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"Three Challenges to Trade Policy"

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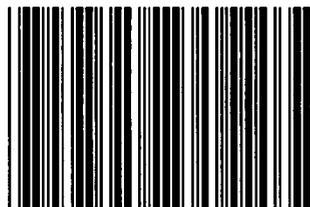
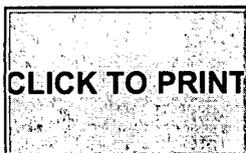
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BAUCUS

United States Senate

WASHINGTON, DC 20510-2602

Three Challenges to Trade Policy

Senator Max Baucus
Washington D.C.

February 25, 1998

Good afternoon, everyone.

We're here to talk about trade policy. Fast track. Sectors. Export and import balances.

But I want to start by putting all that in some context. Because trade is not really about bills, agreements and statistics. It is about jobs. Farms. People. Altogether, our search for a good life.

AMERICA TODAY

And we have to conclude that these days, life in both our countries is pretty good. As the novelist A.S. Byatt writes, these are years when:

"men and women hurtle through the air on metal wings, when they wear webbed feet and walk on the bottom of the oceans ... when folk in Norway and Tasmania in dead of winter could dream of fresh strawberries, dates, guavas and passion fruits and find them spread next morning on their tables."

Essentially, she means that it is an era of peace, scientific advance and growing trade.

Look around the world. For the time being, Saddam Hussein or not, neither America nor Canada faces a global foreign threat. That has not been true for nearly seventy years, since Adolf Hitler came to power in Germany in 1933.

Look at domestic affairs. Last year the US and Canada grew faster than any other industrial countries. Inflation, for the time being, has almost vanished. Here in America, unemployment has been under 5% for nearly a year. And we're creating almost two hundred thousand new jobs every month. In 1992 we had 114 million Americans at work; now we have 130 million.

And look at daily life. New technologies bring us extraordinary advances in everything from entertainment to medicine. Basic health statistics like infant mortality are vastly better than they were twenty years ago. The air and water are cleaner. Welfare rolls are down and even crime rates are falling.

AGE OF ANXIETY

Twenty years from now, when historians look back at us, they will see something like a golden age. But they will also see something a little complicated and a little disturbing. It is an era in which we are prosperous and at peace; but it is also a time when a lot of people are worried, and when the good times aren't spread around all that fairly.

The development of new technologies is an example. They mean more consumer goods, more medicines and safer factories. But they also mean that a lot of jobs can be replaced by machines. Sawmills up in northwest Montana -- and probably their competitors north of the border -- used to employ a dozen people on the green chain. Now it is usually four. Those were jobs that someone with a high school degree, or even without one, could take and make a living wage. And it is awfully hard, even with unemployment below 5%, for these people to start over.

GROWTH OF TRADE

The same is true in trade. The past twenty years saw peace and growth come to Southeast Asia and Latin America. They brought democracy and market economies to Russia, China and Eastern Europe. And they brought us a set of new trade agreements -- the US-Canada Free Trade Agreement, the NAFTA, the Caribbean Basin Initiative and the Uruguay Round -- that have vastly changed the world economy.

When I came to Congress, trade made up about an eighth of our economy. Today it is a third. As our economy grew by 4% last year, imports of goods and services last year grew 8.5% and, for the first time ever, topped a trillion dollars last year. Exports grew even faster, reaching \$930 billion.

And this has profound effects, for good or ill, on every single American.

Montanans sell more beef to Japan than ever before. But we also import more live cattle from Canada. One year a Japanese semiconductor firm comes to Butte. The next a Missoula golf bag maker moves to China. The year afterward another semiconductor company has to lay people off because of the financial crisis in Asia.

So Americans have new markets for our grain, our beef, our airplanes and our financial services. Our consumers pay less for clothes and television sets. But our workers also face new competition, particularly in industries that require less education and less use of technology. And they know that factories can pick up and move to Sonora, Budapest or Kuala Lumpur.

So a lot of Americans are worried. Other issues -- in particular automation and new technologies -- have greater effects on jobs and wages than trade. But the effects of trade are serious, as any Montana rancher can tell you. And even when the main issue is technology, psychologically it is easier to blame your problems on foreigners than on impersonal machines.

That is why Americans today are more interested and concerned about trade than at any time I can remember. Why obscure procedural questions like "fast track" negotiating authority become such heated topics in Congress. And why, if we hope to pursue the goal of open trade - - as we should -- we will need a better, more integrated, more strategic approach.

We should begin with our ultimate goal. We want to create a world in which the same rules apply to everyone. Where it is as easy for Americans to sell and do business in foreign countries as for foreigners to do business here. Where consumers get the advantages of open trade and producers aren't unfairly disadvantaged by dumping and subsidies. Altogether, a world in which Americans have a basic sense of fairness in trade.

And to get there we need three things.

MARKET ACCESS

First, of course, the right agenda.

Basically, international trade is still a little unfair to the United States, in a couple of ways. The world, especially in trade policy, has no completely white hats and few completely black hats. But America still has lower tariffs, less restrictive quotas and fewer subsidies than other countries. And foreign tariffs are highest, non-tariff barriers most onerous, and subsidies most egregious in areas where Americans are most competitive -- that is, agriculture and services.

In our trade with Europe, we face the Common Agricultural Policy and its export subsidies. In Japan, a web of administrative guidance and informal cartels that keep out imports. In developing countries, higher tariffs and markets closed to American services. Ultimately, these things have to go. And we in the northern tier feel that, despite our trade agreement, we have some of those problems in Canada.

Nationally, Canada is of course our most important trade partner as well as our country's closest ally. Counting services as well as goods, we probably reached \$420 billion in two-way trade last year. That is as much as America's with all of Europe, West and East, put together. Montana has a \$400 million slice of it -- meaning \$5,000 for every Montanan.

And in some of the areas most important to Montana, we feel that our producers compete not only against their Canadian colleagues but against the Canadian government. We have no national Wheat Board directing streams of grain to particular markets. Stumpage rates for people who want to log on public land are, more or less, set by the market rather than by government and industry. And it is extremely frustrating for Montana's family farmers and small timber mills to compete against these things.

Cooperative solutions to the problems they raise are possible. The Northwest Pilot Project on live cattle is a good example. It waives testing for Montana cattle for diseases that aren't prevalent in our northwest, and at the same time exempts Canadian cattle from tuberculosis and

brucellosis testing. But like some other good initiatives, we're having some trouble making it work. Canadian feedlot owners have to meet unrealistic conditions to sign up, so we see a lot more cattle going south than north. This program can still work, but it needs attention fast. Likewise, on wheat and barley, the Binational Commission on Grains came up with some good suggestions a few years back, which haven't yet been implemented. I hope we can work with them.

The upshot is, cooperative solutions don't always happen. And when we can't find them, it is my job to insist on fairness. The Financial Post Magazine once called me a "pit bull." They had a weird, distorted magazine cover picture of me draped in an American flag and waving a rifle, like some crazy jingoist down south, and I was awfully proud of it.

Today, though, one of the biggest potential headaches in our trade with Canada comes from the Customs Service. A few months back they decided that a board with a small hole drilled in one end is not a board any more. So Canadian mills are drilling lots of holes. And that threatens to undo the US-Canada Lumber Agreement, a monumental piece of work that has for the time being put an end to our largest trade dispute. But that is a topic for another day -- specifically, the day the new nominee for Customs Commissioner has his hearing before the Finance Committee.

NEW WTO ACCESSIONS

At the same time, the basic rules of international trade don't apply at all to some of our most important trade partners.

We Americans believe in laws, contracts and openness. We believe in making laws and regulations public, and applying them impartially to everyone. The creation of the General Agreement on Trade and Tariffs 50 years ago, and its elaboration through a long series of GATT Rounds and WTO negotiations, are in essence an attempt to create precisely this -- a set of rules, available to the public, which will apply impartially to everyone.

They are still far from perfect. Setting aside all the market access issues, the weak coverage of services and agriculture, I think it is a travesty that WTO disputes are not open to the public.

But on the whole, these rules have made trade more open, more fair and more comprehensible. And much of the world -- that is, the reforming communist countries -- trades almost without regard to them.

-- China, the world's most populous nation, fastest-growing major economy, and sixth largest exporter.

-- Russia, with its strong base in primary commodities, heavy industry and aerospace. A few years ago, aluminum smelters in Montana and Canada faced financial disaster because of

Russian subsidies.

-- Vietnam, a nation of 80 million and already a foreign investment magnet.

-- Kazakhstan, Ukraine, Uzbekistan and other nations in their first years of independence.

Altogether, nearly a quarter of world population, something like 15% of world economic production, and some of the world's fastest-growing economies is outside the normal rules everyone else follows. That is not an acceptable state of affairs. We need to work together, beginning this year, to bring them in and do it on good commercial grounds.

PUBLIC UNDERSTANDING

These two things make up a policy agenda that will be good for the world and good for the United States. It will create jobs; raise incomes; and make trade more fair. But it is not enough. To succeed, we have to do two more things.

One, which I won't spend much time on, is a better effort to explain trade policy and its results to the public. At least a third of our economic growth in the past few years has come from new exports. In the future, growth in Latin America and East Asia open tremendous export opportunities to us. And successful agricultural trade policies in Europe, or market opening in Japan, can pay off even more quickly.

But the thing about exports is that they leave the country. Nobody in America sees them. By contrast, everybody sees foreign country-of-origin stamps on the clothes they wear, the cars they drive and the toys they buy their children. So if businesses and the government have to tell people about exports and the jobs they create. Otherwise much of the public will think of trade solely in terms of imports and threats to jobs. And up to now, the news hasn't gotten out.

TRADE AND WORKING PEOPLE

And that brings us to the third and most important challenge.

The trade policy agenda is important. A better effort to explain it is essential. But they are not enough unless we address a broad phenomenon that brings us outside trade policy. That is, the effects of rising trade, technology and the entire new economy on the middle class, and especially on less educated people who work at lower wages.

Today, if you are an American with a college degree, you live in a world where unemployment is 1.9% -- almost nonexistent. You made on average a shade under \$38,000 last year. And you got a raise of 3.8%, or about \$1,400. So you should be pretty happy.

But if you're one of the 12.5 million workers who didn't finish high school, your world is very different. The unemployment rate is 7.2% -- the equivalent of a mild recession. If you

had a job, on average you made a little less than \$17,000. In the best economic year I can remember, you got a raise of 1.3% -- about \$200. And you look ahead to a future of more automation in local factories. More competition from immigrant workers at home. And more competition in trade from abroad. You're probably a little scared, and you're not wrong.

This, in my view, is the biggest single problem advocates of trade have to address. The less educated and less wealthy you are, the less prospects you have to better yourself. This lies behind the opposition to fast track negotiating authority and the appeal of people like Ross Perot on trade issues. And unless it is solved, action on the trade policy agenda will become more and more difficult.

IMPROVING EDUCATION

How do we solve it? Well, trade policy has a role to play. We need to be tougher on subsidies and other unfair export policies. We need to work -- together with Canada -- to ensure that countries do not deliberately lower labor and environmental standards to attract investment.

But in the end, these measures are palliatives rather than solutions. Trade will continue to grow as long as people want to get rich. Technology will advance as long as people have ideas. And no trade policy, even a reversion to protectionism, will change this.

And a real solution brings us entirely outside our discussion of trade today. The only way we will keep up is to shrink the category of less-educated workers. We have to raise our standards. Make sure every child can use a computer. Bring dropouts back to school. And offer new opportunities for adults to learn new skills.

CONCLUSION

If we cannot do that, Americans and Canadians can look ahead to a very troubling period. In the next twenty years, the rich and the educated will enjoy the most privileged, affluent, and happy lives in human history.

But the prospects for a middle class family aren't quite so good; and the poor and the less educated will see their horizons narrow and their hope diminish by the year.

Now, this need not happen. Through education and training, we can ensure that everyone has a chance to enjoy the benefits of trade, technology and the new economy.

And in that case, these years of peace -- of growing prosperity -- of new sciences and technologies -- can be the most prosperous and exciting in our history.

We will see an era in which the world linked by new communications; inspired by new forms of art; and immeasurably enriched by trade. Despite disputes over salmon or wood, the opening years of this era have enriched Americans and Canadians as never before, and given us

opportunities previous generations never dreamt of. And in the coming years, the example we have set can spread to the entire world.

It is a remarkable prospect. A great challenge. And an opportunity we cannot miss.

Thank you.