantilism. The second thing I think is also the question of the means or the mechanisms used. It's the rush to use the unilateral instruments, the immediate reaction and reflex being two to one, three to one, or whatever. These things, I think, are -- (off mike) -- both at the administration level as well as -- (inaudible).

MR. GARTEN: Well, as I said, I think there is no issue that is raised by more people in more forums around the world than this one as I've traveled. And I just give you my own views. I'm speaking, you know, as I say, not for the administration, but I think we have to put a tremendous amount of effort into making sure that the WTO is effective. In my view, this has to be at the center of the world trading system.

Having said that, I think it's also a mistake to believe that the WTO now can handle the wide range of trade issues that we, in particular in the United States, are concerned about. And so, there's a parallel game going on. I think we have to build up the WTO, we have to play in it, we have to be very serious, but I would not -- I think that in forums like APEC there is scope for even going further, and I think that even in some areas, the bilateral approach is going to be absolutely essential. When I think of an issue like competition policy and the differences in the industrial structures and antitrust policies and these kinds of things, I just don't believe the WTO is ready to handle that or will be ready to handle that for a long time.

And yet, from the United States' perspective, and probably most of the people here will disagree with me, you know, these issues of tariffs and quotas and all that, that has nothing to do with our real interests anymore. We are concerned with the deep-seated domestic policies, regulatory policies elsewhere by other countries.

Now, eventually the WTO should be able to handle that, but not on our timeframe, and I say not on our timeframe. It doesn't have to be in the next six months, but I think we're talking a decade out. So I believe that in the NAFTA, in hopefully NAFTA extended, and in APEC, other forums, we have to be more experimental.

And it's a difficult balance. I agree. All of these things are difficult. I hope I never give the impression I've got the answer here. I think we're dealing in lots of gray areas, but we have to be very careful, as you're intimating, not to be pushing the WTO away or giving the impression that somehow it doesn't count.

But to me, that's not saying we put all the eggs in that basket now because, first of all, that just won't hold any water. I mean, I or someone else can say that, but these other issues are too big. They're too immediate. They present very, very difficult obstacles for our trade. So we're going to have to walk and chew gum at the same time.

MR. BERGSTEN: Thea?

Q Thea Lee, the Economic Policy Institute. You've put a lot of emphasis today and in your previous speeches and writings on exports. The job-creating potential of exports are very likely so I think. That's very important, but one thing that I virtually never hear you mention is imports, and job displacement, the impact import -- (inaudible) -- have on wage -- (inaudible) -- quality of imports. And I guess I have two questions for you today.

One is whether you really think it's possible or desirable to look at the impact of trade on the economy by really only focusing on exports, but whether you also need to look at the other side of the coin, to get a big picture of what's going on either bilaterally or multilaterally. It may be true, but looking at the trade deficit or the bilateral trade deficit is a very imperfect and impartial measure of what's going on between two countries. But if that's so, to look only at exports is even less complete a measure. So on one hand, do you really think that's a good way of looking at trade, to look only at exports?

The second question is, in terms of long-term policies, and you talk in your speech about typical American short-term interest -- I guess I guess I want to hear whether you think that in the long-term the United States should be to be putting a lot more priority in policy both in multilateral institutions like the WTO and also perhaps unilaterally on improving the labor and environmental standards and the conditionality of the imports coming to our market?

MR. GARTEN: You want all that in 30 seconds? (Laughter.) I'd just say a quick word about both. In my view, imports are not a problem. In my view, this is a country that is -- we are a major -- we are a consuming nation. Imports have had a very positive macroeconomic effect. They've given us tremendous consumer choice, and we do track -- we track the imports every month, every couple of months. I don't know what there is to say about it other than don't stop, don't be tempted to stop imports unless, of course, they're unfairly subsidized or, you know, they're dumped.

We put our emphasis on exports because this is -- we believe there's a policy variable here, and that is that the United States is a massive under-exporter. We have tremendous scope to expand our sales abroad. So those people that are worried about balance of payments, that's where the focus should be. That's where the focus of the administration has been, all of it, you know, knocking down foreign barriers or helping American firms win contracts.

I know that there's a lot of dislocation because of imports, but you know, if you compare those jobs with the amount of jobs that the economy is generating every month, I don't think that this is the kind of problem on a large scale that some people think. Obviously, in individual cases, there are tragedies and, you know, we're all concerned about that. But I just don't believe that -- I think you only have so much energy and only so many levers. They should be focused on the export side.

In terms of environment and labor, you know, it's been the policy of the administration to try to balance all the considerations when it comes to trade. Again, speaking personally, I think we have to be very careful. I think we have to look as intensely as possible for ways to deal with other issues, labor, environment, human rights, without putting all the burden on trade policy.

It's a delicate balance. I would never advocate ignoring them, I would never advocate taking them off the agenda, but personally, I get anxious when people think that just because you trade with other nations, you can link everything to that, linking it in a very -- in a legal sense. I don't think we will be able to be the trading country that we need to be if we go overboard. It's all a question of balance.

MR. BERGSTEN: Jeff, just to belabor the first part of that question slightly, but a little different tack, in your answer you said, in an aside, "for those who worry about the balance of payments," dot, dot, dot. As you come away from your 30 months, do you worry about the trade deficit at an annual rate of $200 billion? The Treasury obviously doesn't care about it. They're pushing up the dollar and making it worse. (Laughter.) What's your view and your experience on this?

MR. GARTEN: You know, let me just say as an aside, the first week that I came to Washington, I sat in on an inter-agency meeting. There was a fellow -- I won't mention his name but everybody knows who he was -- from the Treasury who was sitting there and he was half asleep. And then somebody mentioned the word "dollar" and he sprung to life -- (laughter) -- and he used exactly the same words that I had heard 15 years ago about who can speak about the dollar and who can't.

So I know you -- (laughs) -- you would have asked me this same question a long time ago about the dollar, but let me say this. I personally -- I know that the balance of payments as a number is significant politically, but to me the much more important point is that balance or that deficit as a proportion of our overall economic activity. And it's way down. I mean, it may sound like a high absolute number -- 160, 180, whatever the current account deficit is going to be this year -- but as a percentage of our GDP, it's way low from what it was in the '80s. And personally, you know, I don't like the idea of gearing too many things to the balance of payments.

I think what we should do is just press ahead on exports and do the very best we can. But I'm speaking as a private person. As a government official, I fully understand that this is an indicator that appears. And for all the journalists out here, that's a big story and it puts a lot of pressure on the administration to focus on this. And it creates an issue, which means it's an issue.

MR. BERGSTEN: All right, we've got one or two final questions. So, Paul?

Q Paul Blustein from The Washington Post. I want to go back to the question of calling up kings and trying to sell them airplanes. (Laughter.) I wonder now that you're leaving if you could share with us some of the information that you got in the war room, at Langley, or whatever, what it is exactly those other countries are doing. I mean -- (inaudible) -- all these trade --

MR. GARTEN: Well, all the --

Q Yeah, but when I talk to their diplomats, they say, "Well, yeah, but we don't have the head of state ask his counterpart or he doesn't make a plug for a specific company, or our foreign minister doesn't do that because that isn't our our foreign policy."

MR. GARTEN: So, in other words, Chancellor Kohl doesn't say to the Chinese, "Mercedes wants this deal." He just says basically, "We'd like you to do something, but I'm not going to be specific." Or he doesn't say -- (laughter) -- he doesn't say, "I'm leaving behind $2-1/2 billion dollars; spend it any way you want as long as it is related to German exports." He doesn't say those kinds of things. He basically goes -- I mean, I don't know -- you know, your whole premise is wrong.

Q Well, but --

MR. GARTEN: When Mitterrand was prime minister, you know, he did the same thing. Prime Minister Major -- (laughter) --

Q I'll grant you France, but -- (laughter) --

MR. GARTEN: I'm sorry?

Q I'll grant you France. But you mentioned Germany and --

MR. GARTEN: Well, yeah, I can mention a lot more.

Q Okay, well, please do. But you talked about a head of state -- I mean, you talked about -- (inaudible) -- and you wish there could be multilateral disarmament and unilateral disarmament. I wonder if, in retrospect -- (inaudible) -- that under this administration we unilaterally escalated. We got the head of state and other people -- (inaudible) -- making specific plugs for specific companies because we were upset that other countries were doing certain things on behalf of their companies. But to go that -- I mean, they -- what their diplomats say is that they don't go that far. And I'm asking you to enlighten us on what they do or tell me I'm naive for thinking that their heads of state don't do it. That sort of thing. Or to tell me that, yes, indeed, we did consciously unilaterally escalate and you wish that it weren't necessary, but we did unilaterally escalate.

MR. GARTEN: Well, the first thing I'm going to say is you're right; you are terribly naive. (Laughter.) Every one of those countries you mentioned, the head of state talks about, plugs, specific companies. You know, we have a much harder time doing that, to the extent that we do it, because in virtually every industry we have a whole handful of companies. We can't plug one. But if you are from one of those other countries that you mentioned, you don't have as many firms competing in that sector. And in addition, there's a very good chance they've gotten together and formed some kind of consortium, so you're only pushing one champion. Our system, as you know, doesn't work that way. So the first point is that heads of state lobbying on behalf of their firms is such a common occurrence that if I could show you, you know, classified stuff, I could give you 10 pages of it.

Q (Inaudible.) (Laughter.)

MR. GARTEN: Secondly, this is just the tip of the iceberg, okay. And incidentally, what I'm saying, this is perfectly legal. I mean, we can say that the Germans or the French or the Japanese are doing this. We have no -- they have every right to do it. I mean, there's nothing illegal about plugging a firm. But there's another level of competition, and that is what I would call subsidized lending where export credit agencies find a way to extend loans at below-market rates in violation of OECD guidelines.

Linked to that is the use of foreign aid, alleged aid that is untied, registered in international conventions as being untied. But it isn't untied. It is extended only under the condition that the home country's suppliers receive that money in return for the supplies.

Then there are -- you know, then there is the whole question of bribery. Then there's what I would call a whole series of inducements., "If you don't buy my airplane, forget about landing rights." "You want foreign aid? We would like a certain percentage of a particular sector." I mean, these kinds of things go on, and they go on really big-time. I don't want -- I mean, where you draw the line here as to what is legal and what isn't legal, that's a subject of a much bigger discussion. But, I think as Jim Hoagland said, these -- we're not talking about some marginal stuff. We're talking about well over a trillion dollars worth of these kinds of infrastructure projects over the next decade and we're talking about the jobs that go with it. And I think that there's a -- you know, this is an issue whose time has come to discuss on an international scale.

Did we escalate unilaterally? I can't relate to that. All we're saying is we have tried for years to get others to stop and they have no reason to listen to us. So I'll give you, you know, a specific example. The Export-Import Bank under the Clinton administration is authorized to match below-cost financing of another export credit agency if we want the project. It has a war chest to do that. And many times -- I think it's over 30 times now -- we've seen someone else extend the subsidized loan and we say to the potential recipient, "We will match whatever that person does, whatever that agency does." And we don't like doing that, but that stops it. And at least it makes it clear that other governments are not going to win by cheating. If you have a better way to do this, fine; but also explain it to all the people whose jobs would be lost or who won't be employed because we don't win these contracts.

MR. BERGSTEN: We have reached our witching hour. Before I say goodbye to Jeff, I want to recognize someone else in the audience who is also leaving government, who I think is perhaps in his last day today also and has labored in these vineyards with great distinction and with enormous contributions for 25 years. Geza Feketekuty, I think, is going -- (applause).

So when you come to Institute lunches, you get two-fers in the way of goodbyes, although you only had one speech.

GEZA FEKETEKUTY (Monterey Institute of International Studies): I'll be at a competing institution.

MR. BERGSTEN: That's right. Thank you. You can sit down now. (Laughter.) I knew I should never have recognized Feketekuty. Geza, we've all enjoyed working with you over the years. We look forward to the future. You've been an enormous tower of strength in this field for a long time, and it's great to see you. And we wish you best of luck even at a competing institution.

The main thing today was Jeff. As always, you've been provocative. You've raised lots of good questions. You haven't had all the answers, but that's good; it gives all of us something to do for the next 10 or 20 years. We look forward to continuing to hear your wisdom and your creative and energetic thoughts from your new base. We'll look forward to staying in close touch. We thank you for everything you did in those 30 months here. Congratulations.

MR. GARTEN: Thank you very much. (Applause.)

MR. BERGSTEN: Meeting adjourned. Thank you all.

Challenges of the Global Marketplace

IF YOU DON'T WIN, YOU LOSE

A Presentation
by

JEFFREY E. GARTEN
Under Secretary of Commerce for International Trade

Before the
Royal Institute of International Affairs
London, England

July 11, 1995

This presentation is based on remarks by Jeffrey E. Garten, Under Secretary of Commerce for International Trade. Parts of it were originally delivered before the Council on Foreign Relations, January 9, 1995. It has since been updated and expanded.

"We are now positioning ourselves to compete for new markets and the jobs they will create at home as never before...We are at the beginning of a new era of fierce commercial competition in the global marketplace, and I am determined that we as a nation fulfill our enormous potential."

President Bill Clinton

"America's future depends on our ability to compete successfully in the international marketplace. Our position as the world's undisputed economic leader, our national security, and the livelihood of millions will turn on how well the businesses, workers, and government of the United States respond to this challenge."

Ron Brown, Secretary of Commerce

"It is time for a new aggressiveness if America is to compete and win again in the global marketplace. For too long, American business and the United States Government have let our competitors gain the advantage in the battle for new markets around the world."

Kenneth Brody
President and Chairman
Export-Import Bank of the United States

SUMMARY

In the spring of 1994, a consortium of U.S. companies, led by Raytheon, competed head-to-head with a French group to win a $1.4 billion project in Brazil to monitor the environment of the Amazon Basin using satellite and radar technology. The French group was heavily supported by its government. Consistent with its efforts to help American companies penetrate the global marketplace, the Administration mounted a full-court press to help the Raytheon group. It involved the Secretary of Commerce, the Chairman of the Export-Import Bank (Ex-Im Bank), the President of the Overseas Private Investment Corporation (OPIC), the head of the Trade and Development Agency (TDA), the head of the Environmental Protection Agency (EPA), the head of NASA, officials from the National Security Council, the National Economic Council, and the Departments of State, Interior, and the Treasury, and ultimately, President Clinton. In Washington, the Administration team met in a "war room" setting every day for two weeks, maintaining constant touch with our Embassy in Brazil. A high-powered business mission, led by Secretary Brown, was sent to Brazil. At the eleventh hour, the U.S. group won the bid, which could be worth close to $700 million in exports and support 12,000-15,000 high paying jobs in the United States. The project is now awaiting approval of the Brazilian Senate.

In September 1994, using the Brazilian experience as a model, Secretary Brown led a Presidential Business Development Mission to China. Together, they witnessed some $6 billion worth of transactions. Highly successful trade and investment missions to China were also led by Energy Secretary O'Leary and Ex-Im Bank Chairman Brody.

In January 1995, Secretary Brown conducted a similar mission to India. During the week-long visit, over $7 billion worth of transactions took place. Secretary O'Leary, OPIC President Harkin and, most recently, Treasury Secretary Rubin have also made trips to India. They have put assisting U.S. businesses to penetrate that market at the top of their agendas.

This presentation is about such high-intensity advocacy — why we do it; how we do it; where we have succeeded; what the overall results have been; and what we need to think about for the future.

From the beginning, the Clinton Administration has put trade at the center of its domestic and foreign policy. It was exactly the right thing to do — economically essential and politically courageous. The NAFTA, the GATT, the focus on freeing up trade in Asia and Latin America, the singling out of the Big Emerging Markets as prime opportunities for the future, the efforts to boost competitiveness at home through education, training programs, and through investment in American technology — all this will strengthen our economy at home and help us to maintain influence abroad.

Under the leadership of President Clinton, Vice President Gore, and Secretary Brown — as well as many others, including Secretary Christopher, former Secretary Bentsen, Treasury Secretary Rubin, Secretary O'Leary, Ambassador Kantor, Ex-Im Bank Chairman Brody, OPIC President Harkin, and TDA Director Grandmaison — we have made support for U.S. companies fighting to win foreign markets a critical component of our overall approach to trade. In 1993, when we[1] first began preparing the National Export Strategy, Secretary Brown, as chairman of the effort, pressed us to realize America's full potential for increasing exports through a systematic program of active support, a strategy we came to call "advocacy." In essence, he said, "Go to bat for U.S. companies competing abroad and aim for one thing — home runs."

This year the importance of these efforts will be greater than ever. With the conclusion of the Uruguay Round, and with the new opportunities for trade in Asia, Latin America, and Eastern Europe, it is essential that we redouble our drive to compete. There is no greater imperative than to turn up the heat on every aspect of our export drive, but most especially on high-intensity support for U.S. firms striving to win deals abroad.

Of course, the Administration helps U.S. firms in many ways. Our trade negotiations, such as NAFTA, GATT, and the Japan Framework — led by Ambassador Mickey Kantor — are themselves a type of advocacy. By seeking reduction or elimination of both tariff and nontariff barriers, and by emphasizing the need for protection of patents, trademarks, and copyrights, it is in these negotiations that we focus on the broad interests of our industries, from aerospace to banking. U.S. Business Development Committees with foreign governments — like South Africa, Russia, or China — entail another type of advocacy, because they focus on ways to increase our trade and investment with other countries by reducing such impediments as discriminatory taxes, strangling regulations, or unfair government procurement practices.

Our routine trade promotion efforts also constitute a type of advocacy. Such activities as trade fairs that display U.S. products, trade missions that help U.S. firms to find business partners, and the export counseling that the Department of Commerce and other government agencies provide all advance the foreign purchase of our goods and services.

Today, however, I want to discuss advocacy with special reference to those activities with the highest profile — those instances when the Administration puts its full weight behind the efforts of U.S. firms to win significant contracts abroad. In a world where dozens of countries are opening their markets for the first time, and where competition to get in on the ground floor is fierce and often played without clear rules, this kind of advocacy is the most visible and the most competitive. And it is the arena in which the Administration has broken the most new ground.

My focus will be on several issues: *why* such advocacy is important; *how* it works; *where* it has worked; the *results* we have achieved; and some reflections on *future* policies.

[1] See *Toward A National Export Strategy*: U.S. Jobs: U.S. Exports, Report to the Congress, September 30, 1993.

Why Advocacy Is Important

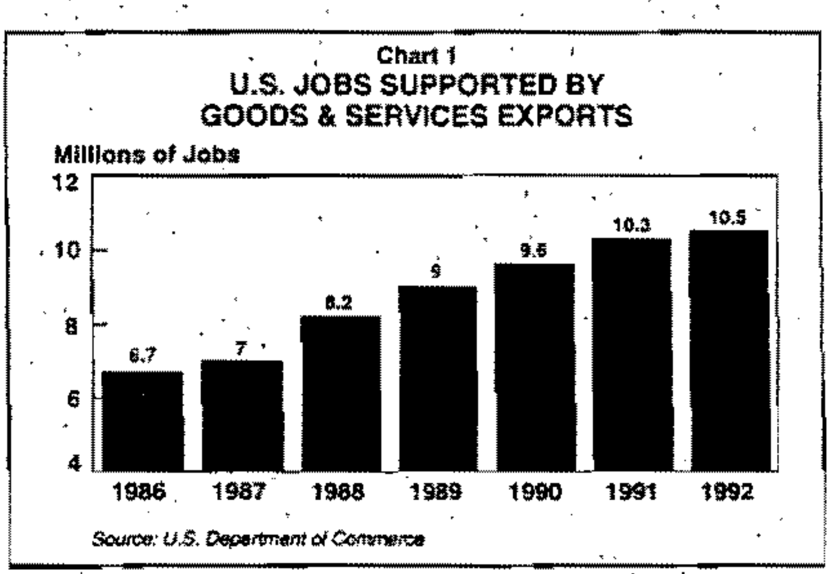
For the Clinton Administration, advocacy is not just an activity; it is also a pervasive attitude. Advocacy is not just a strategy of the Department of Commerce, as might have been the case in the past Administrations; it is also a preoccupation throughout the Administration.[2]

Here's why advocacy is important.

Reason #1: U.S. Jobs and Our Standard of Living

First, and foremost, advocacy on behalf of deals which produce U.S. exports is important to creating jobs and raising our standard of living.

The importance of exports to our economy can no longer be disputed (see Chart 1). Over the last seven years, U.S. exports of goods and services accounted for over one-third of our economic growth. Export-related jobs grew eight times faster than total employment. Exports made an especially significant contribution to the manufacturing sector, accounting for almost all the net job growth.



All the data indicate that somewhere between 15,000 and 20,000 U.S. workers are supported by each billion dollars worth of manufactured goods we export. That is, new jobs were either created or old ones saved. The figure for services exports is somewhat lower than that for manufactured goods, but in the same range.

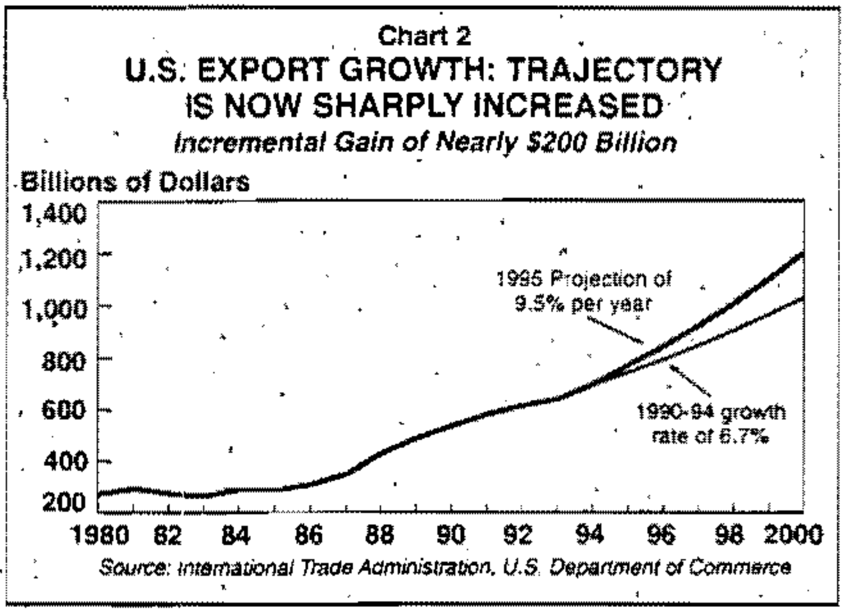
And these are higher paying jobs. The Department of Commerce estimates that the wages paid to U.S. workers in export-oriented manufacturing industries are at least 13 percent higher than the average wage paid in the U.S. manufacturing sector, and much higher if compared to average wages in the economy as a whole. Other respectable sources have put the figure at 17 percent higher.

Reason #2: Balance-of-Payments Pressures

The second point to make about the importance of advocacy is that we will need a sustained export drive to offset ever-increasing imports. America has become much more competitive over these past several years.[3] But so have many other countries. The Chinas, the Brazils, the Mexicos, and the South Koreas will be enormous markets for us, to be sure, but they will also be supplying an increasing portion of the goods and services we use. In the cases of Japan and Germany, it has become fashionable to deride their ability to remain fierce competitors. This is a grave mistake, as their industries are now restructuring themselves under the pressure of the sky-high yen and mark.

We are heartened by the prospects of these next few years. Economic recovery in Europe and Japan, strong growth in Asia, the continued openings of markets in Latin America — they all bode well for U.S. exports, which could increase by 11 percent next year, compared to 8 percent in 1994 (see Chart 2).

[2] See *The National Export Strategy*, Second Annual Report to the Congress, October 5, 1994.
[3] See *Competing to Win in a Global Economy*, Report to the United States Congress, September 21, 1994.



reduction, but we all know it will take time. There is, therefore, a high premium on aggressive export promotion, of which advocacy is a key element.

Reason #3: Sky-High Commercial Stakes

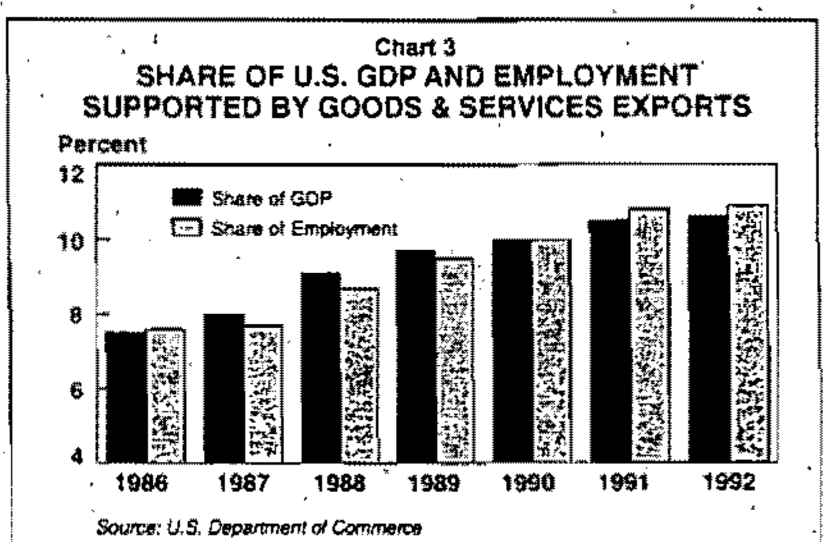
Third, the stakes in the kind of advocacy efforts I'm talking about are high — very high.

The world has changed dramatically over the past few years. Capitalism is the rage just about everywhere. But there is also an emerging recognition that infrastructure — roads, ports, airports, phone systems, and electric power generation — is a key bottleneck in growth and development, and there is a huge demand for infrastructure building in those nontraditional markets with enormous growth potential into the twenty-first century.

The Asian Development Bank, for example, has estimated that approximately $1 trillion would be spent on infrastructure development in the Asian region by the year 2000. A recent *Business Week* article contained an estimate of a $1.9 trillion expenditure on infrastructure in Asia during the same period.

Some Administration forecasts show exports growing three times faster than any other component of U.S. national income over the next decade, and the share of U.S. GDP and employment attributable to exports climbs each year (see Chart 3).

But the fact is projected export growth will not be enough. In 1994, the U.S. trade deficit — the difference in value between the goods and services we imported and what we exported — is estimated to have reached $111 billion. In 1995, even before the Mexican peso crisis, we were anticipating that at best our trade deficit would stabilize or slightly increase, despite stronger economic growth in Europe and Japan. The peso crisis will undoubtedly increase the deficit. The Asian deficits, in particular, are chronic and worrisome (see Chart 4 on next page). We have seen a deterioration of our trading position in a broad range of industries (see Chart 5 on the next page). Moreover, the U.S. share of world manufactured goods trade is below its 1981 level (see Chart 6 on page 5).



As the world's most open economy and as a nation that consumes and spends more than it invests, our prospects are for continued large trade deficits for years to come. Part of the solution must be continued budget deficit

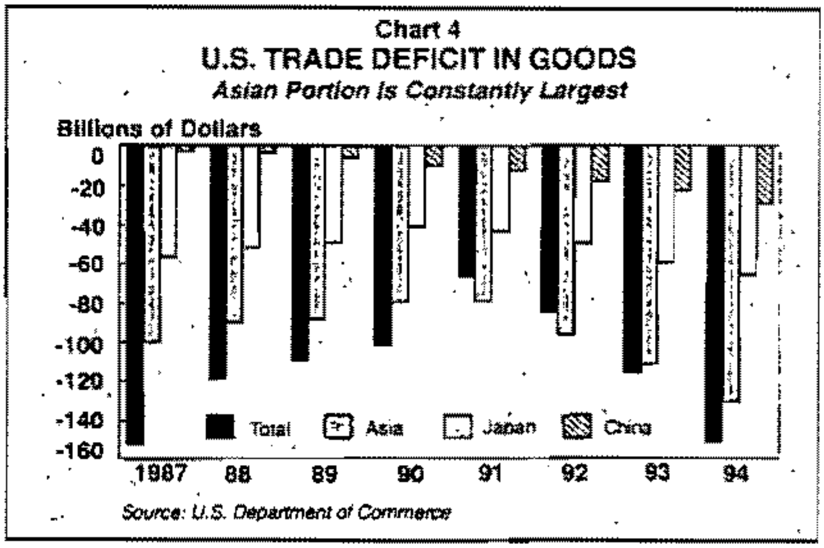
In the next seven years, the governments within the Chinese Economic Area (Hong Kong, Taiwan, and China) plan to spend approximately $560 billion on infrastructure-related equipment, technologies, and expertise. These demands are particularly intense in areas in which U.S. firms are strong competitors — power generation, oil and gas, air and surface transportation, telecommunications, and environmental technologies.

In Indonesia, the government plans to spend over $115 billion on infrastructure in the next decade.

In Latin America, the pent-up demand from the deep recession of the 1980s is enormous. Recent reports by the Economist Intelligence Unit and the World Bank indicate that the demand for investment in infrastructure in Latin America could approach $500 billion over the next decade — or $50 billion a year in bidding for international contracts.

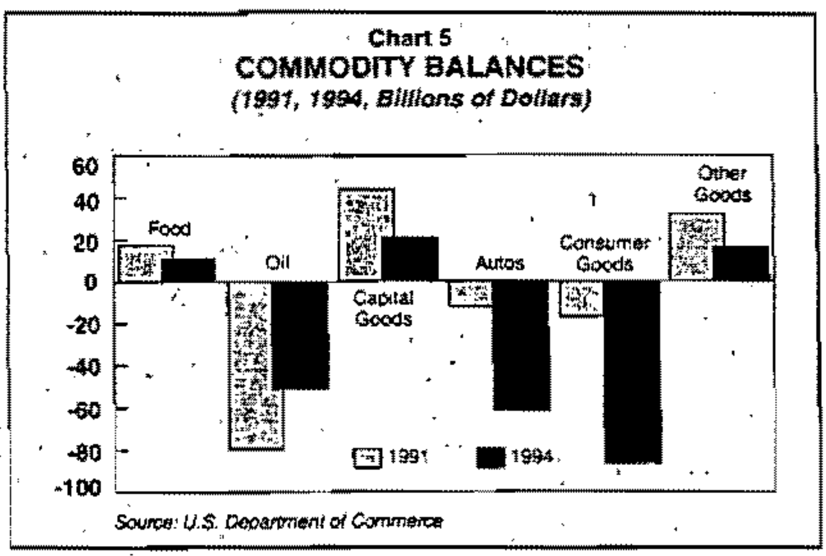
The possibilities in Central Europe, the former Soviet Union, and in the Middle East are significant, too.

- ***In the Last 5 Years, the U.S. Deficit With Asia Represented 96% of the Total.***
- ***The Bilateral Deficit With Japan and China Represents two-thirds of the Total Deficit and 70% of the Deficit With Asia.***



Nor should we forget about Western Europe, where the infrastructure for telecommunications is being rapidly upgraded; where markets for new power generation will reach at least $40-50 billion in the next decade; and where new transportation networks and environmental technology are being added all the time. And Japan, too, is important. For example, Tokyo estimates that over $1 trillion will be invested in information technology infrastructure in the next decade.

It is important that U.S. companies get the share of this enormous market to which the quality of their goods and services should



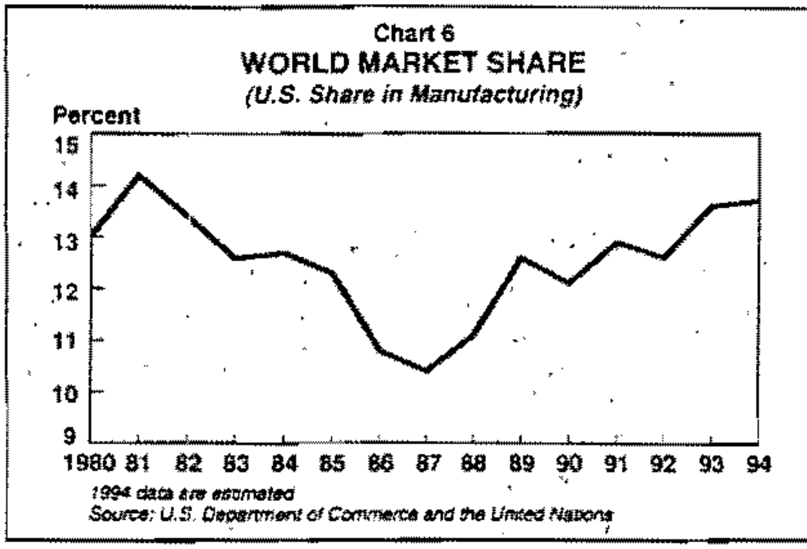
- ***Consumer Goods and Autos Have Led Commodity Trade Balances Deterioration, But Surplus in Capital Goods Has Also Declined.***

entitle them. It is also vital that our firms get in early and first, so that they can gain the critical experience of being in on the ground floor, understanding the foreign market, and building the all-important relationships with customers and government officials that will allow them to win other projects. Nothing so drove home this lesson to many of us last year as the competition to build the first metro in China in which American firms lost to their German counterpart. It is possible that our rivals will now have the inside track in all the subways in China — where there is likely to be more systems built in the next two decades than in all of Europe and North America combined.

Reason #4: Governments Award Contracts

It would be a great advantage to U.S. firms if all the contracts abroad were awarded by merit alone. But we all know this is not the case. In the Big Emerging Markets (China, India, Brazil, etc.), selection of the winning bid is made with heavy involvement by host governments — overtly and behind the scenes. This is almost always the case of large infrastructure, and in the big projects where governments are selling government-owned companies to the private sector. Together, these two kinds of transactions constitute the bulk of significant deals in the Big Emerging Markets.

It would be naive to think that competing foreign firms can win without support from their governments. In fact, the absence of demonstrated interest on the part of a "home" government in a project that its firms are bidding on is a disadvantage when every other government is in there fighting for its companies.



- ***U.S. Share of World Manufactured Goods Trade Below 1981 Level.***

What choice, therefore, does our government have but to play the game, and play it hard?

Reason #5: Brutal Government-Supported International Competition

Let me say some more about the kind of competition we face.

We do not fear fair competition. In fact, we welcome it. But we should recognize the pressure that governments are under to support their exporters and capture market share, the cozy relationship in many foreign countries between public and private sectors, and the highly aggressive export promotion role that foreign governments have been playing for years.

Let's look at the way other governments are actively helping their firms to compete:

Presidential and ministerial trade missions and interventions have played a major role in international competition

Prior to President Clinton and Secretary Brown lending their support for American aircraft producers on a Saudi national airlines contract for $6 billion worth of aircraft, the European partners involved in the Airbus consortium sent seven secretarial- or ministerial-level missions to Saudi Arabia to advocate on behalf of their company and made countless other high-level contacts.

When Secretary Brown was in Brazil pressing on behalf of Americans for a $1.4 billion Amazon basin surveillance system contract, a French minister was on the ground advocating just as hard for the French competitor.

When I was in India last November, preparing for Secretary Brown's recent trip to India, the United Kingdom trade minister arrived on the Concorde with 100 British business executives. In fact, a broad array of British officials, including parliamentarians, industrialists, heads of chambers of commerce, the Royal Family, and the Prime Minister, have been covering India for the past 12 months. Direct intervention by the Prime Minister on behalf of British companies involved in specific bids is not unusual.

By leading a trade mission to China, Chancellor Helmut Kohl helped German businesses secure contracts worth approximately $2.6 billion. Of course, Germany is not the only nation which has sent prime ministerial trade missions to China; so has Canada, France, the United Kingdom, and Singapore.

Brazil is another example. In 1994, Secretary Brown led a Presidential Business Development Mission to Brazil. Within a six-month period, however, London sent four ministerial delegations — led successively by the Treasury Department, the Ministry of Foreign Affairs, the Ministry of Trade, and by former Prime Minister Thatcher.

See Chart 7 for an illustrative listing of such trade missions by our competitors

Foreign aid is being used in commercial competition..

One of Japan's primary competitive tools is massive foreign aid. In the 1990s, Japan's aid level will be equal to the lending of the World Bank. Japan argues that for 90 percent of this, there is no *quid pro quo* in the form of obligations on the part of the recipient to buy Japanese products. But frankly it is hard to tell, because the system of awarding such aid is not clear to most people outside the Japanese Government. What we do know is that American firms, highly competitive though they are, receive less than 5 percent of this "untied" aid.

Japan's Official Development Assistance now has surpassed the World Bank and the Asian Development Bank to become the largest donor of aid to China. We, of course, provide no aid to China.

Chart 7
ILLUSTRATIVE E.U. TRADE-RELATED MINISTERIAL VISITS TO ASIA, 1993-94

Country	When	Who	Where
Germany	Jul-94	Foreign Minister Kinkel	India
	Apr-94	Economics Minister Rexrodt	India
	Mar-94	Economics Minister Rexrodt	China
	Nov-93	Chancellor Kohl	China
	Apr-93	Foreign Minister Kinkel	Southeast Asia
	Feb-93	Chancellor Kohl	India, Japan, Indonesia, South Korea, Singapore
France	Jul-94	Trade Minister Longuet	China
	Apr-94	Prime Minister Balladur	China
	Apr-94	Foreign Minister Juppe	India
	Jan-94	Trade Minister Longuet	Vietnam
	Oct-93	Environment Minister Barnier	Japan
	Sep-93	President Mitterand	South Korea
United Kingdom	Dec-94	Chancellor of Exchequer Clarke	Thailand, Vietnam, Malaysia
	Jan-94	Foreign Secretary Hurd	India
	Jan-94	Chancellor of Exchequer Clarke	Indonesia, Philippines
	Sep-93	Prime Minister Major	Japan
	Sep-93	Foreign Secretary Hurd	Thailand, Vietnam
Italy	Nov-94	Foreign Minister Martino	China
E.U. Commission	Nov-94	Commission Vice President Brittan	Japan
	Feb-94	Commission Vice President Brittan	China
	Nov-93	Commission Vice President Brittan	Japan, South Korea

Source: U.S. Department of Commerce

Japan spends about $2 billion annually in Indonesia. Our aid is around $100 million.

Most of Japan's aid goes to support Japanese trade and investment.

All this must be seen in the context of dwindling U.S. aid, aimed almost entirely at noncommercial objectives, half of which goes to Egypt and Israel.

Often U.S. companies are actually competing against foreign government-owned enterprises that are financially supported by their government "parents."

Foreign competitors for air and rail transportation projects include Aeroport de Paris, the French Government controlled airport authority, SOFRETU, the French Government's transit export agency; SOFRERAIL, the French railroad engineering entity; Flughaven Frankfurt, the Frankfurt airport authority; and Transmark, the British national railroad's overseas consulting arm.

In telecommunications, we face many competitors that are fully or majority owned by foreign governments, including France Telecom, Deutsche Bundespost (Germany), and NTT (Japan).

A unique competitor in water, transportation, and infrastructure projects is NEDECO of the Netherlands, a consortium of ten of Holland's consulting organizations with special links to the Dutch ministries, including the ability to draw on government staff through government representatives on its board.

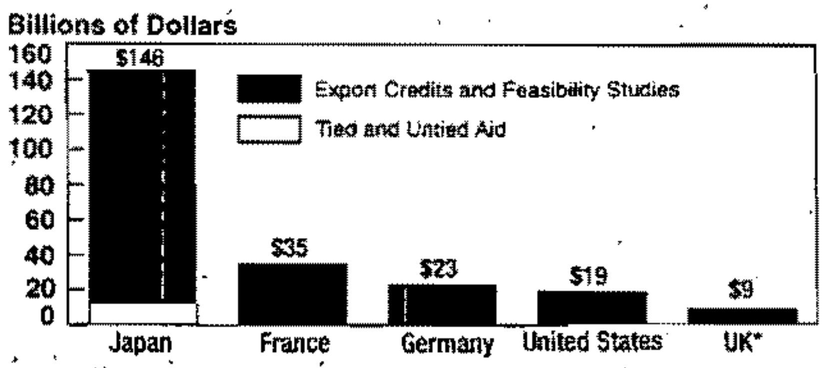
These and many other so called parastatal competitors receive financial support from their parents to spend lavishly on bid preparation cost and representative expenses. Their financing costs are low, because their rich parents cannot go broke.

Among the major industrialized countries, the United States ranks last (as a proportion of GDP) in expenditures for export promotion programs (see Charts 8a, 8b, and 8c). As a percentage of exports, the United States also provides less financial assistance than any of our major competitors – which often use tied aid and below-market financing to ensure that their industries win the big overseas deals.

We also lag significantly behind our competitors in terms of export promotion staffing levels. Relative to GDP, France has eleven times as many export promotion staff worldwide as the United States, the United Kingdom has over seven times as many, and Germany has four times as many.

Focusing on the world's top 14 markets, the picture that emerges is equally disturbing. In these markets, we estimate that Germany places nearly five times as many staff per $1 billion of GDP as the United States, and French staffing levels are three and a half times larger than ours in relative terms. We believe that Japan, despite its claims to the contrary, maintains an active export promotion presence in these key markets via its JETRO and MITI offices as well as through trade associations that work in close cooperation with the Japanese government.

Chart 8a
Financial Assistance to Exporters, 1993
U.S. Government Help Is Among the Lowest



*UK data are probably underreported because reinsurance for short-term business is excluded.
Source: OECD, Berne Union country reports, ESI, and U.S. Department of Commerce.

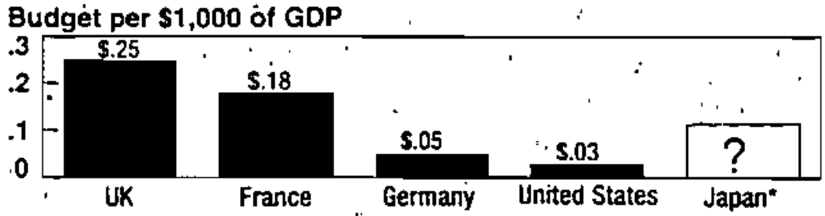
Foreign governments are devoting more resources to international commercial competition on the ground than we are, enabling their exporters to capture increasing market shares.

To illustrate, consider the Chinese and Brazilian markets. In all of China, we have 11 foreign commercial service officers, hardly enough to cover Guangdong Province and the

Chart 8b

1994 Non-Financing Export Promotion Budget as a Proporation of GDP

(Includes Advocacy, Counseling, Market/Industry Research, and Trade Events)



*Figures are difficult to interpret because the Government of Japan maintains that its non-financing trade promotion activities are devoted to import promotion into Japan. ITA believes, in fact, that there is substantial support for export promotion that is supplemented by industry associations with close ties to the government.
Source: IMF International Financial Statistics (4/95), and estimates by Department of Commerce Overseas Offices. Estimates are for Non-Agricultural Export Promotion.

Some examples: the Singapore Government is building industrial communities in China, where Singaporean firms will be located.

In India, a Japanese industrial town, incorporating all infrastructure basics (power, water, sewage treatment, and telecommunications) is being set up by Japanese firms.

In Indonesia, the Japanese and Koreans are each organizing consortiums in which their big firms are bringing along their traditional smaller suppliers. The invisible hand of the two governments is part of their packages.

We are not even close to doing the same for U.S. firms.

One of the standard competitive tactics we see is foreign governments detailing personnel to an agency of another foreign government as "advisors." These advisers then act to influence procurements for their countries' businesses.

rest of southern China, the highest growth region in China. Germany, a country one-third our size, is able to harness its entire chamber of commerce in China as an organized government-industry partnership for coordinating export promotion. France and Canada each have more officers than we do. Japan and Germany carry out high-profile trade events and other means of support for their private sectors through well-staffed and -funded, quasi-private trade promotion organizations which far surpass our efforts. Each also provides considerable official development assistance to support exporters.

In Brazil, the biggest market in South America — accounting for nearly half the continent's population, half its GDP, and half of its landmass — we estimate that 80 percent of the French mission is directly engaged in commercial activities, compared to roughly 10 percent for the United States. There, too, the German Chamber of Commerce is Bonn's agent employing German civil servants and receiving tax benefits to fund trade promotion activities.

Foreign governments are partnering with their firms in innovative ways that are hard for America to match, given our traditional "arm's length" relationship between business and government.

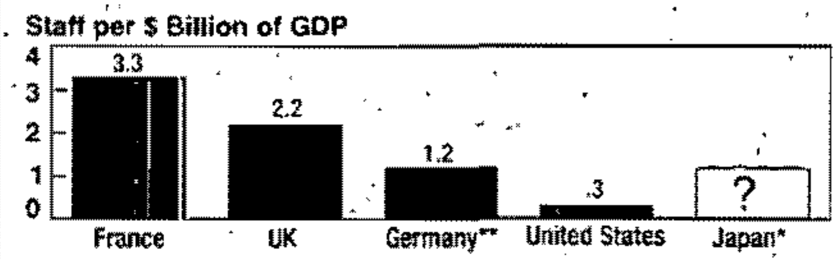
In Mexico alone, Germany has committed $3.5 million in 1994 to promote the exports of its environmental technologies. In the past few years, the Germans have spent a total of $8.8 million for technical assistance, including 24 technical experts assigned to the offices of the Mexico City Metropolitan Commission for Environmental Protection and other key government agencies. When the specifications for Mexico's environmental equipment are drawn up, who will be surprised if they are tailored for German suppliers?

Foreign governments often engage in questionable business practices.

A lot of competition is not above board. A discussion of foreign competitors' practices would be divorced from reality if it did not include a recognition that tactics more "questionable" than those just mentioned are a part of everyday competition for major projects overseas. These practices include bribery. American firms are prohibited by stringent laws and criminal penalties from any form of illicit payments, but some of our rivals give tax breaks for "fees" which are of dubious character.

Chart 8c

1994 Domestic and Foreign Personnel Engaged in Export Promotion as a Percent of GDP



*Figures are difficult to interpret because the Government of Japan maintains that its non-financing trade promotion personnel are devoted to import promotion into Japan. ITA believes, in fact, that there is substantial support for export promotion that is supplemented by industry associations with close ties to the government.
**German figures are also likely to be understated since the German Government uses German Chambers of Commerce around the world to promote its exports.
Source: IMF International Financial Statistics (4/95), and estimates by Department of Commerce Overseas Offices.

Reason #6: Many Projects Are Stalled Because of Host Government Inaction

In many cases, foreign host governments are blocking U.S. firms' access to the market because of extensive bureaucratic red-tape and inaction. At such times, a nudge by Uncle Sam can often help. A high-level visit from a U.S. official can often be an action-forcing event which moves the transaction along.

For example, on his recent trip to India, Secretary Brown was able to break several logjams which were holding up the awarding of contracts to U.S. energy firms. In fact, these firms had the inside track on various deals already. But they needed certain guarantees from the Indian Government — guarantees which had been promised but not delivered. For months our ambassador to India had been pushing hard to get the guarantees. On her important trip late last year, Energy Secretary O'Leary moved the process along. Finally, Secretary Brown, travelling with a Presidential Business Development Mission comprised of 26 CEOs and a senior interagency team, gave the deals the final push.

Reason #7: The Need to Make Trade Policy Less Abstract

Trade agreements are a crucial element of U.S. trade policy. But trade agreements, without real opportunities and tangible results, are mere abstractions — and threatening abstractions at that, in the minds of many Americans.

Advocacy is where trade rhetoric becomes trade reality. It is tangible: dollars, jobs, and market share. Every successful advocacy project illustrates the promise of new markets in the most compelling way possible and, at the same time, generates real returns for the entire country.

Advocacy turns market access promises into true market access. There are plenty of markets where domestic law, or trade agreements, promise openness but reality has proved somewhat different. Through advocacy, we can test market openness by insisting that U.S. companies — often the industry, innovation, and productivity leaders — be given a fair shake. And when that doesn't happen, when doors remain shut to competitive U.S. firms, we can point out the injustice and demand that the barriers be removed. When we're successful — when the doors open and the deal is struck — then the market access is real, and other companies can follow the newly blazed trail.

Advocacy is export promotion — one deal at a time. In the past, U.S. export promotion primarily took the form of broad encouragements to buy American products and services. This is still true. But we need more. With advocacy, the focus is on specific deals as well — and with that focus comes the knowledge of whether our efforts are bearing fruit, whether precious U.S. Government resources are being well spent. And, of course, by showcasing leading U.S. companies, U.S. practices, and U.S. quality, we are conducting the best advertising campaign imaginable for "buying American".

Advocacy is cost-effective trade policy. Taxpayers are accustomed to seeing tax dollars disappear into the great well of government. Money spent on advocacy is different — it offers a clear return on taxpayer investment. The International Trade Administration (ITA) costs taxpayers just over $236 million a year for export promotion services. But in 1994, ITA-led advocacy has played a key role in over $40 billion in deals signed with over $20 billion in U.S. export content. That is a return on investment any investor would be proud of.

Of course, many other government agencies had a hand in those successes, and government involvement was only one of many factors. But companies involved will testify that without the role of the U.S. Government, those deals would have collapsed, or gone unfinanced, or suffered costly delays. Workers and business owners alike ought to view advocacy as one of the best bargains around.

Successful advocacy is also a critical underpinning of American support for an open trade policy. The public — with good reason — is suspicious of grand market-opening initiatives whose benefits appear intangible but whose *quid pro quo* threats to our own markets seem all too real. When the public perceives that we give up more than we get in trade negotiations, support for open trade weakens. Advocacy gives the American people something they can relate to: specific deals, specific exports, specific jobs.

Let me reiterate that where the market mechanism is working, where bidding is open and transparent, where host and home governments are not involved, there is no need for U.S. Government advocacy. We never intervene where there is no request from the U.S. company. If the company is satisfied that the playing field is level, so are we. Even in circumstances where we are asked to intervene, we have to satisfy ourselves that our companies are being truly disadvantaged by the intervention of other governments, including their failure to remove egregious trade barriers.

How Advocacy Works

Let's turn to how the system actually operates.

Advocacy Network

As part of the National Export Strategy, we have created an Advocacy Network composed of representatives from each of the 19 U.S. Government agencies that have a role in export trade promotion. The network meets at least every month and is chaired by an Assistant Secretary of Commerce in the International Trade Administration. Members of the Advocacy Network are able to reach the highest levels of their agencies for quick response to advocacy requests from American business. The mandate of the Advocacy Network includes the following:

Strategic Planning: This interagency group is a forum that keeps the docket for all the projects we are considering. At these sessions we can discuss how to react to an emergency situation, but we can also ask agencies to keep an eye on projects with a longer gestation period. At times, other parts of the U.S. Government are brought into the network process — for example, the Nuclear Regulatory Commission for nuclear power projects, or NASA for satellite projects.

Information Gathering: Gathering accurate and up-to-date information on projects is, of course, critical. We rely heavily on the U.S. and Foreign Commercial Service (US&FCS). But we are also helped by the ability to draw from the numerous other sources in all 19 Advocacy Network agencies. For example, the Federal Aviation Administration at the Department of Transportation regularly interacts with aviation authorities around the globe. This provides a valuable source of information on aerospace infrastructure projects. The principal supplements to Department of Commerce sources are those provided by the State Department, and the financing agencies — Ex-Im, OPIC, and TDA.

Project Vetting: One of the major functions of the Advocacy Network is to assist in the determination of whether it is appropriate to advocate on a particular project — particularly those that may raise foreign policy and environmental or worker's rights questions. Where Ex-Im or OPIC financing is involved, we do not provide advocacy if the project is outside the agencies' guidelines on these specific issues. Even where a project is within the guidelines, the views of other Advocacy Network members, such as the Environmental Protection Agency and the Department of Labor, are often invaluable in determining whether advocacy is appropriate for a particular project. As you can imagine, many other policy issues can arise when we consider whether to support a particular project. We may have a question about whether to back a nuclear power project, for example. There may be an issue relating to the appropriateness of any commercial activity in a country where we have serious foreign policy problems. Through the network, we have an interagency sounding board. If a particular policy issue is highly sensitive or controversial, we will kick it up to the National Economic Council or the National Security Council.

Financing: The ability to finance U.S. exports is an obvious key to U.S. success in gaining business abroad. I will discuss particular aspects of U.S. financing agencies in a moment, but let me point out the tremendous advantage we achieve by bringing together through the Advocacy Network representatives of Ex-Im, OPIC, TDA, and the Department of the Treasury to work on particular financing issues. For the first time, we have created a forum where programs of these agencies can be used to supplement one another to the benefit of American business and American workers.

For example, Ex-Im financing of the export content of a project has on several occasions been supplementary to OPIC guarantees or insurance on the investment portion. One example is the Dabhol power project in India where Ex-Im is providing limited recourse financing, and OPIC has signed an agreement to provide $100 million in all-risk guarantees of debt financing and $200 million of political risk insurance for equity and debt financing. In some of these cases, the feasibility studies for the project were initially financed by TDA. Agencies of other governments have long worked together on financing packages. Now, through the Advocacy Network, for the first time, we do too.

Performance Measures: The Advocacy Network has also been active in formulating the performance measures necessary to assess the scope and direction of our advocacy effort. Typical quantitative measures include the export content of contracts secured and the number of jobs supported by those exports. Data are gathered to help the Administration continually evaluate its efforts. A summary of this information is included in annual reports to Congress on the National Export Strategy.

Advocacy Center

The Clinton Administration isn't the first to help U.S. companies, of course. It is the first, however, to mount such an aggressive and systematic export promotion strategy and to infuse the entire cabinet with such consciousness for the need to do commercial battle in this fiercely competitive global marketplace.

When the Administration first started to look at an export strategy, one of the glaring deficiencies was the lack of a "nerve center" for this activity. Advocacy tended to be rather *ad hoc*. There were several different agencies involved, including the White House. But nowhere was the process institutionalized and conducted as an ongoing function. Disparate offices were unconnected both physically and in terms of communication.

There was no repository of data and no institutional memory so that the government might learn from its experience or measure results.

There was no sense of the need to have the capacity to mobilize resources for the ongoing battle.

There was no dedicated cadre of people whose sole purpose was high-intensity advocacy.

To address these problems, last year we set up a permanent "war room," which we call the Advocacy Center.

The center has undergone quite a transition in the last year. At first, it was just a few people crammed into a dim, government office. As the team became overwhelmed by requests to handle multiple projects, and to prepare Secretary Brown and others for high-level advocacy trips, it expanded to a few more people, still without adequate facilities, including computers and software. Then, after the resounding success of several advocacy efforts — examples of which I will give in a minute — we took the decision to make the "war room" what it should be, what it must be: a sizable operation, more akin to a Wall Street trading floor than the office you'd find in a typical government building.

And that's just about what we are now. The new facility is located in the International Trade Administration of the Commerce Department. We have expanded the team to around 20 people, and more are planned. The center is staffed partly by industry specialists, so that we can marshal the requisite expertise for specific deals. It is tied into all parts of the Commerce Department, including our industry and country desks, foreign and domestic commercial service, the Office of Business Liaison, the General Counsel, the Technology Administration, and the Bureau of Export Administration. It is linked to all the departments and agencies of the Advocacy Network, with the same Assistant Secretary of Commerce having immediate oversight of both the Advocacy Network and the Advocacy Center. The Advocacy Center staff is available to assist all Advocacy Network members with their advocacy projects. It staffs the overseas trade and investment missions led not only by Commerce but by Treasury, Energy, OPIC, and other departments and agencies.

Here's how it works. A project comes in from one source or another. It could be through the Advocacy Network. It could be from a U.S. ambassador abroad or a CEO who has called Secretary Brown or another cabinet officer. It could be an alert from Ken Brody at Ex-Im or Ruth Harkin at OPIC. It could be direct contact from a senior company official.

If we are going to move on the project — to make representations abroad, to mobilize government finance — we need two things. First, we need a staffing capability to analyze and vet the request. Next, we need a sense of deal making urgency proportional to the high stakes.

The Advocacy Center is designed to supply both.

U.S. Ambassadors and Their In-Country Teams

If the Advocacy Center may be called the Administration's advocacy command post, the ambassadors and their staffs — including the Foreign Commercial Service — are the front lines. I have had the privilege of serving in three Administrations before this one, and in each case I spent some time in the State Department. I can tell you one thing for sure: never before have our ambassadors played so skillful and so aggressive a role in commercial affairs. In one embassy after another, America's business interests have risen to the top of ambassadorial priorities. Indeed, our top diplomats are going head-to-head with their foreign counterparts with enthusiasm and great energy.

Our advocacy projects are often initiated by our embassies, which alert us to a looming problem or competition. They may be the first to know, because travelling U.S. executives routinely drop by to explain what's going on with their projects. Alternatively, many times CEOs will contact us directly in Washington. It doesn't matter how the project initially comes to our attention, however, since we are all on the same team, and the most critical issues quickly find their way to the Advocacy Network and Center. And in every case, before approaching a foreign government, we will work out a strategy with our ambassador on the spot, seeking advice about who to approach and how.

The Foreign Commercial Service, which reports both to the ambassadors in the field and to the Commerce Department, constitutes the ambassador's troops. They too have been doing a superb job, even though they are badly understaffed in many of the critical posts where our commercial interests are mushrooming.

To leverage our limited resources, we have gone to great lengths to restructure how the U.S. and Foreign Commercial Service operates. It used to be that there was a more or less strict demarcation between the domestic offices (U.S. Export Assistance Centers) and foreign offices. Now all of those offices — 70 in the United States and an equal number abroad operate as a united and seamless global advocacy network.*

Financing Agencies

Over the past year, Ex-Im, OPIC, TDA, and, most recently, the Small Business Administration (SBA) have spearheaded Administration efforts to develop a new, aggressive trade finance strategy to help American firms compete and win overseas. Together with the Department of Commerce, these agencies now meet regularly on a senior level to discuss a more integrated approach to helping U.S. firms sell their goods and services abroad. We call this the National Export Strategy "Rump Group," and I have the pleasure of convening it on behalf of Secretary Brown in his capacity as chairman of the National Export Strategy.

Because our major competitors often provide concessionary financing for capital projects tied to the purchase of that country's goods and services, we have had to become increasingly aggressive in combating such tactics. Our goal is to see the total elimination of this kind of competition, and we have been active in trying to negotiate and monitor common rules through the Organization for Economic Cooperation and Development (OECD).

But we have also reached two important conclusions. One, until there is a real standstill on violations of the rules, we will not sit by and watch others win pivotal deals. And secondly, the best way to get others to abide by the rules is to demonstrate that even if they cheat, they won't win.

Ex-Im has now established a Tied-Aid Capital Projects Fund to counter and ultimately eliminate the use of trade-distorting foreign tied-aid credits. The fund, operating with a budget of $150 million, seeks to level the international field for U.S. exporters.

Ex-Im does not use the Capital Projects

* In recognition of the complete integration of the domestic and overseas fields of the U.S. and Foreign Commercial Service, we are now referring to this organization as the Commercial Service of the United States.

Fund to initiate credits, but is prepared to counter potential foreign tied-aid. Whenever possible, Ex-Im seeks agreement among governments of the OECD against providing tied-aid financing for projects. If such agreements are not reached, Ex-Im provides exporters with an early indication of its willingness to counter foreign offers.

The strategy is already helping U.S. companies compete on a more even basis with our major competitors. Over the past year, Ex-Im announced its willingness to match, if necessary, foreign tied aid on major projects. Among the ongoing competitions are contracts for an airport, a hydropower project, and medical equipment in China; locomotives, airport equipment, and a telecommunications system in Indonesia; and power plant emissions scrubbers in Turkey.

OPIC has also become more aggressive. It has raised its project finance limits from $50 million to $200 million per project. OPIC has made capital available for a variety of funds that take equity positions in projects. It has made up to $100,000 per project in assistance for feasibility/pre-investment studies of environmental investment projects in Asia.

Both Ex-Im and OPIC are moving towards the forefront of new ways to finance large projects overseas, further enhancing the prospect for our firms to compete.

A third type of financing occurs through funding of feasibility studies. The main operation here is TDA, into which we are consolidating all feasibility work. TDA enables American businesses to become involved in the early stage of planning infrastructure projects overseas. The studies include advice to a host country about the availability of appropriate U.S. equipment and services — advice that often leads to follow-up contracts for the feasibility study contractor and to U.S. exports during the project's implementation. Like Ex-Im and OPIC, TDA has become more aggressive than ever.

All three agencies lead trade and investment missions of U.S. business leaders. And under the National Export Strategy, all three agencies are working closely together to give U.S. firms a powerful, combined financing capability to compete abroad.

Presidential Business Development Missions

The Clinton Administration has given special priority to what we call Presidential Business Development Missions as a tool of advocacy. These are not the usual trade missions that have taken place in past Administrations. The preparation is much more extensive. The effort is much more intense. The focus is on real deals. The follow-up is comprehensive. And the results to date match the effort.

I could illustrate these deal-making missions with reference to any one of several that Secretary Brown has taken — to the Middle East, to South Africa, to Russia, to Brazil and Argentina, and to China. A very recent mission travelled to India, so let me discuss that one.

The Indian trip preparations began several months in advance. From the beginning, we identified some 50 projects in which U.S. firms had an interest. Extensive information was gathered from the embassy, through the Advocacy Network, and from American companies involved in India.

Early last year, Energy Secretary O'Leary went to India and raised the profile of U.S. firms striving to win big energy contracts.

Last November, I took a small delegation from the U.S. Government to New Delhi, Bangalore, and Bombay. We spent a week with U.S. Embassy officials, Indian Government leaders, and a large number of people in both the U.S. and Indian private sectors. On this basis, we put together a more refined analysis of the possibilities — not just for Secretary Brown's trip, but for projects the Administration could support over the next few years.

When I returned from India, the projects on which we wanted to focus underwent a thorough vetting for all policy considerations. That vetting included both the embassy and the interagency Advocacy Network in Washington.

Secretary Brown's advocacy efforts during his trip focused on two kinds of projects —

those leading to the awarding of contracts and those that we still need to push along because they needed more time.

In the event, the trip exceeded expectations. Over $7 billion of transactions was announced, encompassing projects in energy, telecommunications, auto parts, environmental technology, and health care.

Since our return from India, we have remained single minded about follow-up. Going into the trip, we were hoping for about $3 billion in transaction signings, for example, but Secretary Brown's list included over $16 billion of advocacy projects for the longer term. Where there is a "memorandum of understanding" or a "letter of intent," we are laying the groundwork for the next stage to happen. Where action still needs to take place, we are keeping the project high on the radar screen. Our ambassador and his team continue to push from their end. So will all the cabinet and subcabinet people who travelled to India.

The follow-up to a Presidential Business Development Mission often includes the establishment of an ongoing commercial forum where the two governments and their private sectors can continue discussions on trade and investment opportunities in critical sectors. In China, we established a Joint Commission on Commerce and Trade to look at everything from telecommunications to environmental projects. In India, we launched the U.S.-India Commercial Alliance, with particularly heavy focus on U.S.-India business ties in key industrial sectors, and on tie-ups for small- and medium-sized businesses from both countries.

The Advocacy Center is the captain of the follow-up team. The full-court press won't let up.

Other Advocacy Tools

The advocacy team in Washington and the ambassadors in our embassies abroad are one team. When it is determined that a project is worth fighting for, we have several alternatives in addition to those I have already discussed.

In virtually every case, our ambassador will be asked to discuss the matter with senior officials of the host government.

In many cases, cabinet officials like Secretary Brown will send a letter to the key foreign government officials expressing the Administration's strong views on the need for an open and transparent bidding process or, if the decisions are down to the wire, on the hope that U.S. firms are seriously considered. Many times, such letters are followed up with direct phone calls from Washington, often with personal visits either at subcabinet or cabinet level, too. We also take every opportunity to push projects of U.S. firms in the course of doing other business with foreign governments. For example, not long ago Secretary Brown was at the headquarters of the European Union in Brussels on consultations about trade and telecommunications policy. While there he took the opportunity to meet with top officials in the Belgian Government to support several American firms competing for a privatization project. The last time I went to Japan for trade negotiations under the "framework," I spent a good deal of time pressing on behalf of U.S. firms bidding on the Nagano Olympics.

Advocacy Focus

We, of course, seek opportunities to promote U.S. sales and support American jobs wherever we find them throughout the world — without rigid, preconceived notions of geography and sector. The key issue is that a U.S. firm comes to us for help, the playing field is not level because of another government's involvement, and the project is important to the U.S. economy. Nevertheless, given scarce resources and the need to build expertise, we do need a combined geographical and industry focus.

Our primary country focus is the Big Emerging Markets — the BEMs.[3]

In Asia they are 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.

[3] For a more complete explanation of the Big Emerging Market Strategy, see "Big Emerging Markets: International Commercial Policy for the Twenty-First Century," before the New York Chamber of Commerce and the New York City Partnership, N.Y., N.Y. December 2, 1994.

Our calculations indicate that by the turn of this century — less than five years away — the ten BEMs as a group will be importing more from us than either Japan or the European Union (see Chart 9). 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.

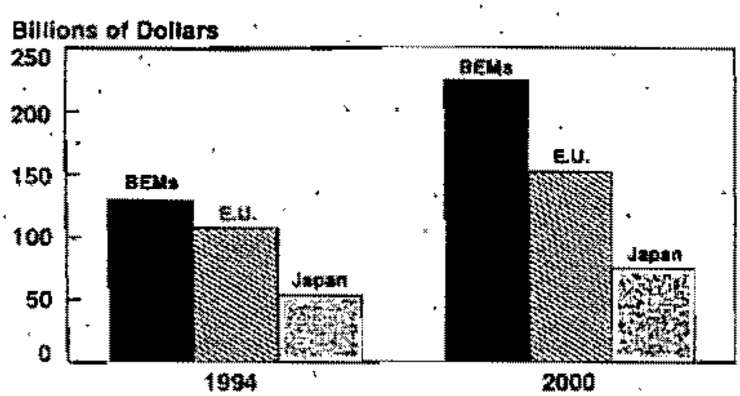
Our exports to the BEMs totalled $106 billion in 1992, approximately a quarter of our exports. But while the ratio of Big Emerging Market's GDP to the Industrialized World's GDP is 1 to 4 today, it will be 1 to 2 in less than 20 years. We expect that BEMs will more than double their share of world imports,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

In our in-depth studies of such BEMs as Indonesia, China, Argentina, and Brazil, we have formulated a vision of the areas where their imports are likely to be greatest. This, in turn, leads to our sectoral focus.

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

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

Chart 9
U.S. EXPORTS TO BEMs, E.U., AND JAPAN



Source: International Trade Administration, U.S. Department of Commerce

- *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, pharmaceuticals, 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; they are not our exclusive focus, and priorities may change. 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.

Indeed, a sectoral focus should not be equated with an "industrial policy" of any kind. It does not involve picking winners and losers, but rather it supports those industries where we know, without doubt, that markets abroad are expanding, where the United States is already doing well but could clearly do better. A sectoral focus is driven by a careful assessment of market potential in each BEM.

It is, however, important to have a starting point for our advocacy approach, even if it is just that — a point of departure.

Assisting Small- and Medium-Sized Businesses

Advocacy isn't just for the big guys. We are deeply committed to our efforts beyond the Fortune 500 companies.

In fact, the lion's share of our human and financial resources in trade promotion at the

Commerce Department is devoted to those who can benefit most from federal government assistance — small- and medium-sized companies. It is true that high-intensity advocacy makes the headlines, and it is also understandable, I believe. In addition, it is important to realize that there is little else that the government can do for the Fortune 500, for they are generally far ahead of us in how to deal in the global market. Moreover, don't forget that when a big firm wins a big deal overseas, the fortunes of many small- and medium-sized suppliers — and the thousands of communities in which they reside — are boosted, too.

But this is just part of the story. Most small- and medium-sized firms don't ask for or need high-intensity advocacy. They need trade financing and working capital. They need marketing advice. They need introductions to foreign decisionmakers.

Helping these small- and medium-sized firms in this way constitutes most of what the International Trade Administration does.

In our data bases of thousands of "success stories," over 90 percent of the cases involve small- and medium-sized firms.

About 80 percent of the budget of the US&FCS and nearly 60 percent of what we spend on export promotion in the International Trade Administration is aimed at helping small- and medium-sized businesses. Virtually all the export promotion events sponsored by the US&FCS are aimed at small- and medium-sized firms — trade shows, trade missions, etc.

To take another example, we have a Trade Information Center that anyone can call (1-800-USA-TRADE) for exporting help. In 1994, we received over 57,000 calls. Ninety-six percent were from small businesses; 55 percent of the calls were from representatives of companies who employed less than 10 people. Direct support for these firms may not always involve top cabinet officials, but senior commercial officers in our embassies around the world, strongly supported by their ambassadors, make representations on behalf of small- and medium-sized U.S. firms everyday. Their efforts are multiplied by others in the Administration from State, Treasury, Energy, and Transportation — because we are keeping similar lists now, coordinating approaches, following up on one another's efforts.

Moreover, every one of the Presidential Business Development Missions and, for that matter, virtually all the more routine trade missions, include executives from small- and medium-sized firms. A few examples: the CEO of a company called Environmental Remediation Technology, based in Clinton, Mississippi and employing five people, went to Russia with Secretary Brown. The CEO and owner of Systems Integrated, from Orange, California and employing 50 people, went to China. The CEO of Brooks Sausage Company, from Kenosha, Wisconsin (100-150 employees), went on the mission to South Africa. Over a third of the business delegation to India were medium-sized firms.

We also have programs targeted for minority-owned businesses. On the eve of the NAFTA vote in December 1993, for example, Secretary Brown led such a mission to Mexico. In mid-February, one of our Assistant Secretaries led a similar trip to Brazil. Our new Export Assistance Centers around the United States are designed especially to service smaller firms wishing to have government help. They consolidate under one roof the full services of all our export promotion agencies, including trade financing, thereby creating a "one-stop" location. These centers are up and running in Baltimore, Chicago, Los Angeles, and Miami. Eleven more are planned for 1995 in the following cities: Atlanta, Boston, Cleveland, Dallas, Denver, Detroit, New Orleans, New York, Philadelphia, Seattle, and St. Louis.

In addition, we are making a major effort to link our federal efforts to state and local export promotion services where small- and medium-sized companies are more heavily involved. This is one of our big goals for 1995. In early January, I met with an organization called the New York City Partnership to discuss how we can work more closely with the city's export promotion agencies. We are deepening such linkages with organizations in California. We will mount many more efforts like this.

In several countries, we have now established special U.S. Commercial Centers outside of the embassies to provide a broader range of export enhancing activities for U.S. firms, particularly smaller ones that do not have foreign operations and support systems, and need information and marketing help. Last year, we opened U.S. Commercial Centers in Sao Paulo and in Jakarta. We plan to establish one in Shanghai this year, and eventually in India and in all the other Big Emerging Markets. We have recently set up several similar business centers throughout the former Soviet Union.

Examples of Advocacy Efforts

Let's turn now to some specific examples of our advocacy efforts. **In what I am about to describe, however, there should be no inference that somehow the U.S. Government itself wins deals or deserves credit for the contracts. In every case, it is the U.S. firm that has invested the time and resources. If a contract has been won, it is because the firm had the best product, the best price, or both.** But as I said before, when the playing field is artificially tilted because foreign governments are weighing in, it helps to have Uncle Sam on your side.

Brazil: The SIVAM Case

The Brazilians decided some time ago that they needed a way to monitor what was happening in the vast Amazon basin. "SIVAM" is a Brazilian acronym for the surveillance project, which consists of a mixed satellite/aircraft/radar system that would allow Brazilians to spot environmental degradation (such as destruction of rain forest), to be more effective in drug interdiction, and to serve other land use planning purposes.

Last spring, the project was offered for international bids, and in the final round, the bidders boiled down to a U.S. consortium lead by Raytheon and a French group lead by Thompson CSF. The French were extremely aggressive both through their embassy and their offering of financing. They were close — very close — to winning the deal.

In late March 1993, I was down in Brazil to look for opportunities to promote the U.S. commercial interests and to lay the groundwork for a Presidential Business Development Mission which Secretary Brown would lead a few months later. As a result of work pulled together by the Advocacy Network and the Advocacy Center, we were armed with detailed information on the SIVAM Project. Working with the Embassy, I met with senior Brazilian officials to tell them how important the deal was to the United States, and I met with representatives of the U.S. firms involved. From Brazil, I called Ken Brody, Chairman of Ex-Im, and Secretary Brown to alert them to the competition our companies were facing and the very real prospect we would lose the deal because of French aggressiveness.

Upon returning to Washington, we continued to monitor the project until Raytheon came in to see several agencies, saying they had all but lost the deal to the French, alleging massive French Government support, pointing to the fact that the French companies involved were state-owned companies, and asking for all stops to be pulled out. At that eleventh hour, the Advocacy Network was called into action, and we met every day, at 8:00 a.m., for about two weeks to plan and implement a strategy. I chaired the group, but reported to Secretary Brown every afternoon to receive guidance.

In rapid order, we were able to make several things happen. First, the head of our National Oceanic and Atmospheric Administration contacted his counterpart in Brazil to say how important the project was to the Administration. His letter was followed by one from the Administrator of the Environmental Protection Agency and by the head of NASA to their counterparts in Brazil. Meanwhile, both Ex-Im and OPIC were examining financing alternatives with the U.S. consortium, and reporting back to our group. TDA was preparing a proposal, too. Then Treasury contacted the French Government and asked for information regarding its financing offer, information which was never received in a form that was clear enough for us to be sure exactly what they were offering. So, in the heat of the competition, Ex-Im had no choice but to tell the Brazilians that it would match the French Government's offer. On top of that, President Clinton then sent a letter to the President of Brazil, expressing support for the U.S. team.

Secretary Brown then went to Brazil with a group of U.S. chief executive officers, including the chairman of Raytheon. Just as the French had been doing for many months, the Secretary and his delegation pressed hard for U.S. interests. Nothing was decided while they were there.

But when he returned, Brown was on the phone virtually every day with Raytheon, Brazilian officials, and Ken Brody of Ex-Im. Our embassy in Brasilia was working around the clock on the project. A few weeks later, Secretary Brown and Raytheon were notified that the Brazilians decided in favor of the U.S. group. The result was that the Brazilians saw that based on price and technical quality, the Raytheon offering was superior and awarded the contract on that basis. The amount of that contract alone was $1.4 billion with a U.S. export content of approximately $700 million. The export content alone should support some 12,000 to 15,000 higher paying jobs in the United States. The contract is now awaiting action by Brazil's Senate.

China: Multiple Projects and McDonnell Douglas

China is an important case study, because it illustrates how our advocacy system works when it comes to a market with many megaprojects, but one where the foreign competition is exceptionally fierce, too.

On September 2 last year, Secretary Brown concluded a Presidential Business Development Mission to Beijing, Shanghai, Guangzhou, and Hong Kong. Numerous deals were concluded, aggregating to approximately $6 billion. Equally important, Brown was pushing for over $25 billion in projects that could be awarded months, even years, after the trip was over. Among the firms involved were Pitney Bowes, TRW, Sprint, IBM, Westinghouse, AES Corporation, Entergy, General Electric, and AT&T. It was, without doubt, a highly successful mission, but the results were not achieved overnight.

In fact, I led two preparatory trips to China to identify projects and try to push them along. In addition, in the spring of last year, the Chinese Minister for Trade, one of the key Vice Premiers, and one of the most important Chinese officials dealing with science and technology, all visited the United States, where several senior officials in the Administration pressed hard on behalf of specific deals pending for U.S. firms. For several months, our ambassador in Beijing was pushing Chinese officials on these same projects.

In Washington, there was heavy vetting of the projects by the Advocacy Network. The Advocacy Center was in full gear. Secretary Brown and his staff were in constant communication with key American firms doing business in China.

When Brown arrived in China with 25 CEOs representing small, medium and large companies and a high-powered interagency delegation, there was no doubt in our minds, or in the minds of top Chinese officials, what we were after. We had done our homework, and we had worked closely with our Chinese counterparts so that they had focused on the same priorities we had.

Secretary Brown had a clear mission. A centerpiece of every discussion he had was the deals sought by U.S. firms. He brought these up in big meetings and small. He talked details. These discussions took place with the President of China, the Prime Minister, two Vice Premiers, and several ministers. Our ambassador was following up on the heels of every discussion.

As in the case of SIVAM, not everything happened on the trip itself. In fact, from the minute his plane returned to Washington, Secretary Brown led an intensive push to close some of the deals that were still open.

One of these was a major aircraft sale to China by McDonnell Douglas. The firm had an existing agreement with China to deliver 40 aircraft to the Chinese beginning in 1997 with options that would allow for an additional 130 planes by the end of the decade. The total value of the 40 aircraft program exceeded $1.2 billion. The contract could be worth as much as $7 billion if all 170 planes are delivered. However, Beijing wanted the planes built in China.

Last November, months after the mission, Chinese Vice Premier Li Lanqing, with whom Secretary Brown had long discussions on the project in Beijing, came to Washington. While he was here, McDonnell Douglas signed a Trunk Aircraft Program Contract Amendment, which modified the pre-existing agreement by specifying that the first 20 aircraft would be produced in Long Beach, California instead of China.

Indonesia: Paiton Power Project

In late 1991, Indonesia announced plans to do what others in Asia had failed to do — initiate an extensive private power program. To achieve this goal, the government decided to invite foreign companies to bid on the first privately financed build-own-transfer power plant in Paiton, East Java. The project, valued at over $2.6 billion, involved setting up a turnkey operation equal in generating capacity to over 37 percent of Java's current electrical supply.

Dozens of companies expressed interest, but in the end only two proposals were submitted. The first was from a U.S. company, International Electric Incorporated (IEI). The second was from an Indonesian consortium, Bimantara, which had partnered with Hopewell Group of Hong Kong. Hopewell, owned by the billionaire industrialist Gordon Wu, was a hands-down favorite given the depth of its experience building large power plants in Asia. However, within five weeks after submitting its joint proposal with Bimantara, Hopewell dropped out. Bimantara then approached IEI about partnering on the bid.

The Indonesian Government, citing a need for more competition, called for a second round of proposals. A U.S.-led consortium of Mission Energy, General Electric, and Mitsui responded. With two bids in hand, the Indonesian Government opened negotiations with IEI. The negotiations, after six months of false starts, collapsed completely, paving the way for Mission Energy to negotiate in earnest for the Paiton Project.

Over the next 12 months, the U.S. Government moved into action to support Mission Energy. The U.S. Ambassador to Indonesia wrote letters of support on behalf of Mission Energy and sent Washington monthly updates on how the Paiton Power Project talks were progressing. When it looked like the negotiations might stall, our ambassador arranged for the Indonesian Paiton Power Purchasing Negotiating Team to visit Washington in April 1993 to meet with select U.S. Government officials at the Departments of Commerce, Energy, and State, and Ex-Im Bank. Secretary Brown, in bilateral meetings with key Indonesian Government officials, also raised U.S. support for Mission Energy and sent advocacy letters of support to key Indonesian ministers involved in the project on Mission's behalf.

In early 1994, I went to Indonesia with a small group from Commerce and pushed the project with senior government officials in Jakarta. In May 1994, Ex-Im Bank Chairman Brody also visited Jakarta to underscore our commitment to the Paiton Project, and to encourage the Indonesian Government to take additional action on its economic expansion plans. All of these efforts were undertaken to ensure that Mission had the support it needed. In fact, Mission needed to fight hard to keep its competitors at bay, for companies like Hopewell of Hong Kong and others were still hoping they would find a way to get back in.

In the end, the two-and-a-half-year long effort to support Mission Energy's bid paid off. Secretary Brown, during his November 1994 visit to Jakarta, witnessed the signing of a memorandum of agreement between the Indonesian Government and Mission Energy to supply $500 million of U.S. equipment and services to the Paiton Project. Then, on April 21, Ex-Im Bank, OPIC, and the Japanese Ex-Im Bank, along with several commercial lenders, were able to put together a financial package that allowed Mission to meet an Indonesian Government deadline to get the project funded. According to Mission Energy, the total value of U.S. goods and services is expected to support 5,000 U.S. jobs.

Mexico: Environmental Projects

Not all the advocacy we do is so high profile. And, as I said before, *most* of it relates to *non*-Fortune 500 firms. The case of environmental projects in Mexico is illustrative.

Following the signing of NAFTA and the Administration's strong commitment to protecting the environment, a key component of our National Export Strategy became helping U.S. firms to penetrate the market for environmental technology and services south of the border. We established a special deputy assistant secretary for environmental technologies exports in the Department of Commerce. We did extensive market studies. We sent senior officials to Mexico to explore possibilities for U.S. firms.

The market for environmental products in Mexico is highly competitive with the Germans and Japanese focusing intensely on gaining market share and with considerable support from both Bonn and Tokyo.

For the most part, the Administration's advocacy tools in the environmental sector of Mexico have consisted of working closely with U.S. companies to provide marketing advice and financing. The Advocacy Center is providing backup as necessary, but our embassies and government financing agencies in Washington are bearing most of the load.

And there have been some real successes. In June 1994, United States Filter Corporation won a bid to invest $20 million in Cuernavaca, Mexico to build the country's first privately funded wastewater treatment plant. U.S. Filter will operate the plant for 13 years and then turn over responsibility for the plant to Cuernavaca. This project was important for two reasons: first, it represented the first major U.S. environmental investment in Mexico since the passage of NAFTA; and second, it was the first U.S. presence in a market that will eventually build or upgrade more than 100 municipal wastewater treatment plants over the next five years. These projects represent approximately $770 million in potential business for U.S. companies.

In early summer 1994, Metalclad Corporation won a permit to build and operate Mexico's first integrated hazardous waste treatment plant. The projected long-term value of this investment is $100 million. This project represents the first U.S. presence in a market that will implement approximately $1.4 billion in hazardous waste management and treatment projects in the next few years.

Thailand: Strategically Supporting Contracts Which Can Lead to Substantial U.S. Exports

Sometimes we push hard for engineering and design contracts which will lead to substantial U.S. sales in the future.

After months of review, the field of bidders for the engineering design contract for Bangkok's second international airport, requiring over $1 billion in construction, was reduced to two contestants — the U.S. consortium of Murphy Jahn-Tams and the French Government agency, Aeroport de Paris. Both bids were close in terms of technical merits and price. However, the French Government was enhancing Aeroport de Paris's bid with advocacy efforts such as offering soft loans for project components and sponsoring a trip to airport facilities in France for the decision-makers. The French were expected to win the deal. Therefore, U.S. Government advocacy assistance became the ammunition needed to counteract the French efforts and level the playing field.

Officials at the U.S. Embassy recognized the need for advocacy at the early stages of the bidding process and provided continuous support through the ambassador and commercial officers who met with and sent letters to the Thai Prime Minister and other decision-makers. When advocacy became the needed weapon for a U.S. win, the interagency Advocacy Network kicked into high gear and implemented strategic actions. An advocacy team was established, including Ambassador Lambertson and his commercial officers along with the Departments of Commerce and State, Ex-Im, and TDA. State Department Under Secretary Spero advocated on behalf of the U.S. firms during her visit to Bangkok in early 1994 and her October meeting with Deputy Prime Minister Supachai. Secretary Brown advocated for the U.S. bid during his bilateral meeting at APEC last November. Ex-Im offered competitive financing to match the French soft loans, and Chairman Brody provided a strong advocacy letter to the Thai Government. TDA offered a $500,000 training grant and a letter of support.

After several months of nervous waiting, on April 17, 1995, the U.S. team was notified that it had submitted the lowest project bid. The formal contract signing is scheduled for May 24. The contract, valued at $31.7 million, is expected to pave the way for other U.S. firms to compete for several hundred million dollars worth of airport construction-related projects, such as avionics/navaids, communications systems, baggage handling systems, passenger loading bridges, people movers, etc. In addition, the facility will be an international showcase for aviation and airport technology.

Overall Results

In these days of severe pressure on budgets and intense attention to government efficiency, it is more important than ever to try to measure the cost effectiveness of any government activity. Advocacy is no exception. We need to be effective, and we need to be satisfied with the results.

In 1994, the Clinton Administration was involved in providing advocacy on transactions — where U.S. companies got the business — with a U.S. export content of some $20 billion. That is export content. The value of the transactions themselves is estimated at somewhere around $46 billion. Twenty billion dollars of exports is estimated to support some 300,000 U.S. jobs which, on average, pay more than other jobs, as I mentioned at the outset. Chart 10 depicts the U.S. export content of our successful advocacy projects from January 1993 through the first quarter 1995 — and shows the dramatic impact that the Advocacy Network has had on our advocacy efforts.

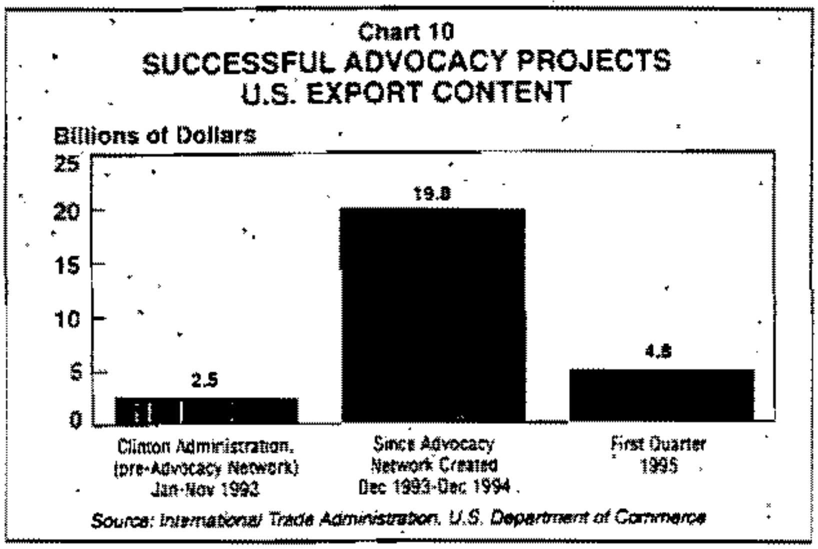


Chart 10
SUCCESSFUL ADVOCACY PROJECTS
U.S. EXPORT CONTENT
Source: International Trade Administration, U.S. Department of Commerce

Chart 11 breaks down the successful advocacy projects by industry.

So far in 1995, we are running about $10 billion in advocacy projects per quarter, about half of which is U.S. export content. Chart 12 indicates, on an industry basis, where we see the current advocacy project opportunities over the next several years.

When it comes to small- and medium-sized businesses, our records are not as precise as we would like; however, they do show that the Advocacy Center itself has assisted in securing $1 billion in contracts, with approximately $500 million in U.S. export content, supporting about 8,000 jobs.

This is not a bad record. My guess is, moreover, that it substantially underestimates the value of advocacy since we still do not include the numerous interventions that our ambassadors are increasingly making, nor the many seemingly routine activities that seem to pay off.

Not long ago, just to take one example, a company in Maryland asked us to intervene in a heated competition taking place in Vietnam.

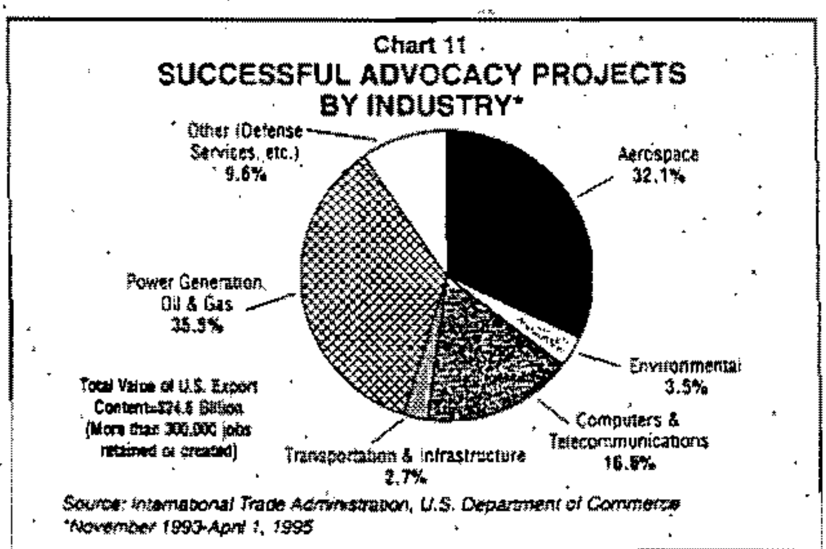
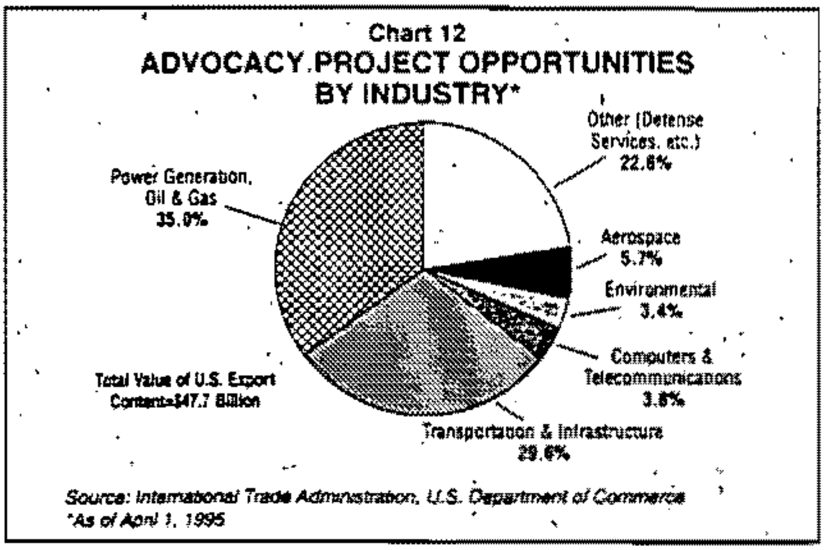


Chart 11
SUCCESSFUL ADVOCACY PROJECTS
BY INDUSTRY*
Source: International Trade Administration, U.S. Department of Commerce
**November 1993-April 1, 1995*

It first made contact with our new Export Assistance Center in Baltimore, which then contacted the Advocacy Center. After vetting the project, we determined there was a solid case. But we have no official relations with Vietnam, so all we could do was to send some strong, detailed advocacy letters. We did. The company won the deal. The number of such letters that we in the Administration send like this are too many to count.



Reflections on the Future

We have had to make up for many years when other governments recognized the nature of international competition — and took operational steps to deal with it — while we were preoccupied with other things. But in 1993 and 1994, we have made great strides in catching up. We are also trying to do a better job of informing the public what our goals are and how we intend to achieve them.

Advocacy Is Not Corporate Welfare

Our efforts to support U.S. businesses abroad have not been without critics. Some have tried to tar advocacy as a form of "corporate welfare," but this is a gross misreading of reality. Advocacy is simply a business necessity. I have already discussed the facts that (1) exports have created more jobs over the last decade than any other segment of the U.S. economy, (2) this trend will accelerate over the next decade, and (3) the fastest growing markets for U.S. exports are the Big Emerging Markets where governments play a central role in deciding who wins and who loses many of the biggest deals.

For American companies to win in these markets, they often need their government to intercede with the governments of the BEMs — as only a government can do. In many cases, the availability of competitive financing is now a basic pricing issue. In others, when foreign leader after foreign leader presses the case for their own companies, U.S. companies will be at a distinct disadvantage if the U.S. Government adopts a hands-off approach.

We need to play by the rules of foreign markets to succeed in those markets. When global playing fields are truly level, and when bidding processes are open and transparent, the U.S. Government will be delighted to step out of the picture. But that day has not arrived yet.

Advocacy Is Not Industrial Policy

Advocacy has also been maligned as "industrial policy," but that too misses the mark. The U.S. Government will advocate on behalf of any U.S. company that comes to us with a reasonable request for support and meets our policy, legal, and ethical advocacy guidelines. Advocacy is a public-private partnership in which governments do what only they can do and businesses do what only they can do. It concentrates resources where they can do the most good, for small, medium and large companies around the world.

But make no mistake — while advocacy is not about "picking winners," it is about winning. Because in business competition there is no second place, and no U.S. job was ever created by a U.S. company that was the first runner-up in a contract.

We are not shy about responding directly to critics of our advocacy program. Moreover, we intend to turn up the heat on our efforts.

There are several imperatives now, including the following:

First, it is vital that budgetary pressures not undercut the resources of our government financing agencies at precisely the time when they have become more important than ever in helping U.S. companies win deals abroad and create good jobs at home. It's a simple proposition: without highly competitive financing from Ex-Im, OPIC, and TDA, American firms will lose out in *every one* of the Big Emerging Markets.

Second, it should be clear how important the U.S. and Foreign Commercial Service is to both high-intensity advocacy and to helping small- and medium-sized firms. We will need to strengthen the U.S. and Foreign Commercial Service, particularly in the high growth Big Emerging Markets where we are often woefully understaffed. We also need to sharpen our industry and country expertise, from a commercial perspective, in the Commerce Department.

Third, we need to continue our expansion of export promotion efforts focussed on small- and medium-sized businesses, and to do an even better job. I discussed a lot of the things we are already doing. However, we need a better way to communicate our range of services to the very large universe of smaller firms in the United States. We are not where we want to be when it comes to financing alternatives for smaller exporters. Our links to state and local organizations could be deeper and broader. Today, the Clinton Administration is moving in every one of these directions.

Fourth, we must give more thought to the relationship between our global security policies and burdens and our commercial interests and requirements. This is a very important issue, relating foreign policy to our commercial interests, and vice versa. I cannot do it justice here, but this is a snapshot:

On the one hand, it is disturbing that in nations from Kuwait and Saudi Arabia in the Gulf, to South Korea and Japan in Asia — nations where America is bearing unique security burdens — the commercial benefits which accrue to competitive American firms are often on a par with others who have contributed less or nothing to the survival and prosperity of those same countries. We might consider how to more effectively employ our strategic leverage.

On the other hand, the development of deeper commercial ties with those nations is not just a question of dollars in Americans' pockets. Without a fair shake for our firms, our security commitment is unlikely to be sustained. As President Clinton said at the APEC meeting in Seattle in November 1994: "We do not intend to bear the cost of our military presence in Asia and the burdens of regional leadership only to be shut out of the growth that stability brings."

Fifth, as in virtually every other area of policy, we need to communicate our advocacy goals and strategy better than we have, and to a much wider audience in the United States. The purpose is not just to let people know what we are doing but to make sure they have access to our services — if they want them. With a new Congress in place, we need especially to gain legislative support and understanding for the substantial efforts we are making, the results we are achieving, and the even greater results we will need in the future if we are to fully serve our national interests.

Finally, it is important to underline the Administration's desire to remove itself and other governments from intervention in the world economy. Our goal is simple: a global marketplace that has free and fair competition among private companies. To this end, it is important to keep up pressure in international organizations and on individual countries to have workable constraints on export subsidies, mixed credits, illicit payments, etc. But until the playing field is level and clean, until our trading partners come to the table with the serious intent to jointly police an open market, surely we would be crazy to ignore our vital interests.

Conclusion

Let me end with a simple point that Secretary Brown has made on several occasions.

We have a strategy, and it is working. It is producing real results for the United States — real deals, real jobs, and real community development.

Advocacy is an excellent example of government effectiveness in these changing times. What we are doing is a break from the past — not just different for the sake of being different, but different because we are making a difference.

Yes, we can do even better. And yes, we must.

But in the post-Cold War World, where economic competition is the great challenge of our times, if we do not compete to win, then we will lose. There is no middle ground.

DEPARTMENT OF COMMERCE

UNITED STATES OF AMERICA

THE CHANGING FACE OF NORTH AMERICA IN THE GLOBAL ECONOMY

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

Before the
Americas Society and the Council of the Americas

New York City
May 17, 1994

This presentation is part of a series called "America In A Changing World Economy." Other speeches have dealt with Asia, Europe, Latin America, the Big Emerging Markets, Japan, China, Brazil, India, the National Export Strategy, Trade and Technology, American Trade Law, and Trade and National Security.

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

SUMMARY

Changes in Eastern Europe, the former Soviet Union, Asia and the Middle East have diverted attention from the quiet but revolutionary transformation in the economic and social foundations of North America. Yet what is happening here is every bit as important to our lives and to the future of the world economy.

This speech begins with a history of formal efforts at economic cooperation between the United States and Canada, and between the U.S. and Mexico -- all culminating in the NAFTA. It then provides a snapshot of North American integration as viewed from both the investment and trade perspectives, and from the perspective of the integration of production systems within industries and firms. The substantial benefits of integration are presented.

The discussion then turns to what has been happening in North America on three levels: in the private sector, including various corporate strategies that are evolving; on subfederal and regional levels, including the dramatic growth of North American trade corridors; and on the level of national governments, including NAFTA related follow up and the efforts of the Clinton administration to implement the NAFTA.

Among the developments cited are the following:

-- Between 1980-1993, intra-North American trade increased by 170 percent, 50 percent faster than North America's trade with the rest of the world.

-- Intra-North American exports are now growing twice as fast as North American exports to the rest of the world.

-- Intra-North American trade has grown twice as fast as North American domestic investment, and 30 percent faster than North American GDP.

-- Almost half the collective exports of the three NAFTA members are sold within North America.

-- So far this year, Mexico and Canada have accounted for 88 percent of U.S. export growth and 28 percent of U.S. import growth.

Finally, several future challenges are outlined: harmonizing commercial systems, managing state/provincial relations, helping workers adjust to changing trade patterns, and pursuing sound economic policies that are conducive to further growth in trade.

[continued]

Two major conclusions emerge.

First, the growing economic and social interaction in North America, although far from the daily headlines, is one of the most significant developments of our time. Combining as it does both industrialized and developing societies, trade and investment, and the entire gamut of commercial issues that arise when countries interact with one another, North America has become an advanced microcosm of where the world economy is moving in the years ahead.

Second, the huge stakes in making economic cooperation work in the North American context place a high premium on a commitment to vigorous and sustained follow up to NAFTA on the part of Washington, Ottawa and Mexico City. As economic interaction among our societies proceeds quietly but steadily, there will be a natural tendency on the part of various groups and industries to slow the pace of change -- to "retreat and not compete." We cannot take progress for granted, and we should not let the growing importance of our interests in Asia, South America, and elsewhere result in a slackening of effort to build a prosperous and just society in our own backyards.

It is a great pleasure to appear before this group today to discuss our shared interest in the evolution of the North American market. When I was first invited to give this presentation, many thoughts flashed by at the same time.

I recalled my years in the early 1970's at the School for Advanced International Studies at Johns Hopkins and my classmates who were majoring in Canadian studies, which at the time seemed much less exciting than Southeast Asia or Russia -- or just about anywhere else. And yet, whenever I got a real glimpse of what they were doing, it seemed more real, more tangible than what the rest of us were studying at school. I recalled my first stint at the White House Council on International Economic Policy in 1973, where, as a junior staffer, I was asked to do an analysis of U.S.-Canadian flashpoints, and I went up to New York to confer with John Dickey, then President Emeritus of Dartmouth, my alma mater, and a noted expert on U.S.-Canadian relations. A lunch scheduled for one hour turned into a fascinating afternoon in which he explained with great passion -- and with great foresight -- the importance of Canada in the U.S. future.

My first experience with Mexico came on the eve of 1976 and the inauguration of Lopez Portillo. At the time I was on the State Department Policy Planning Staff. Secretary Kissinger was headed for Mexico to attend the ceremonies and he asked the staff for a far-reaching analysis of our future relations with Mexico. The peso was collapsing, and Mexico was heading for a world class crisis. Kissinger rejected our first briefing, sending us back to the drawing board to go deeper into the past and the future. He rejected our second try, saying we had failed to go deep enough into the psychological and political dimensions of the Mexican crises. It was perhaps the most formative experience I ever had in trying to marry political and economic analysis in the context of American foreign policy. (Eventually he was satisfied, but it took four agonizing attempts.)

Not too many years later I became an investment banker on Wall Street. Throughout the 1980's, I was heavily involved in the Latin American debt crisis, principally as advisor to financially strapped governments, and for a while I headed up the Mexican business for Shearson-Lehman Brothers. The real big deals in our firm were being done in Canada, however, and, of course, at that time we were not thinking about North America as an entity, as an integrated market.

In 1992, I ran into a fellow named Steve Blank (who has organized this meeting today) at a meeting of the Carnegie Council in New York. I was just finishing a book about the U.S.-German-Japanese relationship. Steve expressed some interest in my ideas, and so we had lunch. In one hour he set my mind on fire about what was really happening in the world economy, drawing not only on his extensive talents as an historian, but as a student of what was happening in North America, and the paradigm it might be for economic integration. I rushed home to change whole sections of my book.

And so, when Steve invited me to come here, I gladly accepted. My thought was to take up the challenge of thinking through what is happening in the North American market today, and what the implications of this great experiment are for the future. I will try to aggregate my own experiences and instincts, to build on Steve Blank's tutorials, and to underline some priorities of the Clinton administration.

Let me begin with a bit of the history of North American integration. Then I'd like to describe some of the features of the current interaction of our economies. I will move from there to the response of private business, the response on state and subregional levels, and the response of federal governments. I will then summarize the efforts of the Clinton administration to follow up on the NAFTA. Finally, I would like to turn to some of the challenges we face in the future.

HISTORY OF NORTH AMERICAN INTEGRATION

Early Efforts

Economic, cultural and political ties between the nations of North American are not a new phenomenon.

The United States and Canada have an extensive history of cooperation, having recognized the transborder aspects of water management, pollution control, immigration and other "domestic" policies for well over a century. Over 200 treaties are now in force between the U.S. and Canada governing boundaries, commerce, the environment, energy, immigration and other areas. [See Tables 1 and 2 at end, pg. 34 and 35.]

Management of shared water resources provides a good example of successful early efforts at deep seated cooperation. The U.S.-Canada Boundary Water Treaty of 1909 gave official recognition to the need for bilateral management of boundary waters and established the principle that neither country should exploit the waters in a way that would damage the interests of the other. The treaty established the International Joint Commission, a binational group charged with overseeing water management, and later, broader areas of transborder environmental protection and conservation.

In the economic sphere, commercial ties between the U.S. and Canada were crucial to many New England and Canadian communities well into the 19th century, especially after the British adopted free trade and its North American colonies lost their imperial advantages. This actually led to demands by some Montreal merchants for annexation by the United States, but a more satisfactory arrangement was a free trade (in resources) agreement in 1854. Termination of the 1854 agreement during the U.S. Civil War helped to drive the movement for Canadian Confederation in 1867 and ultimately the Canadian National Strategy in 1879, which introduced high Canadian tariff walls.

In subsequent years, interest in bilateral free trade surfaced off and on. A tremendous upsurge in U.S. foreign direct investment (FDI) in the 1960's revived this interest in both countries, and found its most concrete expression in the 1965 Automotive Products Agreement between the U.S. and Canada. The Auto Pact provides for duty-free treatment of finished vehicles and parts between the two countries and helped set in motion a process which eventually led to a comprehensive free trade agreement (FTA) more than two decades later. The Auto Pact both responded to, and stimulated, rationalization in the North American automotive industry.

On yet another level, Alberta and Montana, Quebec and the New England states, British Columbia and Washington, Ontario and the Great Lakes states, and New York and Quebec have all enjoyed close relations. Their functional agreements to cooperate in such areas as energy, trade, the environment and education have enriched our binational cooperative efforts. These relationships were extensive enough to cause the U.S. State Department to conduct a 1976 study which found that state/provincial interaction was "pervasive in scope, extending to all functional areas of governmental activities."

Like Canada, the history of cooperation on the U.S.-Mexican side is focused along the border. A 1884 U.S.-Mexican Treaty led to what is now called the International Boundary and Water Commission, which has jurisdiction over all questions arising from changes or alterations in the Colorado and Tijuana Rivers and in the Rio Grande. Formal bilateral economic cooperation accelerated much later, especially in conjunction with Mexico's unilateral economic reforms and its accession to the GATT. Early steps on the road to regional free trade included a tariff reduction agreement reached in 1979, a subsidies code in 1985, and a Trade and Investment Facilitation Agreement in 1987.

U.S.-Canada Free Trade Agreement

A distinguishing feature of U.S.-Canada relations is the significant commercial interaction that predates the formation of our national boundaries. Business-driven integration, augmented by this rich history of government cooperation, made our two countries ripe for a free trade agreement.

As we entered the 1980's, the United States and Canada had the largest bilateral trade relationship in the world, with $80 billion in two-way trade, and a combined $55 billion in foreign direct investment in both economies. Since 1879, a key motivation for bilateral foreign direct investment had been for U.S. companies to get behind Canada's high tariff walls in order to service the Canadian market. In the 1980's, however, the magnitude and nature of economic integration began to accelerate rapidly with a sharp upswing in international direct investment and inter-firm collaboration. From 1980 to 1989, the year of implementation of the U.S.-Canada Free Trade Agreement (CFTA), the stock of U.S. direct investment in Canada grew from $45 billion to $64 billion, while Canadian direct investment in the U.S. grew from $10 billion to $30 billion.

Growing investment was a catalyst to the trade boom. As our firms expanded and organized their operations more broadly, exports to each other's markets more than doubled in both directions, a rate substantially in excess of our 50 percent export growth to the rest of the world.

Of course, the enormous business pressures leading up to integration did not occur in a political vacuum. In 1984, Prime Minister Mulroney approached President Reagan with his interest in developing a free trade framework to counter what Canadians perceived to be a growing protectionist color to U.S. trade policies and lagging Canadian competitiveness. President Reagan, who had espoused the idea of a North American trade pact in his 1980 campaign, responded positively. The next five years were the subject of progressively widening negotiations.

Just as we saw in the run-up to EC 1992, the prospect of change surely influenced business decisions and stimulated some of this pre-CFTA business activity. Nonetheless, given the long history and extent of our commercial relations, it appears that governments were largely catching up with what firms were already doing.

NAFTA: Turning South.

In contrast, on the U.S.-Mexico side, the dominant role of government is indisputable. When the NAFTA negotiations were launched in 1991, it was the unilateral economic reforms of Mexico that were the *sin qua non* for moving integration forward. Not only did Mexico's accession to the GATT open its economy to greater competition, but the entire Mexican economy was reshaped as the Mexican Government privatized entire business sectors. The economic resurgence that followed was the lubricant for a dramatic upswing in bilateral trade and investment.

Between 1986 and 1993, U.S. exports to Mexico more than tripled, with Mexico surpassing Japan as the second largest market for U.S. industrial exports. Similarly, U.S. imports from Mexico doubled, with much of this growth in semi-manufactures and components that complement U.S. production. Two-way trade rose from $30 billion to $82 billion in just seven years. At the same time, U.S. portfolio investment soared, based on attractive real dollar returns on peso-denominated instruments and heavy foreign interest in Mexican stocks, reaching a cumulative level of an estimated $45 billion in 1993. With NAFTA's imminent approach, U.S. foreign direct investment in Mexico increased $5 billion in just the last three years preceding the treaty.

By the time we actually signed NAFTA, business underpinnings had been strengthened significantly between the United States and Mexico. Clearly, it was this coupling of market and policy developments that gave momentum and credibility to NAFTA.

The process had come full circle. Unilateral reforms by the Mexican Government inspired a broad coalition of business and government interests to "lock in" these gains. The coalition consisted of the Mexican private sector which was enjoying strong growth for the first time in a decade: the U.S. and Canadian private sectors which wanted continued trade and investment access to the Mexican market: the Government of Mexico, which sought to give permanence to this new direction: the U.S. Government which saw the opportunity for a wide range of benefits in a new relationship with Mexico: and the Government of Canada. which wanted to ensure that Canada would not be disadvantaged by any new expansion of regional trade.

NORTH AMERICAN INTEGRATION -- A CURRENT SNAPSHOT

Before looking ahead to where we are going, it is important to understand where we are. Let me begin with the extent of economic integration that now exists in North America. At the outset, I would suggest that the phenomenon of "North American economic integration" is of a qualitatively different nature than merely denser networks of trade -- it is based on complex, cross-border corporate production, distribution and sourcing networks and on increasingly tight linkages in infrastructure. This makes it difficult to describe the relationship in traditional international trade/foreign investment terms. In cases like the automobile industry, for example, talking about "trade" between the U.S. and Canada makes about as much sense as talking about "trade" between Michigan and Ohio. Nonetheless, there is value in putting some parameters around the North American trade and investment relationship, even if such data suggest artificial boundaries in some instances.

Investment

Foreign direct investment among the three NAFTA partners has doubled in the last decade, reaching just over $120 billion in 1992 [Table 3, pp. 36]. We are principal investors in each other's markets.

The United States is the largest foreign investor in Canada and Mexico, contributing roughly 65 percent of total foreign direct investment (FDI) in both Canada and Mexico [Figure 1, pp. 37]. The share of total U.S. FDI going to our North American neighbors (16 percent) is substantially larger than one might expect based on Canada's and Mexico's share of world GDP (4 percent). Looked at from the point of view of our neighbors, the United States is the most popular destination for Canadian and Mexican FDI; Canada, in particular, is the 4th largest foreign direct investor in the United States.

Canada and Mexico's past import substitution policies have been a major incentive to U.S. foreign investment in these markets; more recently, a larger share of U.S. FDI appears to have been devoted to developing continental and global production strategies. Fifty-two percent of U.S. FDI in North America is in manufacturing; this compares to 35 percent for our FDI in the rest of the world [Figure 2, pp. 38]. Canadian and Mexican FDI in the U.S. shows a similar concentration in manufacturing, 45 percent of the total.

Portfolio investment within North America has been growing even faster than foreign direct investment. After doubling during the 1980's, portfolio investment among the three countries climbed from $142 billion to $175 billion in just three years (1989-1992). Preliminary estimates suggest that U.S. portfolio investment in Mexico rose further from $22 billion in 1992 to an estimated $45 billion in 1993. A major goal of the Salinas Administration is to attract more of this capital in the form of direct investment.

Trade

Even more remarkable than our investment performance has been the explosion of trade within North America. Between 1980 and 1993, intra-North American trade increased by 170 percent, 50 percent faster than our trade with the rest of world. This is a truly remarkable development if you consider the other dramatic structural changes over this period -- rapidly rising U.S. automobile imports from Japan, the emergence of the Asian tigers as important global suppliers and consumers, etc. [Figure 3, pp. 39]

North American integration is even more pronounced if we focus on exports, with intra-North American exports growing twice as fast as North American exports to the rest of the world. As a result, today intra-North American exports stand at almost $300 billion: $4.60 out of every $10 that North America exports -- almost half our total exports to the world -- are sold to each other [Figure 4, pp. 40]. Thus, North American trade integration is approaching European levels, where other EC markets account for 60 percent of total EC exports.

The dynamism that is occurring here in North America has given us a tremendous boost. Just as international trade has been a driver of global economic growth, so too has intra-North American trade been a driver of North American growth. Since 1980, intra-North American trade has grown twice as fast as North American domestic investment and almost 30 percent faster than North American GDP [Figure 5, pp. 41]. Growing trade integration in North America has been a major job creator and a source of economic energy.

Despite our growing economic importance to each other, as a region we are not looking inward; in fact, we continue to exert considerable influence in global and other regional economic groups. North America accounts for 18 percent of total world trade and almost 45 percent of APEC's trade. The latter is particularly interesting, given the tendency of some observers to treat NAFTA and APEC as competing blocs.

As these figures demonstrate, there can be no doubt that North American integration was already substantial on the eve of launching NAFTA. Sidney Weintraub, a noted authority on U.S.-Mexican trade with the Center for Strategic and International Studies, perhaps characterized NAFTA best as "a way of formalizing *de facto* integration."

Characteristics of the North American Market

Nonetheless, expanding and adapting the CFTA to incorporate Mexico was a major event. Debate in the U.S. focused on Mexico's lower income, lower wages and weaker environmental record; in contrast, Canada's high-tech and natural resource-based economy was perceived as a natural partner to the United States.

In truth, the similarities between Mexico and Canada, as seen from the U.S. perspective, are as compelling as the differences. The fact is, North American trade shares a number of features in common. These features not only emphasize our extensive economic linkages, but they help explain how regional integration can make us more competitive.

Movement Away from Import Substitution Policies: Prior to formal integration, both Mexico and Canada retained significant tariff barriers -- each about 10 percent compared to 4 percent for the United States. This tariff structure formed a considerable barrier to market entry and was symbolic of their general approach to trade -- tariffs and nontariff barriers (NTBs) across a wide range of goods promoted domestic production for a limited, sheltered market. The CFTA, and now NAFTA, represent an important policy shift: an embrace of competition to improve the national capability to compete in global markets.

Preference for One Another's Products/Markets: Unquestionably, we are best markets for each other. Mexico and Canada each source 70 percent of their imports from the United States, roughly 5 times our share of world exports. Further, the United States is their largest market, responsible for the preponderance of their foreign sales (76 percent for Canada and 78 percent for Mexico). Thus, we get the greatest return in future sales when our imports come from one another. As Canadian and Mexican sales to the U.S. generate growth in their economies, they in turn are more likely to increase their purchases of U.S. products.

Extensive Coproduction within North America: The United States is engaged in extensive production-sharing arrangements with Mexico and Canada that are characterized by their high proclivity to use U.S. inputs.

Many firms engage in production-sharing with foreign companies or affiliates. Japan, Mexico, Germany and Canada account for three-quarters of all coproduced imports that return to the United States for final assembly or sale.[1] The use of U.S. inputs by these countries varies widely, however. Mexico uses more U.S. inputs than the others by far (52 percent), followed by Canada (33 percent); in contrast, Japan and Germany have less than 3 percent U.S. content in their coproduction products. Looked at another way, half the value of coproduced imports from our NAFTA partners originates in the United States, compared to an average of only 15 percent for goods coproduced outside North America. [Figure 6, pp. 42]

Consequently, when U.S. firms decide global competition requires a global production strategy, the United States retains a much greater presence in the production process when the arrangement involves a North American partner. Shorter supply lines, just in time delivery, and ease of return are just a few reasons why proximity really does make a difference.

High Degree of Intra-Industry Trade: The bulk of North American trade takes place in just a handful of products. Fully 60 percent of all intra-North American trade occurs in just 9 industries. Typically, the same industries are national leaders in both exports and imports, with the most notable exception being crude petroleum (which figures importantly in U.S. imports from its NAFTA partners but not in its sales to them.) [Table 4, pp. 43]

What we are seeing is that regionalization tends to accentuate broad similarities in national production. That helps explain why, despite the significant differences in the Canadian and Mexican economies, the top three U.S. exports are the same to each; moreover, these same products figure importantly in our imports from them.

Regionalization, like globalization, appears to intensify local specialization within industries. Thus, rather than resulting in a discrete allocation of industries among countries at the regional level, with one country "winning" one industry (like autos) while another takes over a different industry (say, steel), rationalization at the regional level seems to distribute business within key industries across the three economies.

High Degree of Intra-Firm Trade: Not surprisingly, much of that intra-industry specialization is actually occurring within companies. We know that almost half of U.S. trade with our North American partners consists of transactions between firms with some common ownership. Much of this trade is in the commodities listed in Table 4.

Moreover, more of U.S. trade within North America takes place between related parties (47 percent) than is true for the rest of the world (36 percent). [Table 5, pg. 44] No other country exceeds Canada and Mexico in the importance of related party sales in U.S. export transactions, which stands at 45 percent for Canada and 39 percent for Mexico. On the import side, the most distinguishing feature is the high proportion of U.S. imports from Mexico that are between related parties (only imports from Japan are higher). In large part, this reflects the extensive assembly operations along our border; however, the sharp contrast in related party exports to Mexico (39 percent) and related party imports from Mexico (64 percent) suggests that more of U.S. exports to Mexico are going to independent purchasers than is commonly perceived.

Sales through exports are only one means of doing business in foreign markets. U.S. firms actually sell just as much to Mexico and Canada through the sales of their affiliates located in these markets. In 1991 (latest year available), U.S. affiliate companies sold over $128 billion of goods and services in Canada and over $17 billion in Mexico.

While U.S. affiliate sales are somewhat more important than exports in selling to Canada. U.S. exports to Mexico are twice as large as the sales of U.S. affiliates located there.

Increasing intra-firm trade generates its own form of competition, with large corporations playing units off against one another. As the branch plant system (that is to say, affiliate firms set up in another country primarily to serve the foreign market) is increasingly replaced by the integration of these firms on a continental basis, a major focus of competition is within firms, among operating units competing for production mandates. This trend is reinforced by new technologies that heighten productivity. Thus, for example, as the number of GM assembly operations decreases, the most intense competition each unit faces is with the other units in the GM organization.

ECONOMIC PAYOFF OF INTEGRATION

Integration in North America produces broad based economic benefits that accrue to the entire region.

Experience under the CFTA

Although it is far too early to detect definitive trends in our trade with Mexico as a result of NAFTA, the CFTA provides one gauge of the Agreement's *potential* impact.

The first five years of free trade between the United States and Canada have witnessed a progressive rise in trade volume despite the fact that relatively slow domestic economic growth in both countries should have suppressed demand. Total bilateral trade in goods and services grew by $68 billion, from $169 in 1988 (just prior to the CFTA) to $237 billion in 1993.

Critics of the CFTA in Canada have blamed Canada's recession and weak economic performance since 1989 on free trade. In fact, studies published by both the Bank of Montreal and the C.D. Howe Institute argue that free trade helped to mitigate the effects of the economic downturn. During the period coincident with the CFTA, what little growth Canada recorded was almost entirely attributable to strong export performance. Moreover, the strongest export growth was to the United States, whose demand for Canadian products grew almost one-third faster than Canada's non-North American trading partners.

The C.D. Howe Institute, which also analyzed the product composition of Canada's export growth, found that growth was strongest in sectors liberalized by the CFTA.[2] For these products, Canadian merchandise exports increased 33 percent to the United States, compared with only a 2 percent increase to the rest of the world.

For the U.S. part, U.S. exports to Canada during this period grew faster than our exports outside of North America, and our already high share of the Canadian market increased. A study by the U.S. Department of Commerce suggests that many U.S. producers became newly competitive in the Canadian market as the result of tariff removal under the CFTA[3]. Important gains were realized in key product categories: in fact, 46 out of 98 product categories with significant tariff decreases have grown 100 percent or more since the CFTA became effective. Moreover, several traditional import sensitive sectors in the United States, such as apparel and furniture products, saw their exports rise rapidly as the CFTA lowered Canada's substantial tariffs on these goods.

The CFTA also spurred cross-border investment flows. As has been the case with EC 1992 and NAFTA, such investment often begins prior to the formal event as firms anticipate the effects of an agreement. Thus, between 1987 and 1992, bilateral direct investment in each other's economies grew by $24 billion, from $83 billion to $107 billion in 1992. While these investment flows were split about evenly in each direction, Canadian firms realized a 58 percent increase in their direct investment in the U.S. while U.S. firms increased their already substantial FDI in Canada by 18 percent.

Likewise, net foreign investment flows in the CFTA trade area swelled due to the increased attractiveness of both markets. In fact, in 1990, for the first time in 16 years, Canada experienced a net inflow of foreign direct investment, which continued in 1991 and 1992. The Royal Bank of Canada suggested that this was "broadly consistent with the view that the free trade agreement between Canada and the United States has enhanced Canada's attractiveness for foreign investment."[4]

Freer bilateral trade under the CFTA has stimulated job creation in the United States and Canada. In contrast, there have been few major dislocations, as the process of transition and adjustment has been phased in under the Agreement.

Many of the sectors experiencing growth and job creation through increased North American integration are higher paying, higher value-added sectors in both countries. For example, an estimated 200,000 new American jobs have been created and are dependent upon U.S. exports to Canada, increasing from 1.3 million in 1988 to 1.5 million in 1993. Much of this export growth and net job creation has occurred in high-technology industries such as computers, communications, electronics, software, plastics, and scientific instrumentation, in addition to the business services supporting these sectors.

Similarly, the C.D. Howe Institute found that in Canada, significant export-led growth and expansion is occurring in such high wage sectors as business services, high-technology industries, and natural resources. The study also concludes that the CFTA is resulting in greater specialization of the economy, moving Canada into areas of higher productivity and income.

Projections under NAFTA

NAFTA is probably the most thoroughly studied trade agreement in history. In his speech signing the side agreements to NAFTA, President Clinton observed that nineteen out of twenty serious studies showed that NAFTA was good for the U.S. economy and U.S. labor.

Nonetheless, economists agree that the greatest effect of NAFTA will be on Mexico. This is quite natural as Mexico has the smallest economy of the three nations and the highest barriers. Further, as noted above, the CFTA already offered the U.S. and Canada substantial benefits from greater integration.

A study done by the Congressional Budget Office (CBO) for the U.S. Congress just before the vote on NAFTA explains how the regional synergies work.[5] A good starting point is the NAFTA-induced reduction of the risk premium that Mexico must pay to attract international capital. The CBO estimates that Mexico's risk premium will fall an estimated 10 percentage points over a three year period following implementation of the NAFTA (recent political developments may delay this drop, but I believe the fundamentals that would cause it are still present.) Less expensive capital will enable Mexico to finance a current account deficit that is expected to grow as a percentage of its GDP, as Mexico imports more plant and equipment to fuel the growth of its economy. Coupled with improvements in productivity, the CBO judges that Mexico is likely to achieve annual average output growth of 6 percent over the next decade. (All CBO scenarios show higher Mexican GDP growth as a result of NAFTA and economic reform; various scenarios are depicted in Figure 7 on page 45.)

Simply put, higher Mexican economic growth triggers faster U.S. (and to a lesser extent, Canadian) economic growth as well. Mexico's GDP is only about 5 percent of that of the United States. As such, the NAFTA is estimated by the CBO to add only about one-quarter of a percentage point to U.S. GDP. However, the U.S. GDP in 1993 was $6.4 trillion; one quarter of a percent of that is $16 billion -- a not inconsequential amount. The increase in U.S. national income will come not only from increases in U.S. exports to Mexico, but also from repatriated profits and dividends from investments in Mexico.

All in all, the Clinton Administration anticipates NAFTA will generate 200,000 more export-related jobs by 1995, pushing U.S. employment related to exports to Mexico toward the 1 million mark. Contrary to the fears of U.S. labor, we expect NAFTA to increase the demand for U.S. unionized workers. Our experience since 1987 shows that Mexican demand for U.S. goods is most intense -- and Mexico is least competitive -- in precisely those high wage, capital intensive, heavy manufacturing industries which are heavily unionized.[6]

NAFTA is already working. U.S. trade data for the first two months of 1994 show NAFTA trade accelerating, particularly in regard to U.S.-Mexico trade where NAFTA's changes are most significant. Despite some slowness in Mexico's economic recovery, U.S. exports so far this year are up 15 percent over the same period last year; in contrast, in 1993 slow Mexican growth held U.S. export advances to less than 3 percent. On the flip side, while one would expect Mexican sales to the U.S. to respond to our economic recovery, they are up a robust 23 percent -- twice as fast as our import growth from the rest of the world. (Both export and import growth with Canada are up a respectable 8 percent.)

Coupled with other trade developments, the results add up to an impressive picture for NAFTA in the United States: so far in 1994, Mexico and Canada account for a whooping 88 percent of U.S. export growth and only 28 percent of our import growth.

Reinforcing this positive trade picture, we have not seen any early signs that NAFTA might lead to substantial job dislocation in the United States. Through April 1994, the Department of Labor has certified 3,500 workers (based on 39 positive determinations) as eligible for NAFTA's transitional trade adjustment assistance. This number is far less than that warned of by NAFTA's critics, and suggests that we are in a good position to provide for those workers who bear the adjustment of NAFTA's contribution towards developing a more competitive U.S. economy. It is notable that in an effort to ensure that this assistance is readily accessible to those who need it, the trade adjustment program requires only that workers demonstrate an increase in imports from or a production shift to Mexico or Canada, not a causal link to NAFTA.

NEW STRUCTURES: PRIVATE SECTOR RESPONSE TO NAFTA

North American businesses are operating in new ways in response to NAFTA's changes. Because NAFTA creates more options for serving the North American market, firms have greater flexibility to determine how best to take advantage of the new opportunities.

Corporate strategies to respond to the integration of the North American economy are comprehensive. Some firms are responding through increased production and new investments in their home markets, while for others, inter-firm agreements and strategic alliances at the transnational level will generate a new regional dynamism. In either event, firms are rationalizing and restructuring to take advantage of NAFTA.

Business development strategies for addressing a unified North American market must be responsive to specific industry and company needs. The choice will vary from company to company: no one approach will work for all.

Expanding Home Base

Companies are now freer than before to choose their preferred method of serving an expanding customer base. For instance, with the elimination of tariff walls as a basis for production location decisions, some firms can service their North American customers most economically by exporting from their home base. Many companies are meeting increased demand by retaining or expanding their national production capabilities or simply redirecting resources to exploit more fully existing capacity.

This is the case for Health-Mor Inc., which decided to keep production in Cleveland, Ohio, rather than to move to Mexico after NAFTA removed the $50 Mexican tariff on its $1,200 vacuum cleaners. Panamax, a small California company that designs and manufactures surge protectors for high-tech electronic equipment, added an additional shift of production workers in order to meet NAFTA-generated sales. Similarly strapped for capacity, Ace Hardware, based in Oakbrook, Illinois, plans to open a $26 million paint manufacturing facility in Texas as a result of NAFTA. Regional export sales spurred by NAFTA have led to job increases and higher profits for these firms.

Even for industries that already have a relatively high degree of North American integration, the removal of many non-tariff barriers is allowing them to rethink their approach to the North American market.

The auto industry is a good example. Prior to NAFTA, the Mexican Auto Decree dictated the terms of production and sale in Mexico. Among the more onerous requirements was a "trade-balancing regulation" that required auto manufacturers to produce and export from Mexico $2 worth of vehicles for every $1 worth of imports. NAFTA phases out this and other restrictions over ten years.

NAFTA makes substantial vehicle exports to Mexico from the U.S. a serious possibility for the first time. As a result, this year Chrysler Corp. plans to export to Mexico 2,500 Dodge Intrepids built in Newark, New Jersey, and 3,000 Jeep Cherokees produced in Toledo, Ohio. General Motors has announced its plans to export 15,000 cars and trucks to Mexico in 1994, up from only 1,700 last year. To satisfy increased demand for their cars in Mexico, Ford is expanding production of the Escort subcompact at its Wayne, Michigan facility. All in all, the Big Three expect to export 55,000 cars and trucks in 1994, compared to only 5,000 vehicles in all of 1993.

Organizational Focus

For many large firms, the initial response to NAFTA is to create some type of North American organization or business unit. In fact, the Council of the Americas confirmed this trend in a survey last year. We are finding this kind of North American reorganization to be true even of companies that had not previously been in all three markets -- such as Heinz of Pittsburgh, Pa., which has substantial sales to Canada but none yet to Mexico. Prompted by NAFTA, Heinz formed a North American unit to examine the possibilities for achieving greater economies of scale.

Warner-Lambert decided to centralize control of its Canadian, Mexican and U.S. operations in 1992, in anticipation of NAFTA. Under the new entity, Park Davis North American, relationships between the three divisions have been reconfigured, allowing the company to centralize operations when necessary as well as respond locally when desirable to do so. The result streamlines production and minimizes inefficiencies.

These types of actions allow firms to assume a strategic North American outlook and serve a unified, North American customer base rather than three distinct markets.

Rationalizing Production Lines

Increasingly, trade around the world is being restructured by the investment plans and collaboration agreements between firms that are organizing their activities globally. NAFTA will provide an additional impetus to this phenomenon in North America. Thus, while NAFTA at its core is a trade agreement, an important element of this is the new economic infrastructure NAFTA provides for corporate investment.

As North American companies become free to redeploy resources between the three countries, many larger firms with production capacity in one or more NAFTA countries are finding new and better ways to achieve economies of scale and serve a unified North American market more efficiently.

Many of these firms had built up dual systems of production in more than one country that became redundant once tariff impediments were removed. The need to better utilize excess capacity inevitably leads to the rationalization of production lines.

For instance, shortly after implementation of the CFTA, Whirlpool ceased washer production at its Inglis, Ontario plant, and instead, begin importing washers with more advanced technology from its plant in Clyde, Ohio. Shutdown of the plant was part of a North America-wide reorganization, which also provided for the movement of some dryer production to a newer plant in Inglis.

Strategic Corporate Alliances

Many U.S. companies are establishing strategic alliances with their Mexican and Canadian counterparts as a way to gain a stronger competitive foothold in a unified North American market. The nature of these alliances range from targeted joint ventures to mergers and acquisitions, depending upon the specific structural needs and business imperatives of the industry.

Access and control over distribution and sales channels is a crucial factor in successful marketing of *food and beverage* products. Pillsbury expanded its distribution and sales capacity in Mexico by purchasing a 49 percent stake in a joint venture with Pacific Star de Occidente to form a new company, Pacific Star. Increasing Mexican consumer demand,

and a strong preference for U.S. food products, led Pillsbury to seek a way of improving the market position of its leading brands.

Similarly, Miller Brewing Company acquired a 20 percent equity share in Molson Breweries of Canada, as well as U.S. distribution rights for all Molson products. The purchase gives Miller better access to the Canadian distribution system, a financial stake in a competitive product, and control over distribution of that product in Miller's home market.

In the *financial* industry, Western Union and Elecktra Mexico are cooperating to market their products and services in a way that capitalizes on existing branch networks and name recognition without draining resources through outright acquisitions. Western Union entered into a cooperative venture with Elecktra Mexico that provides money transfer services from the United States to Mexico; it gives Western Union direct, immediate access to distribution channels for its services without costly establishment of new facilities.

In the area of *other services*, CN railways announced a marketing alliance with six U.S. railways in order to position itself for a greater share of the transborder freight traffic. As part of the venture, CN North America is spending $155 million to build a 1.8 km tunnel under the St. Claire river between Ontario and Michigan. A partnership with APL Land Transport is providing the first intermodal container service linking the U.S., Mexican and Canadian markets.

Some acquisitions provide supporting services that will facilitate the firm's principal sales activity. For example, the Chubb Insurance Group's purchase of a 30 percent interest in Seguros Equitativa and its affiliate, Central de Fianzas, gives Chubb control over the insurance, surety and bonding portions of its Mexican business operations.

Other mergers and acquisitions provide for market access. Following the Government of Mexico's privatization of the national telephone company, a consortium led by Southwestern Bell and including France Telecom and a Mexican partner Grupo Carso, successfully bid for a 20 percent equity in the new company, TELMEX. The purchase grants the new owners a six-year monopoly concession for basic *telecommunications* services lasting until August, 1996.

Technology and infrastructure needs are a powerful mix in high-tech firms. AT&T forged a joint business alliance with Unitel Communications, a major Canadian telecommunications carrier that will enable both companies to combine their national networks and offer a wider range of services. Unitel will use AT&T's proprietary network software and equipment in return for a 20 percent equity share.

Similarly, GTE recently announced expansion of its air-to-ground telephone network in Mexico and construction of a digital network in Canada, which means airline passengers will now be able to enjoy the convenience of placing phone calls while flying among the business centers of all three NAFTA countries. GTE formed a joint venture company with

Telmex, Mexico's telephone monopoly; that will construct and operate a network of telecommunications stations to service this network throughout Mexico. GTE is upgrading its ground network in Canada as part of an already established relationship with Canada's Skytel Communications Corp.

A more exhaustive list of mergers, acquisitions and marketing alliances can be found in an Annex beginning on page 48. They all underscore the creativity and rapidity with which business can seek new partners to improve production and marketing in an expanded regional market.

NEW STRUCTURES: REGIONAL SHIFTS AND COOPERATION

The dynamism of NAFTA is not limited to how business structures itself, but also extends to how change will effect the economic geography of North America. Trade flows will not move or grow evenly across borders. Rather, the flow of goods, services, capital and people will strengthen between the areas of each country that share common interests and are linked by transportation networks.

The Emergence of Trade Corridors

This creates the possibility under NAFTA for dynamic "trade corridors" to emerge that link all three countries, bringing enhanced economic benefits to communities and businesses located along these routes. Communities along these north-south corridors may have many more common interests with their counterparts in Canada and Mexico than they do with other U.S. regions, even those that are contiguous. [Figure 8, pp. 46]

We have already seen this phenomenon as a result of the U.S.-Canadian Free Trade Agreement. An example is the existence of cross-border entities such as the "Pacific Northwest Economic Region" (PNWER), which comprises three Canadian provinces and five U.S. states joined together to promote the economic development of the region. Similar cross-border arrangements exist between U.S. states and Canadian provinces to share hydroelectric energy, coordinate environmental policy in areas like acid rain reduction, jointly plan transportation systems and promote regional tourism.

The addition of Mexico to the U.S.-Canadian free trade agreement creates even more interesting possibilities. The major trade links between the United States and Canada are in the Niagara (Buffalo-Hamilton) and Michigan (Detroit-Windsor) frontiers. Between the U.S. and Mexico, the largest share of commercial freight passes through Laredo, Texas and Nuevo Laredo, Mexico. These major gateways are connected through major trade routes originating in Montreal and Toronto, passing through the Eastern U.S., southeast Michigan and the industrial Midwest, and ending in the industrial heart of Mexico, in Monterrey, just 150 miles to the south of Laredo. The major border crossings in Laredo, Buffalo and Detroit act as "funnels" focusing trade routes that pass through the U.S. in what are currently rather diffuse patterns. The development and improvement of these routes is critical to an integrated North American market.

This major Eastern Americas pathway is not the only emerging North American trade corridor. Separate land transportation routes link Canada and Mexico through the Pacific Northwest/California, the Rocky Mountains, and Upper Plains. Current predictions of future trade flows indicate that the eastern corridor volume between the U.S. and Canada will increase at an annual rate of 5 to 7 percent through 1997. Western route traffic between the U.S. and Canada is expected to increase by 16 to 24 percent over the next ten years.

At the major U.S.-Mexico gateways along the North American trade corridors, expectations are that commercial trade volume will grow even more dramatically. A study by the U.S. Department of Transportation predicts that trade through Laredo will increase by 120 percent by the year 2000, through El Paso and the Rocky Mountain trade corridor by 110 percent, and through the California trade corridor gateway in San Diego by over 200 percent.

The rail and truck land transportation corridors running through North America comprise between 80 and 90 percent of trade between the U.S., Canada and Mexico. This is not the whole picture, though. Significant amounts of intra-North American trade pass through ports and the intercoastal waterway systems. The Great Lakes and St. Lawrence Seaway system are critical transportation links between the U.S. and Canada, connecting the intercoastal waterway systems of the two countries. Freight can pass from Canada through the St. Lawrence Seaway, directly into the Mississippi River basin and the U.S. intercoastal waterway system.

The U.S. and Mexico do not currently have a such an inland waterway link, but as a direct result of NAFTA, the governor of the Mexican state of Tamaulipas has developed a comprehensive plan that could be completed by the end of this century to link Mexico's intercoastal system to the southern U.S. Gulf Intercoastal waterway system through Matamoros, Mexico and Brownsville, Texas.

U.S. and Mexican seaports are also integral parts of the North American trade corridor network. High traffic Gulf Coast ports like Houston and New Orleans have been actively forging links with the Eastern Mexican Port of Veracruz (the busiest port in Mexico). This port-to-port route provides a much more direct route to the huge Mexico City market than the land routes through Texas. Even before NAFTA, almost $5 billion in trade passed through this route.

These evolving trade routes will have enormous implications not only for the economies of these regions and the geography of North America, but also for popular support for NAFTA. Communities that find themselves along these evolving trinational trade corridors will identify more with the prospects for an increasingly integrated North

American market. In fact, rather than passively waiting to see what shape NAFTA takes, many communities and state and local governments are competing for the opportunities.

In an interesting East-West twist, the Port of Miami has been actively promoting a trade link with the Yucatan ports of Merida and Progreso, realizing that they are in fact closer to these important ports than either Houston or New Orleans. Port of Miami officials see this as a long-range strategy that will ultimately set up triangular trade between Mexico, South Florida and Miami's major markets in the Caribbean and South America -- our future hemispheric trade corridor, if you will. Such a development should help engender the support of the large Florida Hispanic population that stayed relatively passive during the NAFTA debate, in part out of concern that Mexico would divert trade from more established Latin routes.

Recognizing the importance of the links between U.S. and Mexican ports, the Government of Mexico is undertaking major modernization at the Veracruz and Merida seaports, along with those that form key links to the Western North American trade corridors such as Manzanillo and Lazaro Cardenas. Under this program they will invest over $1 billion in port improvements over the next five years.

In another example, the Governor of Kansas recently travelled to Mexico, specifically to build connections between her state and the governors and business communities of the southern end of the North American trade corridor passing through Kansas. An interstate business and government I-35 coalition has recently been formed, to build support for the recognition of the Interstate-35 highway connecting Laredo, San Antonio, Kansas City, Chicago and Detroit, and to seek additional federal funding. They have already made connections with their counterparts in Canada and Mexico along the same North-South trade corridor (Toronto, Montreal, Nuevo Laredo and Monterrey). A similar coalition has sprung up along the Rocky Mountain corridor.

We can expect to see more of this type of active exchange based on common economic interests between *regions* of North America to accelerate during the coming years. Just as the development of the U.S. interstate highway system had a profound effect on linking our communities and creating a national cohesiveness, so too will these new corridors create avenues of regional cohesiveness.

NEW INSTITUTIONS: GOVERNMENT RESPONSE TO NAFTA

NAFTA's changes to our regional trade and investment regime require new approaches and new government institutions to respond effectively to the emerging commercial landscape.

The broad scope of NAFTA makes this particularly true. NAFTA is the first trade agreement to address comprehensively the "new" issues of investment, services, and intellectual property rights. Moreover, NAFTA broke new ground in its Supplemental Agreements by considering the interaction between trade and the environment, and trade and labor. New programs to address infrastructure deficiencies along the U.S.-Mexico border also were created to take account of the economic impact of trade on the environment.

Integration inevitably requires rules of the game to ensure that all parties have a full opportunity to realize the potential benefits. The economic incentives in a North American free trade area are a powerful motivator to create a system that works. The new institutions that follow represent the common mechanisms into which we were willing to channel our common aspirations.

Dispute Settlement

The significance of any trade agreement depends in large part on its ability to deal with differences over interpretation of the Agreement.

Like CFTA, NAFTA creates a Commission that meets regularly to review the implementation of the Agreement and to set out the work program, review trade relations among the members, and discuss problems that arise. Disputes that cannot be resolved through consultation may, at the request of a disputing Party, be subject to a panel review.

Regarding the CFTA, the most remarkable feature is how few disputes actually got to the panel stage. By setting up a process that demonstrated we were willing to live with a strong rule of law, we designed a system that was highly successful in accomplishing *dispute avoidance*.

However, NAFTA did offer an opportunity to improve upon a few features of the CFTA dispute settlement process.

To guard against conflicts of interest, a concern that did arise under the CFTA, NAFTA provides for Parties to agree on the roster of panelists; for panelists to be chosen by "reverse selection" (each country appoints only panelists from the other); for panel majorities to alternate between the disputing parties. These refinements will go yet a step further to ensure that decisions don't have the appearance of being politicized.

We also improved the quality of the decision-making by bringing in more expertise. Scientific review boards may be set up to advise panels on environmental and health and safety issues; panelists dealing with financial services issues must be experts in that field; and antidumping and countervailing duty panels should be comprised of judges, rather than trade practitioners.

Finally, NAFTA includes several novel features to help minimize problems arising from differences in our legal systems. When disputes arise between a company and a government regarding NAFTA's investment protections, the Agreement provides for resolution through binding arbitration. Instilling more certainty in the business environment should give a boost to investment in North America. For private commercial disputes, NAFTA encourages the use of arbitration and other alternative dispute settlement mechanisms. We want NAFTA to generate jobs in our factories, not in our courtrooms.

NAFTA's Social Agenda

NAFTA is an important political breakthrough in recognizing the relation between trade, the environment, and worker rights. Through its supplemental agreements, NAFTA creates two new trilateral commissions to provide for cooperation, public participation and dispute settlement on environmental and labor matters. How we manage these new institutions will largely determine whether freer trade advances together with progress in protecting the environment and workers.

These new institutions are in unchartered waters. They will have to deal with the sovereignty concerns of each country; moreover, they are going to have to balance providing a proper framework for business decisionmaking without interfering in the daily conduct of business, which would risk the gains of NAFTA. Whether we succeed or fail will have a profound effect on our progress towards hemispheric integration and on our post-Uruguay Round agenda in the new World Trade Organization (WTO).

In the environmental arena, the prospects for breaking new ground are best when market-led and policy-led initiatives converge. Here I think the increasing global attention of not only environmental non-governmental organizations (NGOs), but also customers, to the environmental aspects of production, packaging, and disposal have already prompted business to integrate environmental considerations into their corporate structures and business strategies. It is increasingly common to find multinationals whose policies are to implement "best practices" in their foreign operations worldwide.

The private sector also is working toward a more integrated approach to worldwide environmental policy. The International Standards Organization is developing environmental management standards similar to the companion IS0-9000 series on industrial product quality standards. Canada has been selected as the site of the Permanent Secretariat for the effort, and the U.S. will chair one of the six subcommittees under this effort (environmental performance review).

Labor policies, on the other hand, tend to differ more among countries, reflecting local culture and practice. Less progress in convergence has made it more difficult for institutions such as the International Labor Organization to reach agreement on appropriate international standards against which to measure compliance. In the labor supplemental agreement, we agreed for the first time on a set of principles that provide for basic worker protections in North America.

Of all the labor issues, wages are the most contentious. This was dealt with indirectly in NAFTA by President Salinas' pledge to increase minimum wages in line with rising labor productivity -- a challenge for any of us.

This issue should defuse somewhat as Mexican workers' wages rise under NAFTA. Since the Mexican economy started growing again in 1987, Mexican wages have risen 37 percent. Mexican economic growth, spurred by NAFTA, is absolutely necessary to continue these gains.

In the immediate future, NAFTA's spotlight will be on the rights of workers to unionize. The U.S. National Administrative Office, the first point of contact for complaints about labor practices in our NAFTA partners, recently accepted for review two U.S. union submissions regarding freedom of association and protection of the right to organize in Mexico. This will be the first test of how we collectively deal with sensitive, sovereign issues under the scrutiny of public view.

One thing we'll have to watch out for -- that our conduct of this process does not interfere with the daily conduct of business. Obviously, decisions to hire and fire are made every day, and we need to be mindful that the obligations of the Agreement are on governments to enforce their laws, not on individual firms.

We also will have to take a careful look at the relation between labor issues and broader economic policies. For example, U.S. longshoreman have recently complained that Mexico's efforts to privatize its ports have the effect of union-busting. Privatization is a key element in Mexico's drive for modernization and development, and we will have to strike the right balance between our efficiency and labor goals.

The new "social" institutions of NAFTA offer both the ying and the yang -- more cooperation, but also more contention. Their development will determine whether NAFTA makes North America a more or less attractive site for business and investors. Done with vision and sensitivity, they offer North America the opportunity to exert leadership on parallel initiatives in multilateral fora.

Border Infrastructure

The U.S.-Mexico border became an important symbol in the debate over NAFTA: would further North American integration lead to runaway development or would it provide the means to deal with the long festering problems of inadequate infrastructure? In the end, there was a general recognition that only economic growth would provide Mexico with the means to tackle its environmental and infrastructure problems.

In the meantime, we identified steps that governments could take to improve the lack of coordination and funding for critical environmental infrastructure projects that would benefit both sides of the border. Hence, the bilateral North American Development Bank

(NADBank) and the Border Environment Cooperation Commission (BECC) were born. The BECC, in particular, will be a powerful force for coordinating environmental cleanup along the border -- not only between our two countries, but between often competing local jurisdictions. After extensive public hearings, the BECC will assist states, local communities and the private sector in siting, arranging financing and applying environmental standards for border infrastructure projects it certifies.

It is the financing issue that is most critical. The problem is, governments can only do so much. The U.S.-Council of the Mexico-U.S. Business Committee estimates U.S.-Mexico border needs over the next decade at $5.8 billion for water-related and municipal waste projects alone; some have estimated overall needs may be as high as $20 billion. (Table 6 on page 47 illustrates the range of infrastructure projects on the drawing board.) Even with substantial monies from existing sources, including multilateral development banks like the World Bank, the "financing gap" is considerable.

The solution is to get the private sector more involved, both through greater resort to user fees and through creative project financing for the region's needs. That message came through loud and clear in an infrastructure conference co-hosted by Secretary Brown and the late Secretary Colosio in San Antonio in July 1993 that was attended by some 500 top financiers and project developers. It underlies the principal the NADBank is based on: the need to leverage limited government resources with private capital.

Recently, we are seeing some innovative developments. For example, some 320 maquiladoras in Cuidad Juarez have pledged to contribute 25 percent of the cost of three wastewater facilities in the region that would benefit both the companies and their community; the federal and local Mexican governments would contribute 35 percent, with the remaining share provided by a private investor. If the plan goes forward, the companies will recoup their share through discounts to future water-use fees.

Also, Mexican officials are re-thinking their traditional financing sources. Local government leaders in Tijuana want to establish their own tax assessment districts to help finance a $117 million infrastructure project to build highways and pay for urban renewal. This is a typical form of financing in the United States that up until now has been unheard of in Mexico. Tijuana will seek the state government's approval of the plan under a 1984 federal law that has never been used.

In a truly innovative move, the U.S. Eximbank and Banobras, a Mexican bank, have agreed to a joint program that will make financing available for U.S. waste water treatment facility exports to <u>Mexican cities</u>. While user fees will be collected to pay for the equipment, the two banks will serve as loan guarantors if municipal payments lag.

There is also activity on our side of the border. The Arizona legislature just sent a border-development bill to Governor Symington to establish a new state authority which will work with the NADBank to finance infrastructure projects along Arizona's border.

Finally, one of the biggest steps in helping Mexico address its financing needs may be the decision of the OECD to invite Mexico to be the first developing country to join the ranks of the industrial nations. That vote of confidence for Mexico's economic progress may boost Mexico's prospects for achieving access to capital markets at better terms.

CLINTON ADMINISTRATION EFFORTS TO MAKE NAFTA WORK

Successful implementation of the NAFTA by the Parties is key to demonstrating the success of the Administration's export-led economic growth policy and for maintaining broad public support for meeting global competition through open markets. Our efforts to extend trade integration in the Hemisphere, as well as much of our post-GATT trade agenda, will depend on how well we implement NAFTA.

From the U.S. standpoint, the implementation of NAFTA has several components.

First, we are monitoring Mexican and Canadian compliance with the Agreement. We keep close contact with our business community so that we know when problems arise. So far, implementation has proceeded relatively smoothly. The most common problems we are hearing about are administrative in nature, such as customs enforcement, and are to be expected when putting such a massive change in place. The U.S. Census Bureau is reporting that between one-third and one-half of U.S. trade with Mexico and Canada is already entering claiming the NAFTA duty-preference, a high percentage given the newness of the procedures and the significant proportion of our trade that already entered duty-free.

We also are keeping a watchful eye for any failures to implement the Agreement. We are on the front line in hearing from the business community when a company believes that they are not getting the benefits of the Agreement, both through our daily business counseling and through our formal advisory system (including our 17 Industry Sector Advisory Committees and 3 cross-sectoral advisory groups covering customs, standards and intellectual property rights.) We recognize that the implementation of this Agreement is as important as its negotiation in determining the framework under which NAFTA will develop.

Second, NAFTA has an extensive work program designed to further liberalize trade in North America. There are about 25 working groups addressing such practical matters as finding a means for the mutual recognition of professional licenses to developing a trilateral Advisory Committee on Commercial Dispute Resolution. Our biggest effort at the moment is to identify products on which we can agree to accelerate the elimination of tariffs. The U.S. Government alone has received well over 2,000 product petitions from U.S. industry; under the CFTA, tariffs on more than 600 products, worth more than $9 billion, were removed under this process.

Third, several new institutions are created by the NAFTA. As I discussed earlier, there are new trilateral institutions on the environment and labor, and new bilateral institutions on border infrastructure and financing. In addition, we have agreed to a North American Trade Secretariat, located in Mexico, that will coordinate administrative matters for the working groups. Locations have been decided for each of these institutions, and draft rules of procedures and draft work plans have been published for most. We are currently dealing with the challenge of finding the right people to head and staff these bodies. There are big challenges for the effective operation of the U.S. national section of the NAFTA Secretariat, which is housed in the Department of Commerce and provides administrative support for dispute settlement. The extent of the demands the U.S. Secretariat will face under a trilateral NAFTA are still unknown, but under the CFTA this unit averaged over 1 million pages of legal papers a year in its "clerk of the court" capacity.

On the financial side, we have taken a major step in increasing our tools to deal with disruptive exchange markets through the creation of the North American Financial Group. This new consultative arrangement will promote orderly exchange markets in North America, facilitating regional trade and investment flows.

Fourth, the U.S. Government has been particularly active in the area of business outreach. Through technical seminars, automated systems, and professional staff, the Department of Commerce provides up-to-date information that is critical in enabling the business community to take advantage of the NAFTA.

One of our most effective trade promotion efforts is the well-known "Export Mexico" program, which focuses the efforts of the entire Administration on our fastest-growing market. This program has provided literally thousands of businesses with information regarding how to take advantage of NAFTA. In just the first 4 months of this year, in partnership with Federal Express, we conducted over 70 seminars across the nation that instructed 17,000 U.S. exporters on the nuts and bolts of NAFTA's customs documentation. "Export Mexico" also provides on-going counselling efforts to U.S. companies to help them identify trade opportunities in Mexico. Business interest is intense: so far in 1994, our Embassy in Mexico has experienced a 50 percent increase in trade promotion events, while our automated information system, "NAFTA Facts", has averaged 30,000 documents a month.

Finally, maintaining public support for the NAFTA will be critical, not only for the success of the NAFTA, but to future trade agreements as well. The Department of Commerce is constantly monitoring business response to NAFTA. "Success stories" provide encouragement to other firms to test their wings with Mexico and are distributed via our biweekly "NAFTA News." Congress requires a full report on the economic impact of NAFTA in 1997.

IMPLICATIONS FOR THE FUTURE

Signing the NAFTA isn't a conclusion -- it is a beginning. The framework exists, but the reality is being created. We face four key challenges to NAFTA's success.

Challenge #1: Harmonization Issues

Integration means greater and more open competition. NAFTA has dismantled the traditional barriers to trade and investment, but like the proverbial onion, underneath there are more layers to peel away. The absence of trade barriers makes the significance of other policy differences loom much larger.

These harmonization issues -- differences in legal systems, regulatory policies, competition policies, tax policies, exchange rate policies, etc., -- are the future agenda of global trade talks, but we will confront them first in NAFTA. As deeper integration extends to areas previously considered "domestic," it is in our mutual interests to explore as many avenues as we can for finding common ground on these issues. Some mechanisms are contained within the NAFTA itself -- for example, the trilateral Working Group on Trade and Competition and the trilateral Work Groups set up at Canada's request to explore a new approaches to subsidy and antidumping issues.

NAFTA has already inspired some progress. Mexico passed a new competition law last year that was widely praised in the United States, and suggests we can learn from each other. John Clark, a top U.S. antitrust enforcement official, noted that in contrast to the United States -- where it took 100 years to develop the notion that antitrust law protects competition, not competitors --Mexico's new law explicitly recognizes that economic efficiency should be the touchstone of antitrust enforcement and can immediately begin "protecting the process of competition."

Of course, governments are not the only players here. I am quite impressed with the private sector initiatives to try to close the gap in commercial practices that arises from differences in our legal systems.

One such group is the National Committee on Uniform Transportation Law and Practices, which is working to develop a common approach to how North America compensates for cargo damages and losses. This trilateral, grass-roots effort has among its participants lawyers, freight-forwarders, transporters and shoppers; even government officials have been invited to sit in on the panels.

This effort illustrates the many differences that can plague business "as it is practiced." For example, in the U.S. and Canada, it is assumed the carrier receives merchandise in good condition and is responsible for its safe transit; in Mexico, this is the equal responsibility of the owner of the goods and the carrier. Compensation issues are also treated differently: Mexico applies a formula based on weight that can yield very low recovery rates, while tariffs filed with the ICC by U.S. common carriers determine the limits of their liability. As simple a practice as the Mexican requirement that a plaintiff show the original bill of lading can reduce the ability to sue, since the bill is often retained by the carrier until final payment is made.

To fully capture the benefits of free trade, we need to clear away the underbrush that keeps us from having a truly integrated market.

Challenge #2: Managing State/Provincial Relations

Another challenge we have to address in the future is how to incorporate subcentral governments into our integration efforts.

The manner in which states/provinces interact with increasing integration is complex. As I mentioned before, effective cross-border integration is often being led by entities below the federal level. For example, the Alberta-Montana agreements on truck safety and licensing, or the work that has been done on the I-5 Pacific Northwest corridor are positive initiatives undertaken by state and provincial authorities.

In other areas, the overlapping jurisdiction between federal and subfederal governments (or the lack of federal jurisdiction) can complicate solutions to integration problems and new market openings in free trade areas. For example, measured commitments under NAFTA's side agreements reflect in part the fact that jurisdiction of many environmental and labor issues rests with the states and provinces in the U.S., Mexico and Canada, not with the federal governments. Similarly, some of the most implacable disputes between the U.S. and Canada involve issues where jurisdictions rest with the Canadian provinces, such as beer and softwood lumber. In other instances, especially along the border, subcentral governments may desire to move toward greater regional integration, but balance this with the desire to keep intact their jurisdictional prerogatives vis-a-vis the federal government.

Finally, there are areas where states/provinces are lagging behind the federal embrace of more open markets and greater integration. How integration is viewed is seen through the lens of how it affects local interests. Potential problem areas are already clear:

-- In the services sector, states and provinces are the relevant licensing bodies and can act to prevent professionals from other countries from providing that service. Several states, for example, require applicants to engineering exams to be U.S. citizens, an insurmountable hurdle if you are not one. (Exclusionary impulses aren't limited to international borders: states often fail to offer reciprocity to engineering and medical professionals even when they have passed an identical exam in another state.) These practices can make it difficult to realize free trade in some services.

-- Local governments are major economic players in their own right. In procurement. U.S. states spend more than $210 million for goods, services and structures, while the U.S. federal government spends just $80 billion in non-defense expenditures. Expanding NAFTA's coverage of government procurement to state and local governments would require them to overcome the inherent preference to provide advantages to local firms.

-- States and provinces are increasingly active in providing incentive packages for companies to invest/remain within their jurisdictions. South Carolina reportedly provided $150 million in incentives for BMW, while Alabama provided close to $300 million for Mercedes. We can expect this competition for mobile factors of production to be even more intense in an integrated North American economy, as the free movement of goods and capital within NAFTA generates new pressures for "one-better-thy-neighbor" policies.

A big problem is that local governments often champion local interests at the expense of consumers and the national welfare, because their politicians are closer to constituents who oppose change in the status quo.

Our challenge, then, is to expand free trade "inward", to bring our local governments on board to the advantages of free trade without alienating them. If we are successful in NAFTA, it will also strengthen our hand in future international negotiations, which are likely to target local services and investment restrictions as they become one of the few protectionist barriers left to defend.

NAFTA provides a mechanism for getting a head start on this process. Through its provisions for consultations with state/provincial and regulatory agencies on areas within their jurisdiction, it provides us with an opportunity to extend liberalization without undermining their authority.

Challenge #3: Facilitating Adjustment

NAFTA is critical to North America's ability to compete in a global economy and to create more and better-paying jobs. For this process to work, however, we have to be prepared to accept greater competition and inevitable adjustments.

While the sharpest debate on NAFTA was in the United States, in truth, the short-term burden of structural change for the long-term benefit of enhanced efficiency may be greatest in Mexico and Canada. All economic studies agree that relatively speaking, Mexico and Canada will derive the greatest benefits from integration under NAFTA as they remove higher initial barriers and derive greater potential increases in economies of scale. But Mexico and Canada will have to adjust the most, too.

Maintaining support of NAFTA during this adjustment is a serious political challenge. We will be helped by the fact that NAFTA's provisions are phased in over 15 years for those industries most likely to find difficulty competing in an open environment.

providing them time to develop niche strengths and, where necessary, "adjust out". Other factors, however, may add to the difficulty -- Mexico's challenge to meet the requirements of free trade while conducting communal land reform and meeting the needs of peasant communities is one that is commonly cited.

It is our joint responsibility to do what we can to facilitate this adjustment within the rules of NAFTA. Fortunately, each of us has taken initial steps.

For example, President Salinas is strengthening Mexico's vocational training program in cooperation with the private sector. In addition, Mexico's Procampo program will provide income supports to help Mexico's large population of small farmers adjust to ejido reform and greater competition under NAFTA. Reductions in the interest rate provided by Mexico's development banks to small businesses will help this innovative, job-creating sector qualify for credit to modernize and take advantage of NAFTA's new opportunities.

For the United States, a key element in U.S. NAFTA legislation was a provision for trade adjustment assistance, which already has certified several thousand U.S. workers for income support and training while they upgrade their skills. President Clinton will introduce legislation next year to replace this NAFTA-specific program with a comprehensive, national "no fault" training program designed to dramatically increase the flexibility and forward-looking skills of the U.S. work force.

Given the limited trade between Canada and Mexico that currently exists, the Government of Canada has focused its resources not on trade adjustment but on a strong export promotion program. Canada has earmarked approximately $23 million over four years to help large and small Canadian firms take advantage of new business opportunities under NAFTA. Targeted sectors include advanced technology, agri-food, environmental technologies, and services. The federal government plans to sponsor approximately 30 trade missions to Mexico, to which it expects the provinces to conduct 30 more. In March, Canada sponsored an international trade expo in Mexico for 425 companies designed to bring Canadian firms together with Mexican counterparts. You can be sure we'll be watching their efforts closely for new ideas.

Such programs are critical to helping our citizens adapt to changed competitive opportunities in an integrated North America.

Challenge #4: Sound, Broad Economic Policies

The Clinton economic program in the United States, combined with Mexico's impressive economic reforms and Canada's recent economic recovery, have all combined to fuel investment and growth in our region. Most analysts are forecasting growth this year in the 3 percent range in the U.S. and Canada, and are predicting a credible upswing in Mexico's economy despite the difficult political developments this year. This makes North

America one of the few bright spots on the immediate international economic horizon, as Europe and Japan continue to struggle for an economic upturn.

Let me say a word about the Clinton Administration's overall economic policies, and how they contribute to progress in North America generally.

In 1993, the US GDP was 87 percent of North American GDP. It stands to reason that what we do -- or fail to do -- has enormous reverberations in Canada and Mexico. It is for this reason that I believe the following policies of the Administration, though centered on the U.S., will also have a positive impact on our neighbors.

President Clinton has:

-- set the stage for very significant declines in the U.S. budget deficit;
-- begun new programs to educate and train the workforce, an essential step in our ability to compete in the world economy;
-- created research and development partnerships between the government and industry in a wide range of "industries of the future";
-- given attention to America's pressing social agenda, including health care, welfare reform and anti-crime legislation.

Taken together, these measures will contribute to economic growth, more competitive industries, and a more productive and secure population -- all leading not just to more trade, but to an even stronger political consensus in favor of a more open trading system.

CONCLUSION

If you watch the trade headlines these days, you would think that the biggest questions facing the U.S. -- and the biggest stakes -- are in China or Japan or Europe. You would see very little about North America as such. But in my view, what is happening in our backyard is every bit as significant as these other issues.

Maybe North American integration isn't so sexy because it doesn't raise tensions of "geostrategic" importance. But make no mistake about it, the interaction among the United States, Canada, and Mexico is of momentous significance. There is a "geoeconomic" and "geosocial" dimension to what is happening on our continent, and in the post-Cold War era these dimensions count more than ever.

First, as I have tried to show, we are witnessing a degree of economic integration that is approaching what has been going on in Western Europe -- only they started many decades before us. There is a North American market, and it is going to continue to develop.

It is interesting to note that we don't quite know what to call this phenomenon. Is it a North American Common Market, with the rules of origin acting in place of a common external tariff? Is it a new kind of new "economic system"? Is it a North American Community with characteristics that go well beyond economic integration? Is it too complex to define at all?

On one level, it does not bother me not to be able to label this North American phenomenon. On another, I do believe we need a vision of where we are headed. On the heels of a hard won NAFTA debate, it is perhaps too early to tackle this question. But the question looms, and leaders in both the public and private sectors will need to articulate not just where we are, but where we want to go.

Second, the mix of factors affecting our integration experience makes North America unique. It includes both highly industrial nations and a developing country. By contrast, the European Union is much more homogeneous. Also, North American integration is propelled by business and economic forces, and by an underlying need to open our economies to better compete in the world. By contrast, the impetus for European integration has had a much greater political dimension. North American integration, moreover, is being driven by both business pressures and governmental actions -- both from the bottom and from the top -- and also by a wealth of subfederal entities like cities and port authorities. In my view, this is a microcosm of the multi-faceted but inexorable way the world economy will be coming together in the years ahead.

Third, the success of NAFTA will have significant impact on America's future trade policy. NAFTA is a state-of-the-art trade agreement, encompassing as it does a very broad range of issues from services to intellectual property rights, and agreements on the environment and labor standards. How we handle the implementation of NAFTA, and our experience with the agreement, will have a great bearing on how we approach future trade negotiations on a regional and global level. In this respect, the stakes in succeeding are very high.

Fourth, as I've tried to underline more than once, there is a very high premium on effective follow up to NAFTA. We must not succumb to the temptation to think that the conclusion of the treaty ensures that NAFTA will work. There is much work to do. All three governments need to continually review the overall picture to ensure that the many aspects of follow up are given a high priority. There must be a constant temperature taking of the overall trends and problems in North America.

In this regard, we need to be careful about backsliding in a range of areas. Trade liberalization may have gotten a boost with the NAFTA, but history shows there is often a second phase in which selected efforts are made to arrest inevitable change. I think that President Clinton's admonition "compete, not retreat" must be our watchword, along with a strong effort to cushion change for men, women and families who need help. But we must move forward.

The United States is committed to working with Canada and Mexico to foster needed change in the most humane way. We are committed to continuous expansion of trade in North America, to the development of effective institutions to facilitate that trade, and to deal with the broader economic and social issues. We are deeply committed to making NAFTA work for all of us.

In my view, the continuing integration of the North American market will serve all three countries exceedingly well. Of course there will be many bumps in the road, but the trends are positive and I am confident that we will surmount the challenges -- economic and social -- that we will face. I note that on a recent trip to Asia, I received many questions from Asian governments and business executives about the possibilities of joining NAFTA. This, of course, was nothing compared to the interest I found on a more recent Latin American trip. The point is that much of the world is sensing that we are building a dynamic and prosperous market like no other.

A North American consciousness is building among our three countries. There are no headlines describing it, and that is probably a good thing. Let us build our market quietly, and steadily, using practical building blocks, resolving disputes amicably, and summoning the political will to deal with problems as they arise in a North American context. Let's look for ways that all three countries can benefit. Let's show that zero-sum solutions don't make sense for North America. Let's show that we in North America understand the true nature of the requirements for deep seated cooperation in this rapidly changing global economy.

Thank you very much.

ENDNOTES

1. Based on data for a program the United States set up specifically to encourage the use of U.S. inputs in production-sharing abroad by offering duty-free treatment on the U.S. content if the coproduced product enters the United States. International Trade Commission. Production Sharing: U.S. Imports Under Harmonized System Provisions 9802.00.60 and 9802.00.80, 1989-1992, February 1994 (USITC Publication 2729)

2. Schwanen, Daniel. "A Growing Success: Canada's Performance Under Free Trade." C.D. Howe Institute Commentary No. 52 (September 1993)

3. Hawkins, Jeff. "Canada-U.S. Free Trade Agreement: An Interim Assessment," Business America, U.S. Department of Commerce, April 20, 1992.

4. Royal Bank of Canada, "Free Trade Agreement: Two-Year Retrospective", Econoscope, February 1991.

5. Congressional Budget Office. A Budgetary and Economic Analysis of the North American Free Trade Agreement, July 1993.

6. "NAFTA and the Employment of Union Workers in Manufacturing," Council of Economic Advisors and the U.S. Treasury, November 8, 1993. Nor have the expanding exports of heavily unionized sectors been offset by import gains.

7. Assessment of Border Crossings and Transportation Corridors for North American Trade: Report to Congress, Federal Highway Administration, U.S. Department of Transportation, September 30, 1993.

LIST OF TABLES AND APPENDICES

TABLE I

Selected U.S.-Canada Treaties and Agreements

AGREEMENT	YEAR	PURPOSE
U.S.-Canada Boundary Agreement	1908	Committment between Canada and the United States to survey and maintain and manage land boundary issues.
U.S.-Canada Boundary Waters Treaty	1909	Bilateral cooperation in managing boundary waters; established the principle that neither country should exploit the waters in a manner that would damage the interests of the other. Created International Joint Commission (IJC) charged with overseeing water management, later, broader areas of transborder environmental protection/ conservation.
Migratory Birds Convention	1916	Bilateral convention for the protection of migratory birds in the United States and Canada.
Ogdensburg Declaration Hyde Park Agreement	1940 1941	Foundation declaration and agreement arising from beginning of WWII in which the United States and Canada agreed, as a general principle, to coordinate and rationalize the defense industries of both countries. Founded the Permanent Joint Board on Defense. Memorandums of Understanding such as Defense Production Sharing Agreements and the Defense Development Sharing Agreement (1963) followed. Provided for standardization/interoperability of defense equipment, data exchange, contract administration, committee creation, and other mechanisms to facilitate coordination of Canada-U.S. defense efforts.
St. Lawrence Seaway Agreement	1952	Agreement establishing the St. Lawrence seaway project for the construction of certain navigation facilities.
Convention on Great Lake Fisheries	1954	Established the Great Lakes Fishery Commission which coordinates the U.S.-Canada Great Lakes fishery management plan (1978). Provided pooled lakewide/basinwide responsibilities to ensure effective management of the Great Lakes' fishery resources.
Columbia River Treaty	1964	Provides for cooperative development of the water resources of the Columbia River Basin.
Automotive Products Agreement (Autopact)	1965	Provides for duty-free treatment of finished vehicles and parts between U.S. and Canada.
U.S.-Canada Tax Treaty	1984	Establishes bilateral understanding on treatment of income and capital earned in each other's respective territory. Presently under renegotiation.
Memorandum of Understanding on the Exchange of Import Data	1987	Established mechanism allowing each country to rely on the other's import data for it's export data.
U.S.-Canada Free Trade Agreement	1989	Established free trade area between the United States and Canada providing for the elimination of tariff and non-tariff barriers to bilateral trade.

Selected U.S.-Canada State/Provincial Arrangements/Agreements

AGREEMENT	YEAR	PURPOSE
Montana-Western Canadian Provinces Boundary Advisory Committee	1983	Composed of both legislators and executive branch participants; discuss wide range of issues common to the border region.
National Association of State Departments of Agriculture/Canadian Provincial Agriculture Secretaries	1984	Coordinates cross-border issues related to Federal/state/provincial agricultural trade, commodities, standards; and regulations.
Great Lakes Charter	1985	Cooperation agreement between Quebec, Ontario, and 8 U.S. Great Lake states.
Agreement of Energy Cooperation between Quebec and New York	1986	Agreement to cooperate on energy issues of importance between Québec and New York.
Minnesota-Manitoba Agreement on Economic Cooperation and Trade Opportunities	1988	Provides for improved economic cooperation such that trade and other beneficial economic contacts maximize free trade area opportunities.
Memorandum of Understanding on Environmental Cooperation on the Management of Lake Champlain (Quebec/New York/Vermont)	1988	Enhances and establishes a process for regular exchange of information and systematic cooperation in research and data gathering on subjects affecting Lake Champlain.
Pacific Northwest Economic Region (PNWER)	1989	Formed by legislators from Alaska, Alberta, British Columbia, Idaho, Montana, Oregon and Washington; serves as a steering committee to develop/implement strategies for regional cooperation.
Economic Cooperation Arrangement on Trade, Investment and Tourism Between British Columbia and Alaska	1990	Establishes venue for increased exchange of information and promotion of trade and economic cooperation.
Economic Cooperation Arrangement between the British Columbia and California	1990	Establishes venue for exchange of opinion and information on trade, tourism, investment and other related opportunities.
Agreement on Cooperation Between Quebec and New York	1993	Incorporates and enhances existing individual agreements in energy, environment, public safety, and economic development.

TABLE 3

INTRA-NORTH AMERICAN INVESTMENT: 1992 AND 1989

Billions of dollars

	Foreign Direct Investment 1992	1989	Portfolio Investment 1992	1989
U.S. Investment in Canada	$68.4	$63.9	$79.6	$74.7
U.S. Investment in Mexico	$13.3	$8.3	$22.0[1]	$15.0[3]
Canadian Investment in U.S.	$39.0	$30.4	$71.3	$50.2
Canadian Investment in Mexico	$0.4	$0.4	$0.2[1]	$0.1[1]
Mexican Investment in U.S.	$1.2	$0.4	$2.4[1]	$1.8[1]
Mexican Investment in Canada	$0.1	—	—[1]	—[1]
Total Intra-North American Investment	$122.4	$103.4	$175.5[2]	$141.8[2]
% Increase in Total Intra-North American Investment 1992-1989	18%		24%	

Sources: U.S. Bureau of Economic Analysis (BEA); Industry Canada; Statistics Canada

[1]Unpublished estimate.

[2]Portfolio totals should be viewed as estimates given their incorporation of unpublished data.

[3]1991 estimate substituted for unavailable 1989 data.

(—) Negligible

FIGURE 1

FOREIGN DIRECT INVESTMENT IN NORTH AMERICA

BY COUNTRY OF ORIGIN

The U.S. Is By Far The Dominant Foreign Investor in Canada and Mexico, But Canada and Mexico Account for a Small Proportion of FDI in the United States

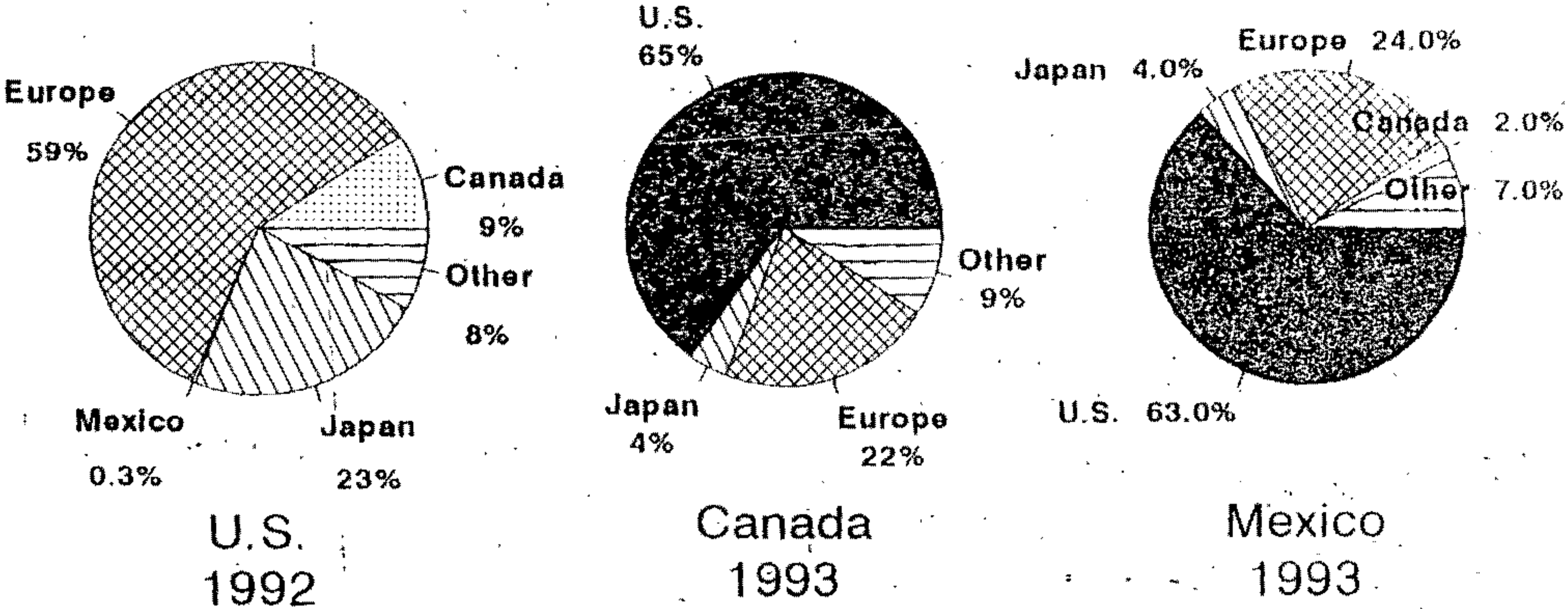
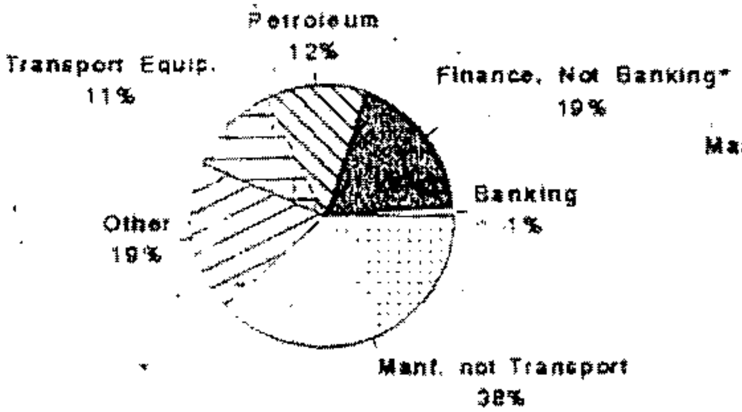
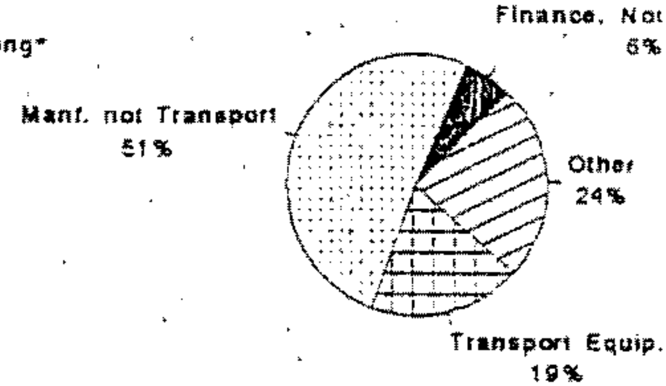


FIGURE 2
U.S. FOREIGN DIRECT INVESTMENT
BY SECTORS, 1992

U.S. Investment in Canada and Mexico

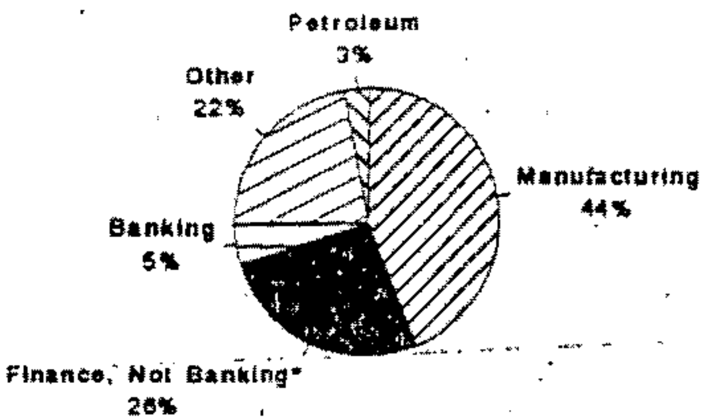


CANADA



MEXICO

Canadian and Mexican Investment in the U.S.



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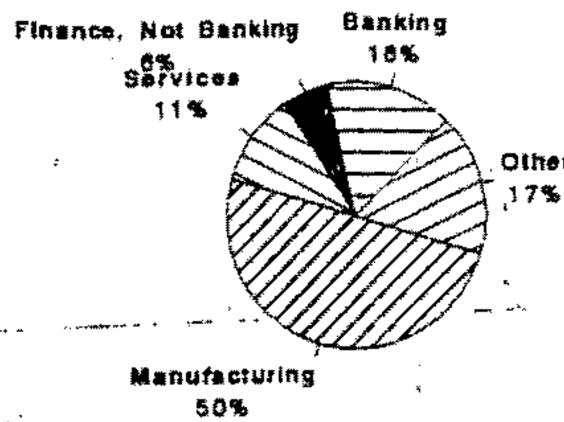


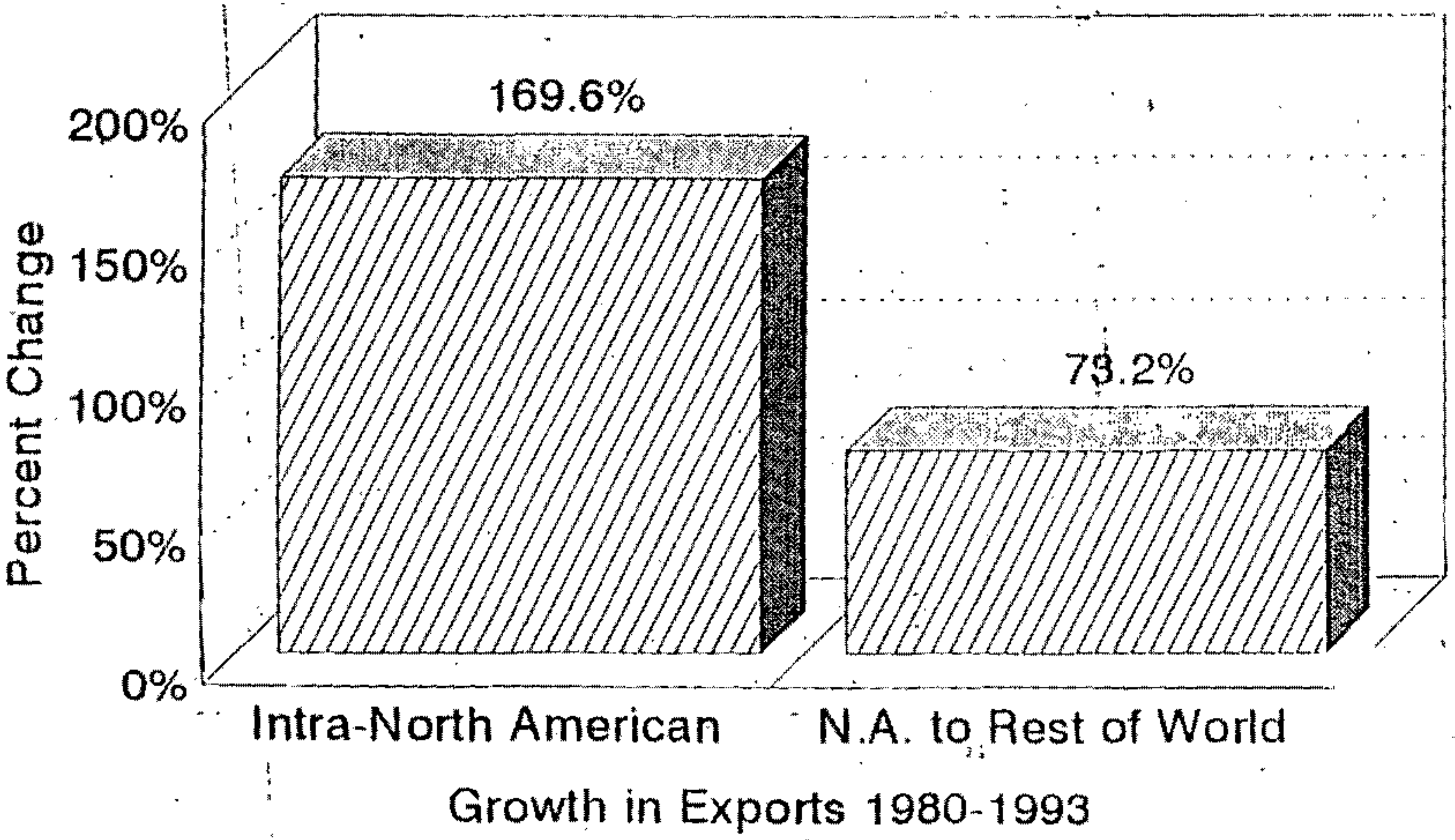
MEXICO

*INCLUDES REAL ESTATE AND INSURANCE

FIGURE 3

PERCENTAGE GROWTH IN U.S., CANADIAN, MEXICAN EXPORTS TO NORTH AMERICA AND REST OF WORLD

INTRA-NORTH AMERICAN EXPORTS GROWING MORE THAN TWICE AS FAST THAN TO REST OF WORLD



ırces: U.S. Bureau of the Cens...

FIGURE 4

INTRA-NORTH AMERICAN EXPORTS AS PERCENT OF TOTAL NORTH AMERICAN EXPORTS: 1980, 1993

INTRA-NORTH AMERICAN EXPORTS SOON WILL ACCOUNT FOR HALF OF NORTH AMERICAN EXPORTS TO WORLD

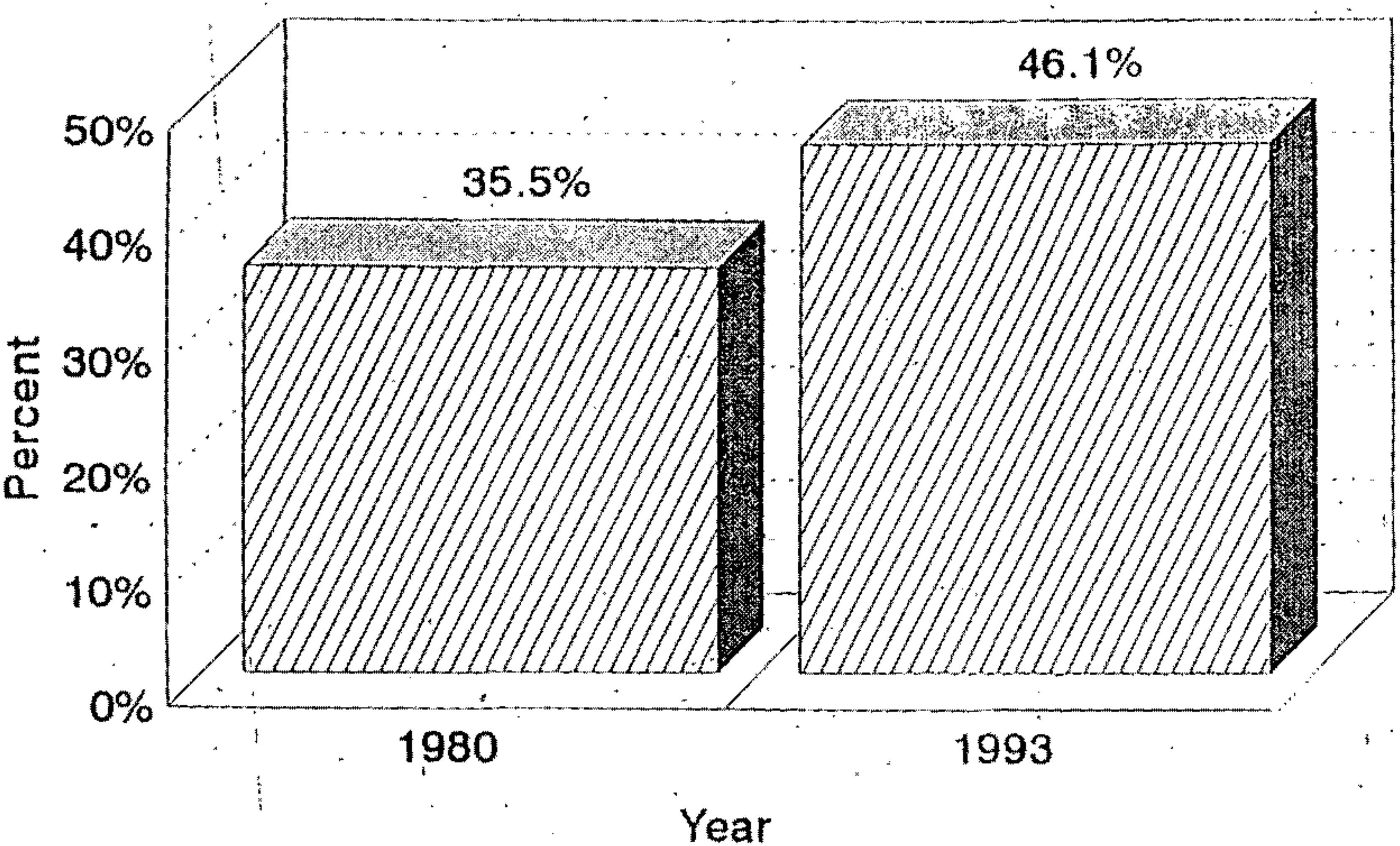
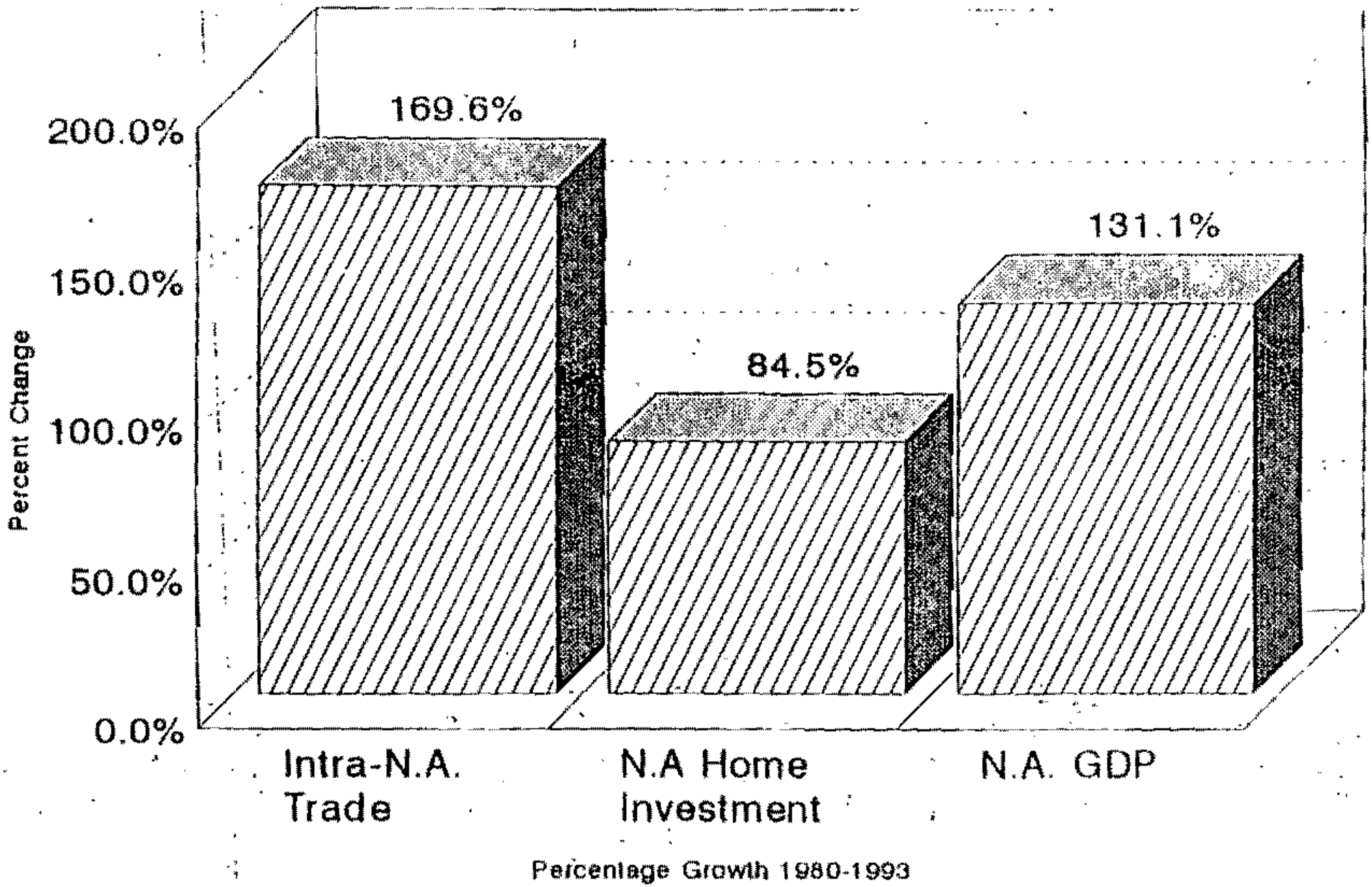


Figure 5
GROWTH IN INTRA-AMERICAN TRADE, INVESTMENT AND INCOME

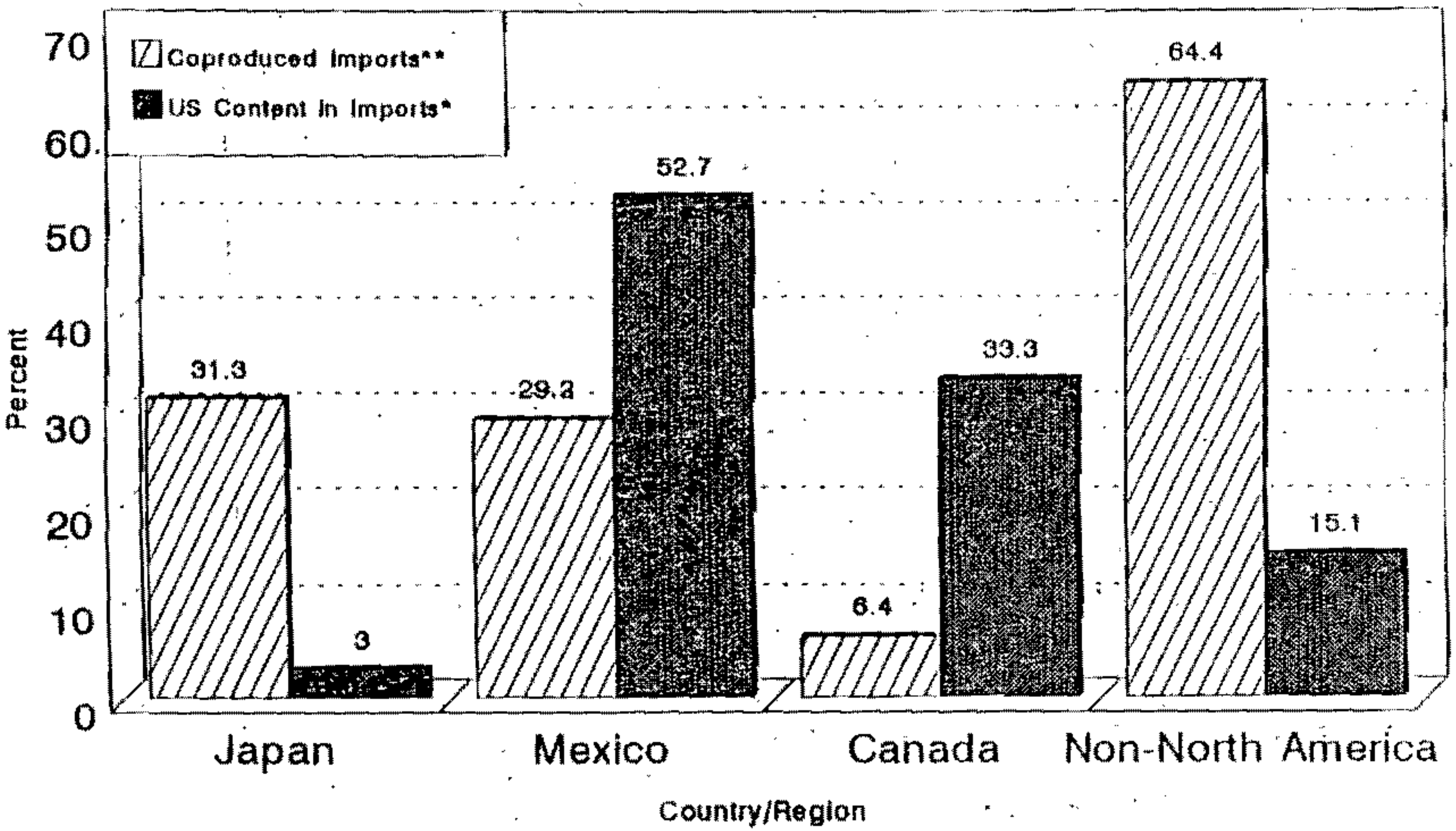


NADIAN AND MEXICAN DATA IS 1992, EXCEPT MEXICAN INVESTMENT

FIGURE 6

IMPORTS UNDER SECTION 9802 (CO-PRODUCTION) AND PERCENTAGE U.S. COMPONENTS, 1992

U.S. COMPONENTS IN PRODUCTION-SHARING IMPORTS FROM MEXICO/CANADA MUCH HIGHER THAN TO REST OF WORLD



ource: U.S. BEA

Left column represents percent of imports under Section 9802 ...

TABLE 4

INTRA-NORTH AMERICAN TRADE FOR 1992 (Millions of dollars)

Top 5 U.S. Exports to Canada

Motor Vehicles and Parts	$17,107
Industrial Machinery & Computers	14,944
Electric and Electronic Equipment	10,988
Chemical Products	7,065
Fabricated Metal Products	4,771

Top 5 Canadian Exports to U.S.

Motor Vehicles and Parts	$27,510
Crude Petroleum	8,135
Paper Products	7,862
Primary Metal Products	7,188
Industrial Machinery & Computers	5,779

Top 5 U.S. Exports to Mexico

Electric and Electronic Equipment	$7,144
Industrial Machinery & Computers	5,690
Motor Vehicles and Parts	3,897
Chemical Products	2,943
Primary Metal Industries	2,924

Top 5 Mexican Exports to U.S.

Electric & Electronic Equipment	$9,663
Motor Vehicles and Parts	4,998
Crude Petroleum	4,424
Apparel	1,962
Industrial Machinery & Computers	1,773

Top 5 Canadian Exports to Mexico

Motor Vehicles and Parts	$121
Cereals	97
Electric & Electronic Equipment	60
Iron & Steel	52
Paper Products	44

Top 5 Mexican Exports to Canada

Motor Vehicles and Parts	$952
Electric & Electronic Equipment	415
Machines & Mechanical Appliances	338
Mineral Fuels & Oils	156
Furniture	92

TABLE 5

INTRA-FIRM TRADE:

Merchandise Trade by Related Parties, 1992
(Percent)

	With North America	With Rest of World
Total U.S. Trade	47.0%	35.5%
U.S. Exports	43.2	26.3
U.S. Imports	50.5	43.2
	With Canada	**With Mexico**
U.S. Exports	45.3%	38.7%
U.S. Imports	46.0	63.6
	With Other Industrial	**With Other Developing**
U.S. Exports	34.7%	17.8%
U.S. Imports	45.9[1]	27.9

Source: "U.S. Merchandise Trade: Imports & Exports by Related Parties: 1992," U.S. Department of Commerce, April 6, 1994. (CB-94-60)

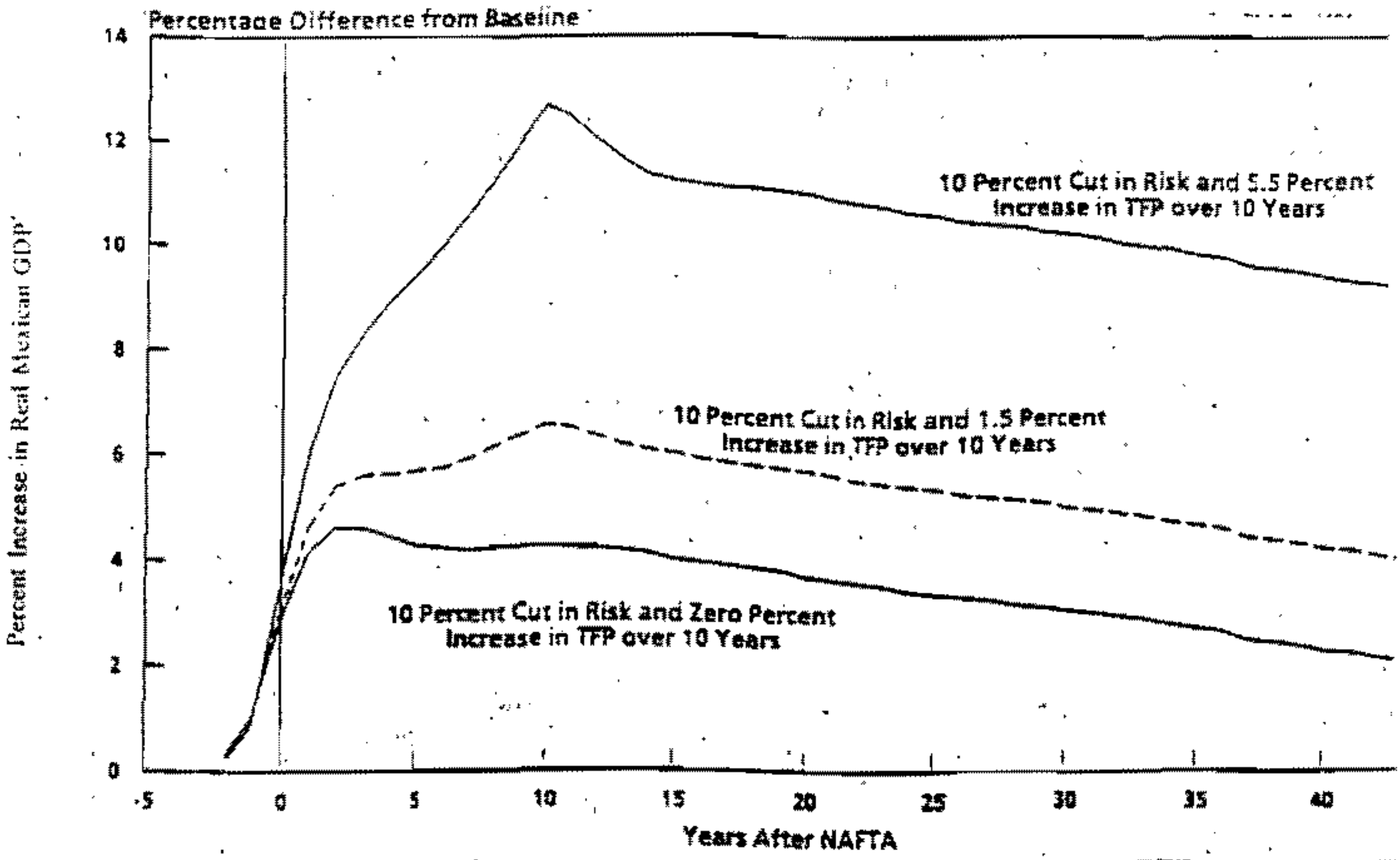
Definitions: North America includes Canada and Mexico. Other Industrial countries includes the EC and Japan for exports, and the EC for imports (see footnote 1). Other Developing countries includes OPEC, Taiwan, Korea, and "Other," which excludes Eastern Europe, the former USSR, and China.

[1]Seventy-five percent of U.S. imports from Japan are from a related party, a much higher percentage than for any other country; in contrast, about 46 percent of U.S. imports from both the EC and Canada are from a related party. Japan is not included in the import figure to avoid giving an erroneous impression of what is typical for U.S. imports from industrial countries.

FIGURE 7

CBO ANALYSIS OF NAFTA ON MEXICAN GDP

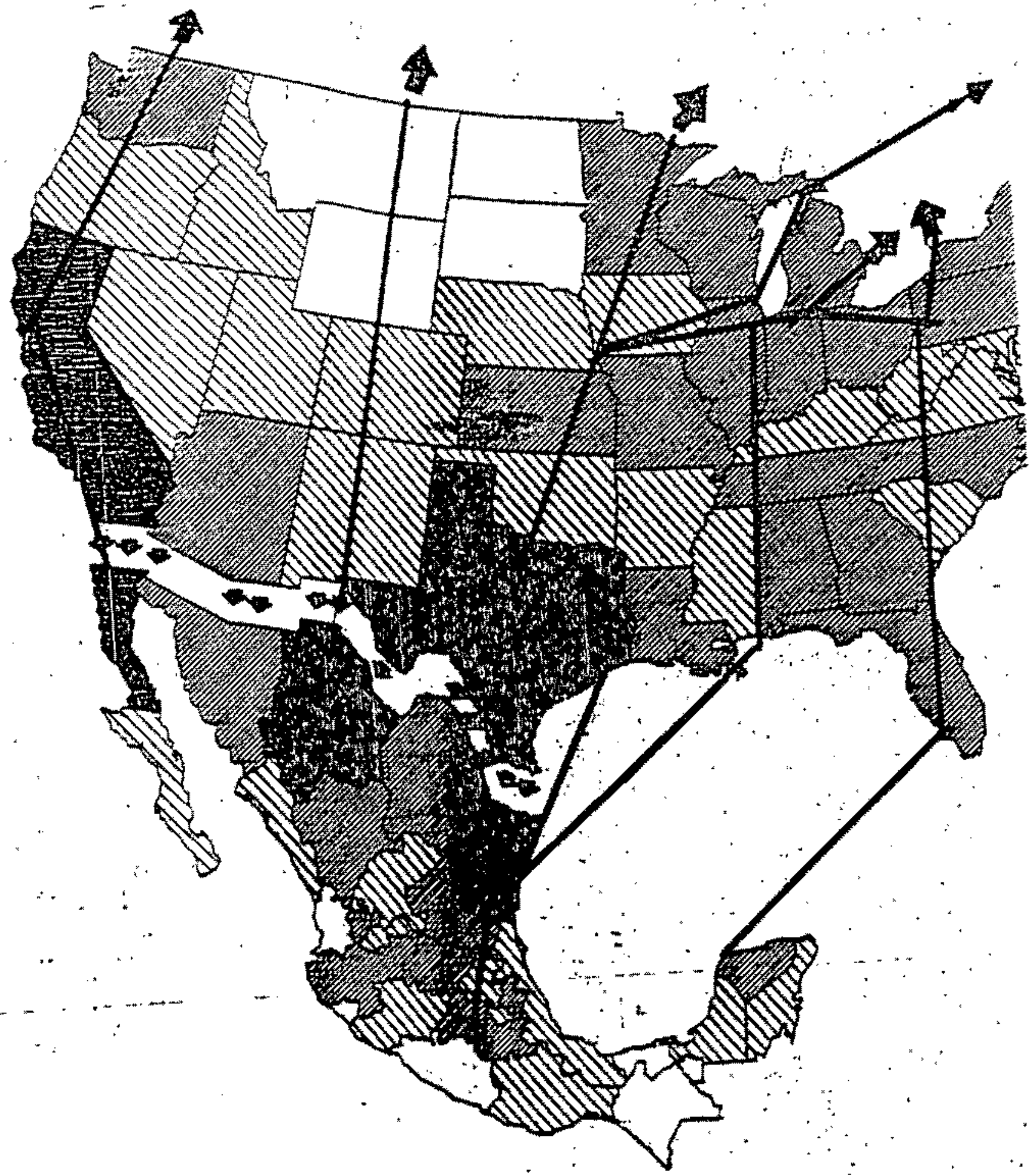
ALL SCENARIOS SHOW THAT NAFTA AND MEXICO'S ECONOMIC REFORMS LEAD TO DECADES OF STRONGER ECONOMIC GROWTH IN MEXICO



CBO Simulation Based on McKibben-Sachs Global Model

FIGURE 8

EMERGING NORTH AMERICAN TRADE CORRIDORS LAND AND WATER



Sources: U.S. Department of Commerce, Trade Statistics
U.S. Department of Transportation, Assessment of Border Corr---
Transportation Corridors for North A--

TABLE 6

U.S.-MEXICO BORDER INFRASTRUCTURE PROJECTS IN DEVELOPMENT

PROJECT LOCATION	SECTOR/PROJECT TYPE	VALUE (M$USD)
Tijuana, Mexico	Waste Water Treatment Plant	16.9
Cd. Juarez, Mexico	Waste Water Treatment Plant	29.8
Matamoros, Mexico	Waste Water Treatment Plant	12.0
Mexicali, Mexico	Waste Water Treatment Plant	7.2
S. L. Rio Colorado	Waste Water Treatment Plant	5.6
Ciudad Acuna, Mexico	Waste Water Treatment Plant	3.5
Nuevo Laredo, Mexico	Waste Water Treatment Plant	9.4
Reynosa, Mexico	Waste Water Treatment Plant	4.5
Nogales, Mexico	Solid Waste Processing Facility	3.2
Tijuana, Mexico	Airport Expansion/Modernization	189.4
N. Baja California	Power Generation Plant (IPP)	400.0
Tamaulipas, Mexico	Power Generation Plant (IPP)	1,800.0
Reynosa, Mexico	Border Crossing Access Road	8.0
Reynosa-Matamoros	Tollroad	188.0
S.L. Rio Colorado	Tollroad from Sonoyta	190.0
Mexicali, Mexico	Tollroad to Tecate	297.0
Nogales, Mexico	Highway Beltway	23.8
Nuevo Laredo, Mexico	Highway Beltway	17.4
Cd. Juarez, Mexico	Rail Ringway Project	43.8
Tijuana, Mexico	Modernization of Border Crossing	61.0

ANNEX 1
NORTH AMERICAN INTEGRATION:
MERGERS, ACQUISITIONS, EQUITY INFUSIONS, JOINT VENTURES

SECTOR: FOOD

INVESTOR	TYPE of INVESTMENT	COMMENTS	DATE
Abastos y Promociones (Mex)	Plans to open McAllen Produce Terminal Market (US).	Facilitates exportation and importation of produce for US & Mexican growers. ($20 million investment)	Summer '94
Tyson (US)	Acquired majority interest and managerial control of Trasgo (Mex), a poultry producer and processor.	Tyson has been a minority partner since '88. Allows them to increase presence in Mexican market.	April '94
Sara Lee (US)	JV with AXA (Mex) to invest in its subsidiary, AXA Alimentos (Mex).	Expands marketing expertise in processed meat industry.	March '94
Pillsbury (US subsidiary of UK company)	49% stake in JV with Pacific Star de Occidente (Mex), formed new company Pacific Star (Mex).	Expands distribution and sales capacity in Mexico.	September '93
Oscar Meyer (US)	Distribution agreement with Sigma Alimentos (Mex).	Expands marketing & distribution in Mexico. First phase of strategic alliance.	April '93
ConAgra (US)	JV with Maple Leaf Foods (Can) to create two flour milling companies in US & Canada.	Improves efficiency for both and moves ConAgra Flour Milling into new markets and new lines of business in Canada.	May '92

SECTOR: FOOD continued

INVESTOR	TYPE of INVESTMENT	COMMENTS	DATE
Cargill Inc. (US)	Addition of slaughterhouse in Alberta, Canada to expand capacity.	Capitalize on Alberta's location as a large cattle producing region and its proximity to western U.S. markets.	1989

SECTOR: TELECOMMUNICATIONS

INVESTOR	TYPE of INVESTMENT	COMMENTS	DATE
MCI (US)	JV with Grupo Bannaci (Mex).	Provide competitive long distance service in Mexico. ($450 million investment)	January '94
GTE (US)	JV with Telmex (Mex), combined with already existing partnership with Skytel Communication Corp. (Can).	Allows airline passengers to place phone calls from the air to business centers throughout North America.	December '93
AT&T (US)	AT&T receives a 20% equity investment in Unitel (Can) long-distance telephone company.	Establishes feeder network to that allows Unitel and AT&T to offer transborder services to multinational customers. Unitel receives access to AT&T's intelligent network software. (Investment valued at $150 million--Canadian)	February '93

SECTOR: FOOD continued

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SECTOR: BEER

INVESTOR	TYPE of INVESTMENT	COMMENTS	DATE
Anheuser Busch (US)	Acquired equity stake in Grupo Modelo (Mex).	Allows for a 17.7% equity stake in Mexican brewer ($477 million). Sole Busch importer and distributor in Mexico.	May '93
Miller (US)	Strategic alliance with The Molson Companies Limited (Can) and Foster's Brewing Group.	Miller acquired US import operations of Molson Breweries and the US marketing and distribution rights for Molson and Foster's brands in the US. Miller also received a 20% equity share in Molson Brewery.	April '93

SECTOR: TRANSPORTATION

INVESTOR	TYPE of INVESTMENT	COMMENTS	DATE
Canadian National Railways (Can), KLLM (US)	Alliance which allows the two companies to move fresh produce from California, the Gulf Coast and Mexico to Canada. The service will carry processed food from Canada on the return journey.	Allows CN to take advantage of opportunity to increase intermodal traffic between US, Canada and Mexico. Positions KLLM to take advantage of return traffic.	November '93

THE CLINTON ADMINISTRATION'S COMMERCIAL DIPLOMACY IN ASIA

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

Before the
Asia Pacific Council of American Chambers of Commerce
Hong Kong

April 7, 1995

It is a great pleasure to be back in Hong Kong, and it is a particular honor to be invited to speak before the Asia Pacific Council of American Chambers of Commerce. Just a little over a year ago, I was here to talk to the Hong Kong AmCham. Since then I have been back to Hong Kong twice, both times to work with U.S. companies trying to win contracts here. Today, on my fourth visit, I am delighted to have the chance to meet with representatives from all of the AmChams in the Asia Pacific region.

As I have discovered on my travels, the U.S. business chambers around the world constitute an extraordinary force in America's overseas presence. They are helping Washington to push for more open trade and investment systems; they are providing us with essential expertise on issues such as local business regulations and local culture; they are making friends and forming alliances; they are helping us to articulate the values we as a country hold so dear. I know that my boss, Secretary Ron Brown, rarely sets foot in a country without stopping to compare notes with the local American Chamber, and I and my colleagues all do the same.

In Asia, I have spent time with the chambers in Japan, Hong Kong, China, and Indonesia. In Tokyo, we are working together on too many issues to count, but I am particularly proud of the joint efforts we are making to help U.S. firms break into the market for information . Secretary Brown's discussions with the Chamber in China were invaluable as we faced the issue of MFN and human rights. I, too, found this involvement critically important. In Indonesia, the Chamber and the Commerce Department jointly crafted a series of trade missions which helped to make the U.S.-ASEAN Alliance for Mutual Growth (AMG) a reality. Secretary Brown went further to support the AMG at the Chamber in Kaula Lumpur. In the coming months we hope to do more of this and to spread our reach -- to Korea, to Thailand, and throughout the region.

For all of your efforts and for all of your good will, on behalf of the Clinton Administration, I would like to thank you.

PURPOSE OF MY TRIP

Several things bring me to Asia at this time.

Your gathering here provides a very valuable opportunity for us to compare notes on developments in your respective countries, and also in the region generally. I am particularly anxious to hear how you see the Administration's policies, what new initiatives might be called for, or where we can improve on the implementation of what we have already started. I would like to know your views about emerging forces in the region, because we are constantly trying to look over the horizon to identify upcoming challenges.

Tomorrow, all of our Senior Commercial Officers of the U.S. & Foreign Commercial Service will be gathering in Hong Kong for a strategy session. I will ask many questions of them about the changing business environment and how we can improve our performance. As many of you know, there are some moves in Congress to restructure the US&FCS in ways that we think will vastly undermine its effectiveness at exactly the time when it is most needed to help U.S. firms compete. If there were ever a case of our potentially shooting ourselves in the foot -- or, more accurately, in the head -- some of the proposals floating around are it.

Third, here in Hong Kong, and later in China, we will be pressing on behalf of U.S. firms striving to win big projects. We call this "advocacy" and it pervades everything Ron Brown's Commerce Department does. In Hong Kong and China, I will be raising with senior officials more than 15 billion dollars of potential deals in such sectors as power generation, transportation, telecommunications, and environmental . Our efforts in Hong Kong, in particular, will be more comprehensive than ever. We do not expect deals on the spot, and some of these projects will take years to materialize. But with our Advocacy Center and our interagency Advocacy Network, and with the enhanced consciousness of export promotion throughout the Administration, we have institutionalized this advocacy process now, and we fully understand that long-term horizons are essential if we are to compete to win in this brutally competitive marketplace.

Fourth, we will be giving special attention to furthering the work of the Joint Committee on Commerce and Trade (JCCT) in China. In the last year, we achieved an excellent start. We have focused intensely on several industrial sectors, and mounted important studies and trade missions in each. We have progressed in efforts to help Chinese officials develop a modern regime for commercial law. We are now hoping to expand some training programs which will simultaneously help U.S. firms to do business in China while also helping to equip China to develop modern business capabilities.

Last September, Secretary Brown announced our intention to establish a special U.S. Commercial Center in Shanghai. We shall be moving that along, too.

While in the region, moreover, I will devote some time to consulting with several Asian officials on our difficult negotiations with Japan in the automotive area. Our trade relationship with Japan has implications for all of Asia, and in the past we have not always taken the time to explain what we are doing and why, or to solicit foreign views. Now and in the future we intend to do better.

And, as is always the case, I have the privilege of helping to set up another major trip to Asia for Secretary Brown this summer. He will be visiting Hong Kong and China and perhaps one or two other countries, as well.

THE ADMINISTRATION'S ASIA POLICY: A NOTABLE SUCCESS

Let me give you an overview of the Administration's commercial policies towards Asia. It's a good story.

As you recall, the Administration was quick to recognize the emergence of Asia as a new center of global economic and political clout. The President's first trip abroad was to Japan and Korea. One of his first international policy initiatives was a call for a new Pacific Community. His earliest major trade initiative was directed at a comprehensive approach to addressing our chronic trade problems with Japan. From the outset, there has been no lack of attention to Asia, nor lack of recognition of the opportunities and challenges.

Here are a few more specific examples of what the Clinton Administration has accomplished:

China

The Administration's strategy of commercial engagement with China is yielding fruit. By granting China normalized trade status (MFN), we maintained an avenue for pursuing human rights objectives while not disadvantaging U.S. companies competing for business in China. At the same time, our resolve to employ the full force of our trade remedies led to an historic agreement with China on intellectual property rights and an earlier important agreement on textiles. We support China entering into the World

Trade Organization, but we have held firm on our demand that China be offered membership in the WTO only if it is willing to join on commercially acceptable terms. Our persistent advocacy efforts have helped produce billions of dollars in new China business for U.S. companies. We have revitalized the Joint Committee on Commerce and Trade (JCCT) as the centerpiece of our ongoing commercial dialogue, and during the current year almost 50 missions, seminars and other programs will take place under its auspices.

Japan

A very important goal of this Administration with respect to Japan has been to elevate the economic dimension of the relationship to the level occupied by security concerns. To this end, our primary focus has been the "U.S.-Japan Framework for a New Economic Partnership," which has produced specific agreements on government procurement of medical technologies and telecommunications, on intellectual property rights, on flat glass, on insurance, and on financial services. There now remains, however, unfinished business, especially with regard to the closed markets in Japan for imports of autos and auto parts -- perhaps the single biggest trade problem we have faced with Japan since the confrontation over textiles 25 years ago. Despite trade tensions, however, our overall relationship remains on firm footing, as demonstrated by our cooperation with Japan over the North Korea crisis.

Big Emerging Market Focus

We have identified ten "Big Emerging Markets," or "BEMs," that are expected to drive U.S. export growth over the next 10 to 15 years, and we are concentrating our export promotion efforts on these economies. Four of these BEMs are in Asia: South Korea, the Chinese Economic Area (including China, Hong Kong, and Taiwan), Indonesia and India. The Asian BEMs constitute 40 percent of the world's population and half of the GDP of all the BEMs. Moreover, they could account for as much as two-thirds of the total import growth of the BEMs during the next twenty years. The significance of the BEM strategy is that it forces the U.S. Government to look over the horizon to the markets of tomorrow. It compels us to think about new ways of doing business with countries which will have enormous political and economic influence within a few years.

India

After years of acrimony, the U.S. and India have put their relations on a firm and positive footing. Never before have the opportunities seemed better for closer ties between the world's largest democracy and one of the world's oldest democracies. Recent trips by Secretary Brown, Energy Secretary O'Leary, Defense Secretary Perry, and Mrs. Clinton have signalled what can only be called a sea-change in relations between the U.S. and India.

Vietnam

We have worked to put the bitter legacy of the Vietnam War behind us and resolve remaining POW-MIA issues by moving toward normalization of relations with Vietnam, the most recent step being the opening of reciprocal liaison offices in Washington and Hanoi. In doing so, we have begun to clear away the obstacles to U.S. firms enjoying the enormous commercial potential of Vietnam. There is much more to be done, of course, and with due regard to the enormous sensitivities involved, we are working on it.

APEC

In November 1993, President Clinton hosted an historic meeting of the Asia Pacific Economic Cooperation (APEC) in Seattle, the largest gathering ever of American and Asian leaders, and a fitting symbol of the arrival of the "Pacific Century." At the APEC meeting in Bogor, Indonesia last year, U.S. leadership and encouragement -- together with the efforts of many other nations -- resulted in APEC leaders committing themselves to the goal of free and open trade and investment for all APEC members by the year 2020, with industrialized members vowing to reach that goal by 2010.

Uruguay Round

The successful conclusion of the Uruguay Round -- in which U.S. leadership played a crucial role -- will be a tremendous boon to world trade. Once fully implemented, the Uruguay Round agreements will cause U.S. GDP to rise in the range of $100 to $200 billion each year, and should add as much as $500 billion to $1 trillion each year to world income. These agreements mark an important milestone in the history of American trade policy and the latest affirmation that trade is central to our national interests. They will also provide an essential global framework within which Asian nations can further open their economies.

DRIVERS OF FUTURE CHANGE IN ASIA

We are proud of what we have been able to accomplish in Asia during the past two years. But this is no time for complacency. In my view, the next five years in Asia will make the previous two seem relatively dull and predictable.

When Lee Kwan Yew, the father of modern Singapore, was asked to predict what would happen to the people of Hong Kong after 1997, his only response was: "1998." Indeed, anticipating the future of Asia is notoriously risky. As late as October 1993, for example, no crystal ball could have forecast that in November 1994 the leaders of the economically and politically diverse APEC nations would sign a declaration committing themselves to achieving free trade by a certain date.

Despite Mr. Lee's prudent answer, however, I will venture at least to identify some of the major forces that I believe will be driving change in Asia over the next five years, and thus will determine what Asia looks like at the end of the century. There are more forces at work than anyone knows, of course, but these are some of the key ones..

It would be foolhardy to predict the outcome of these driving forces: whether they will move Asian nations toward or away from open markets; toward or away from respect for individual freedoms; toward or away from political stability. But I can tell you in each case the outcome that most of us in the Administration would like to see by the year 2000 -- and what policies we will pursue to help steer events in that direction.

Major Driving Force: Succession in China

Issue: Who will succeed Deng Xiaoping? This question has cast a cloud of uncertainty over China's political and economic future, and the outcome will have repercussions throughout the region.

Optimal year 2000 scenario: China has maintained its commitment to reform and economic liberalization, regardless of who replaced Deng. The continuing vitality of China's economy -- and the broad impact of the resulting prosperity -- have created its own political momentum toward continued opening of the economy. Reform has included broad human rights reform, as well as movement toward resolution of political differences between China and Taiwan.

U.S. Policy: Continued comprehensive engagement with China, while at the same time maintaining a full dialogue on security and human rights issues. Also, continued work with China to develop a better trade and investment environment, and to fully implement existing trade agreements on intellectual property and other issues.

Major Driving Force: Hong Kong Transition

Issue: Following Hong Kong's reversion to China in 1997, will Hong Kong remain economically open and politically democratic?

Optimal year 2000 scenario: A smooth transition has taken place. China, recognizing the economic and political importance of a free and democratic Hong Kong, is fully respecting Hong Kong's autonomy.

U.S. policy: Treat Hong Kong as the major trading partner that it is, one which generates some $20 billion in two-way commerce with us, which is home to more than $10 billion of U.S. investment, the largest per capita consumer of U.S. agricultural products, and is one of the most important capital markets in the region. A policy of commercial and diplomatic engagement with China will also help ensure that Hong Kong remains democratic and autonomous, since a prosperous and economically confident China, fully integrated into the world economy, will have great appreciation for the continuation of Hong Kong as a crucial asset.

Major Driving Force: Political and Market Changes in Japan

Issue: Will Japan's government have the strength and resolve to fully open its markets to foreign competition, while assuming a world leadership role commensurate with its economic importance?

Optimal year 2000 scenario: Japan, recognizing that its own economy and citizens will benefit, has deregulated its economy and fully opened its markets. Having emerged from its recession, Japan is fulfilling its promise of actively pursuing strong and sustainable domestic demand-led growth, which has caused global its imports of goods and services to reach record levels -- and has markedly reduced Japan's global trade surplus and its especially large surplus with the United States. Japan continues to increase its contribution to the multilateral solution of global problems that include starvation and environmental degradation.

U.S. policy: Continuing trade negotiations with Japan with the aim of removing Japanese trade barriers and achieving concrete, measurable results in the marketplace. We will demand, in particular, that Japan dismantle its barriers to auto and auto parts trade, where the potential economic gains for U.S. exporters are higher than in any other industrial sector and where the Japanese market is most closed. (Japan imports only 3 percent of its autos and 2.4 percent of its auto parts -- by far the lowest level among OECD countries -- and these products account for 60 percent of the U.S. trade deficit with Japan.) Continued encouragement for Japan to carry out promised macroeconomic reforms. Partnership with Japan in multilateral efforts to address global problems.

Major Driving Force: India as an Economic Powerhouse

Issue: Will India deliver on its promise of becoming one of the most vibrant, important and powerful of all the Big Emerging Markets?

Optimal year 2000 scenario: Despite being the last great economy to open its doors to the outside world, India has made great strides in freeing its markets and has become substantially integrated into the world economy. India is absorbing -- commensurate with its needs and size -- substantially higher levels of investments in infrastructure, manufacturing and service industries. It is proceeding with a host of important economic reforms. Having ended its long isolation caused by policies of import substitution and self-reliance, India has joined the international economic mainstream.

U.S. policy: Continue to build upon the new era in U.S.-India relations that was heralded when Prime Minister Rao visited the United States last year and accelerated by many cabinet and other senior-level Administration visits since then. In particular, we will work to broaden and deepen U.S.-Indian commercial ties because U.S. equipment and services can assist India in closing the gap between India's economic reality today and its potential for tomorrow.

__Major Driving Force: Rise of ASEAN__

Issue: What role will ASEAN play as an economic and political force in the Asia Pacific?

Optimal year 2000 scenario: ASEAN is continuing to prosper, thanks to rapid growth, expanding purchasing power and falling market access barriers. Vietnam has joined ASEAN as a full member, and its GDP is increasing rapidly. The ASEAN agreement to establish a free trade area, AFTA, by the year 2003 is on track. ASEAN is serving as a significant force for political stability in the region, especially with regard to Laos, Cambodia, and Burma.

U.S. policy: Continuing engagement with ASEAN via the U.S.-ASEAN Alliance for Mutual Growth; economic fora such as the U.S.-ASEAN Dialogue and the U.S.-ASEAN Trade and Investment Cooperation Committee; and the Destination ASEAN trade promotion initiative.

__Major Driving Force: The Future of APEC__

Issue: Will the promise of the Bogor Declaration be fulfilled?

Optimal year 2000 scenario: APEC members have reached a consensus regarding the pace and process by which the Bogor Declaration goals will be reached, and are well on the path to their achievement.

U.S. policy: Try to ensure that a concrete, achievable plan is in place for the APEC meeting in Osaka later this year; work closely with the U.S. business community as the plan develops; and accelerate APEC's trade and investment facilitation programs covering such areas as standards, investment principles and administrative barriers to market access.

__Major Driving Force: Huge Economic Imbalances__

Issue: Will Asian nations -- notably Japan and China -- continue to run mammoth trade surpluses with the United States? In the case of Japan, the trade surplus is a global one, and is leading to massive financial imbalances in the world financial system. In the case of both Japan and China, the rising U.S. trade deficits threaten to fan serious protectionism (see chart at end.)

Optimal year 2000 scenario: Japan, China and other Asian nations with huge trade surpluses have taken appropriate steps to increase imports and reduce their trade imbalances. These measures have not only benefited the businesses and consumers of these nations, but have eased tensions with their trading partners by substantially reducing, or in some case eliminating, bilateral trade deficits.

U.S. policy: Continue to press our Asian trading partners showing substantial trade surpluses to tackle the underlying macroeconomic problems causing the disequilibrium, with the aim of fostering an economic environment that is more open and receptive to imports. At the same time, we will keep hammering away at foreign trade barriers, as well as continuing our aggressive export promotion strategy, because the best way to reduce our trade deficit is for our firms to be able to sell more of their goods and services overseas (as opposed to closing our markets.) Finally, we will encourage higher labor standards abroad -- in the name of human rights, for sure, but also because abuses of workers' rights keep labor costs artificially low and thus creates an unfair advantage in international trade.

Major Driving Force: Emergence of Asian Political and Economic Model

Issue: Will the Asian model of political economy, with its emphasis on political stability and economic prosperity -- sometimes at the expense of personal liberties -- result in the rise or strengthening of authoritarian regimes and the suppression of individual freedoms, or will Asian nations succeed in balancing the goal of economic growth with protection of basic political freedoms?

Optimal year 2000 scenario: "Confucian capitalism" values of hard work, thrift and reliance on family have continued to improve the economic welfare of the region; increasingly, however, these "Asian" values have become harmonized with international standards values of political and economic freedoms. As Asian societies have become more open economically, they have become more open politically, contributing to stability, not instability.

U.S. policy: The U.S. will not seek to impose its vision of the world on others. At the same time, however, we believe that some basic rights are universal, that everywhere people aspire to be treated with dignity, to give voice to their opinions, to have a say in choosing their leaders. We will work to promote these basic rights around the world, advancing them together with increasing economic ties in trade and broader economic partnership.

Major Driving Force: America's Choice Between Engagement and Isolationism

Issue: Will the U.S. use the winding down of the Cold War and economic problems at home as an excuse to withdraw from "international entanglements" or will we continue to lead, albeit with a new style?

Optimal year 2000 scenario: U.S. is fully integrated -- as it must be -- in the global economy, while maintaining its status as the most competitive nation in the world. From this position of economic strength, U.S. global influence is enhanced. And the U.S. is steadily achieving its global aims with regard to trade expansion, financial stability, non-proliferation, dealing with political "hot spots," and human rights.

U.S. policy: Increased use of "commercial diplomacy" as an integral part of foreign policy, spending more time and devoting more resources to the economic and commercial dimensions of foreign policy. We will continue to be a source of ideas, and new approaches to resolving global troubles, political and economic. We will find both bilateral and multilateral means of encouraging others to further open their markets. We will keep our market open.

COMMERCIAL DIPLOMACY

Let me say a few words about this last point -- commercial diplomacy -- which is both so important and also so often misunderstood.

What is Commercial Diplomacy?

What is commercial diplomacy? Let me first say what it is not. It is not something apart from foreign policy; indeed it is a central part of our foreign policy. It is not some crass mercantilist salesmanship; it is designed to expand trade and investment to the benefit of the United States and its trading partners. It is not synonymous with only an activist trade negotiating strategy, although it incorporates such a strategy; but it has many more elements.

Let me now put it in the positive. Commercial diplomacy means marshaling a broad array of our policies -- trade policy, trade promotion, programs, environmental programs, training and educational exchange -- to pursue our interests in expanding trade and supporting individual freedoms around the globe.

Commercial policy embodies a recognition that while the world still contains numerous threats to our security, it is economic growth, jobs, and improving living standards that are the top objectives of virtually every country, and that it is on that terrain that the U.S. can and should become more of a leader and a model.

Commercial diplomacy also reflects our own condition -- that the key to a strong America at home and abroad is a stronger economy, and that a key element of a stronger economy is expanding trade. However, commercial diplomacy means two-way benefits. When U.S. firms help to build a power plant in India that brings electric light to homes that never had it, both countries benefit. When U.S. firms make possible the installation of telephones in Chinese homes that never had them, people in both countries gain.

Commercial diplomacy is part of a human rights policy -- not all of it, of course, but part. When American firms bring their values and their standards to Indonesia or to Vietnam, workers get a better deal, and opportunities for men, women, and families are expanded.

Commercial diplomacy can enhance American influence in other areas because it deepens our presence and involvement, and broadens our range of contacts with influential people in other countries beyond the usual foreign and defense ministries.

Commercial diplomacy represents a more cooperative spirit than the traditionally zero-sum game of real politick. We will always have commercial problems such as disputes over intellectual property rights or market access, of course. But commercial diplomacy is designed to demonstrate that problems are not the whole picture, and that while we try hard to resolve those problems, the show goes on, business deals can be struck, projects can be won, and a brighter future is there to be defined in terms of mutual interests.

Commercial diplomacy requires a judicious blend of bilateral and multilateral policies. It cannot just be Uncle Sam pressing his interests government to government. To be effective, we will need patience, persistence, and finesse -- more than we historically have had -- in forums like the World Trade Organization and APEC to complement our bilateral approaches.

Challenges Ahead For Commercial Diplomacy

It has become a cliche that economics is the driving force of world politics today, but it's true. And we have to do more than just talk about it; we have to begin living that way. The Clinton Administration is off to a terrific start, in my view, especially in Asia, but there are many challenges ahead.

We cannot let up on trying to open foreign markets. In Asia, in particular, there is much to do, especially in Japan and China. These are two very different cases, but they are two problems, which if allowed to fester, could undermine the entire international economy.

We will need to become increasingly aggressive when it comes to going to bat for U.S. firms competing for overseas contracts in cases where arms-length competition is undermined by foreign subsidies, corruption, and other types of unfair intervention.

We will need to bring to bear, better than we have to date, our technological and educational assets -- unsurpassed around the world -- to strengthen our commercial diplomacy.

We will need to draw closer to the U.S. business community abroad, to work with them more effectively on advocacy, on early warnings of upcoming problems and opportunities, and on plotting longer-term strategies. (We have begun to do this in Europe through a revitalized commercial strategy that will formally begin later this month. Perhaps we should do the same in Asia.)

We need to expand the range of our interaction with institutions and people outside central governments and national capitals -- to deal with local business leaders, to develop relations with leaders in a variety of states, cities, provinces, and prefectures. (In Brazil, Argentina, Chile and India we have methodically expanded our horizons in this direction. We have begun to do so in China, and I will continue that effort on my trip there next week.)

We need to become much more effective at communicating our policies at home and abroad, in explaining what we are doing and why, and at framing issues in terms that are meaningful in other societies. (We have begun such efforts with regard to U.S.-Japan trade, but we have a long way to go.)

Finally, we will need to restructure the presence of the American government abroad to reflect the importance of commercial diplomacy. A recent study by the General Accounting Office said that *less than 1 percent* of U.S. embassy personnel around the world are from the Commerce Department. There are only two Consul Generals from the commercial service, but no Ambassadors. We do not have enough commercial staff in China to service the southern regions like Guangdong and Fujian, let alone the entire country. Could this possibly reflect post-Cold War realities?

In fact, when you consider each of the driving forces that will shape the future of Asia in the foreseeable future, it is clear that commercial diplomacy will be among the most powerful tools to influence outcomes in a way that is consistent with our national interests. This is an inescapable conclusion that means the excellent start the Clinton Administration has made must serve as a foundation for future efforts in the same vein. At the same time, because commercial diplomacy offers our partners win-win options -- options in which everyone wins -- the approach we must take is also one that is likely to ensure ever better trans-Pacific relations in the future.

CONCLUSION

If you look at the twentieth century history of U.S. involvement in Asia, you see that the U.S. fought three wars and lost countless lives. We can never acknowledge enough the sacrifices that our armed forces made. These were critical efforts that shaped the world we live in today, and that have led to the opportunities we now see ahead of us.

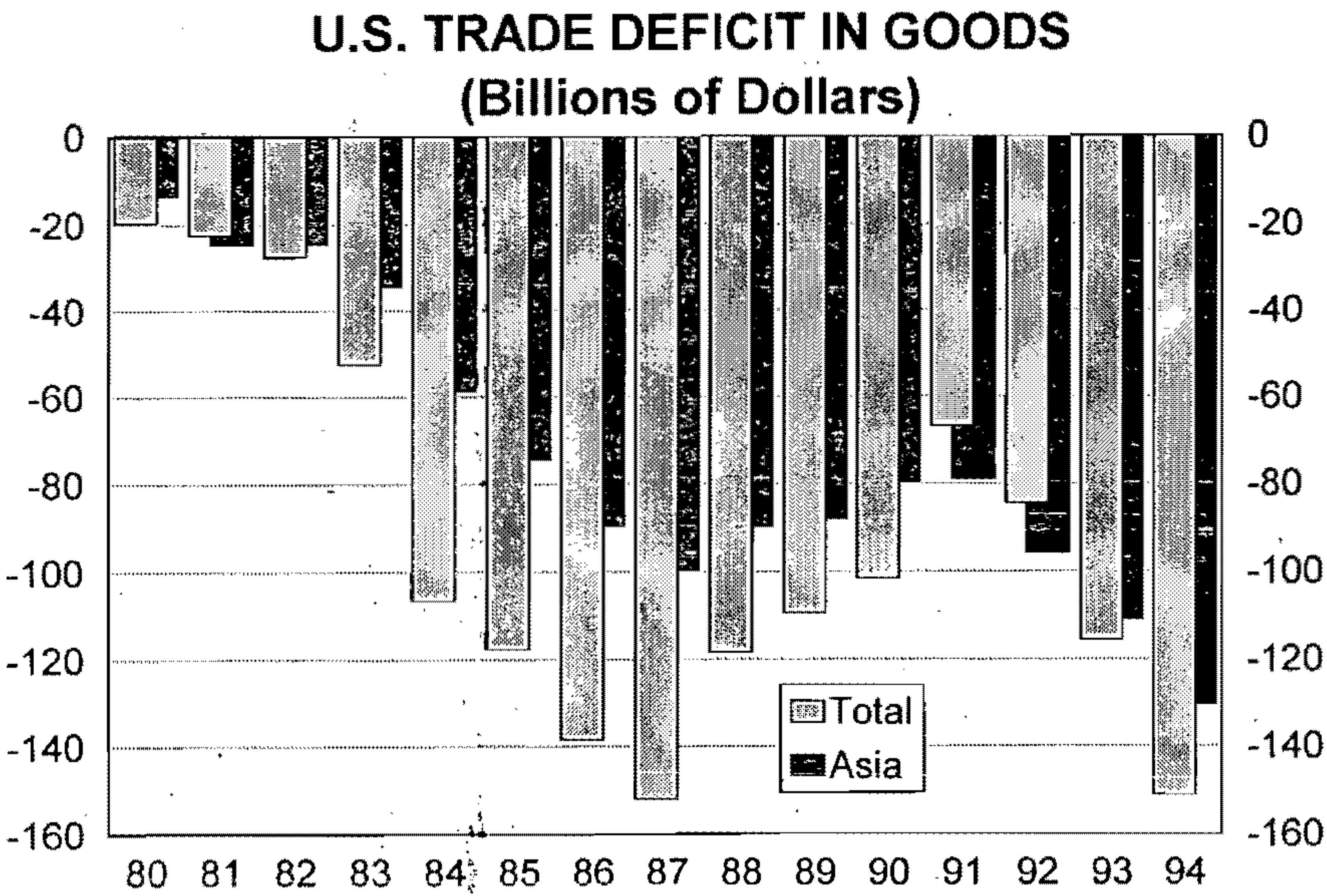
But when the history of the twentieth century is written, the soldiers will not be alone among those who will have influenced the U.S.-Asian relationship. They will be joined by the men and women who are buying, selling, and investing across the Pacific; or the American universities that are training a good proportion of Asia's elites; or American managers who are bringing modern business techniques with them to Asia; or American that is contributing to higher living standards.

As the twentieth century ends, we need a commercial diplomacy to capitalize on these trends and these possibilities. This is our moment. We must seize it.

In this task, the Clinton Administration and you -- the American business community -- must become the closest of partners.

Thank you very much.

IMBALANCE



Source: Department of Commerce

Asia includes China, Japan, East Asian NICs, and others such as India, Indonesia, Malaysia, and the Philippines.