HEARING OF THE SENATE COMMITTEE ON FINANCE; SUBJECT: OVERSIGHT OF U.S. TRADE PREFERENCE PROGRAMS; CHAIRED BY: SENATOR MAX BAUCUS (D-MT); WITNESSES: LOREN YAGER, DIRECTOR OF INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE; GRANT ALDONAS, PRINCIPAL MANAGING DIRECTOR, SPLIT ROCK INTERNATIONAL; EDWARD GRESSER, DIRECTOR OF THE PROJECT ON TRADE AND GLOBAL MARKETS, PROGRESSIVE POLICY INSTITUTE; ANDREW SMALL, FOREIGN POLICY ADVISER, UNITED STATES CONFERENCE OF CATHOLIC BISHOPS; LOCATION: 215 DIRKSEN SENATE OFFICE BUILDING, WASHINGTON, D.C.

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SEN. BAUCUS: (Sounds gavel.) Hearing will come to order.

On the Plains of Moab, Moses told the Israelites, "If you see your fellow's ox fallen on the road, do not ignore it. Help him to get it to its feet."

And in Montana's Gallatin Valley, farmers apply the same good- neighbor policy. Once Montana families have harvested their crops, they help their neighbors to finish their work. They help because it's the right thing to do. It's just who we are as Montanans.

In the global economy, just as in the Plains of Moab and the valleys of Montana, good neighbors do what they can. They do what they can to help those in need. That's why America has ***trade*** ***preference*** programs, and that's why we have the Generalized System of ***Preferences*** and the ***Andean*** ***Trade*** ***Preference*** Act.

Today we will review this important piece of our ***trade*** agenda -- our ***trade*** ***preference*** programs. Many senators on this committee care deeply about these programs. Senator Bingaman has advocated enhanced ***trade preferences*** for Haiti, the poorest country in the Americas. Senators Cantwell and Hatch have worked hard to bring economic opportunity to wartorn Afghanistan and Pakistan. Senator Smith has advocated providing ***preferences*** for the world's least developed countries.

Preference programs are the tools that we have, but as we continue to use them to help our neighbors, we need to ask: Are these the tools that our neighbors need? Are our ***preference*** programs the best way to help our neighbors?

With two ***preference*** programs expiring this year and the rest in coming years, we need to ask these questions of ourselves and of those whom we wish to help. For us and for our neighbors we cannot let these programs expire, but for us and our neighbors we must make our ***preference*** programs the best that they can be.

First, we must look at how we're helping. Can beneficiary countries utilize our programs, or are they too complicated to be useful? Do staggered and short-term extensions create too much uncertainty? Would longer-term programs be more effective, or would longer-term programs reduce the incentive for countries to be better ***trade*** partners?

Second, we must look at which countries we are helping. Are we helping those in greatest need? Do countries like Bangladesh and Cambodia suffer because America does not give them ***preferences*** as favorable as those that we provide to our African partners? Should we continue to provide preferential market access to more economically advanced countries like Brazil and Russia? Are we helping countries that would be doing more to help themselves or could be doing more to help themselves, frankly?

And finally, we must look at why we are helping. Let us ask how these programs help our economy. Do these programs work for U.S. businesses? Do they create jobs here at home? Are American investments in beneficiary countries secure?

We do not want to help countries who refuse to help themselves, and we do not want to undermine America's goals in multilateral ***trade*** negotiations.

We help because it is the right thing to do. We do it because our programs help others to help themselves. We do it to help build sustainable economies in the developing world. And we help because these programs often work. Singapore, Chile, Korea grew from being beneficiary countries to dynamic global economies.

Farmers in the Gallatin Valley in Montana have a few months until harvest, and we here have a few months until two of these programs expire. Montana's farmers will use that time well. We must do the same.

Let us extend these programs the right way, let us help to get our neighbor's oxen back on their feet, and let us help our neighbors to reap a plentiful harvest that we all can enjoy.

Senator Grassley?

SEN. CHUCK GRASSLEY (R-IA): Mr. President -- or Mr. Chairman -- 30 seconds for a point of personal privilege because we're dealing with things -- how the United States can help the rest of the world, and I would like to point out that I'd be remiss if I didn't say a few words about my own state of Iowa.

And there's a lot of other states in the Midwest affected, being very hard hit, either by tornados, which was the case of my hometown of New Hartford or neighboring Parkersburg; now much of the eastern parts of eastern Iowa and parts of central Iowa are under rings and floods that are as bad as they were in 1993. And just last night, four boys were killed at a Boy Scout camp in western Iowa when a tornado went through.

So I'd like to make sure that people back home and here know that we're concerned about what happens back home as well as around the world.

SEN. BAUCUS: I might say, Senator Grassley, I'm just so impressed how people are pitching in, filling sandbags and helping as good neighbors -- you know, like Cedar, Iowa is helping everybody out.

SEN. GRASSLEY: Yeah.

SEN. BAUCUS: A tragedy.

SEN. GRASSLEY: Very characteristic of our kind of people.

This is a very important hearing, Mr. Chairman, so thank you very much. It's something you and I've had a great deal of discussion on and always get together on these issues, but we may be coming from a little different point of view. But we believe that these programs do serve a very valuable purpose.

Our ***trade*** ***preference*** merits fundamental reconsideration at three levels. First, what's their purpose? Second, how effective in achieving it -- can their operation be improved and if so (sic). And third, do U.S. ***trade*** ***preferences*** undermine our broader ***trade*** policy objectives to any extent, and, if so, how can they be reconciled?

This reconsideration of our ***preference*** programs is needed because the answers to at least some of these questions may have changed since these programs were started decades ago. Those changes may have consequences for how we utilize our ***trade*** agenda to advance our national economic and foreign policy interests.

If we accept that our ***preference*** programs are primarily intended to help facilitate economic development in beneficiary countries, it's natural, then, to ask how well they are achieving objective.

According to GAO, the distribution of ***benefits*** appears limited. Our broadest ***preference*** program, GSP, has been in place since '75. Of the 131 beneficiary countries, the top 10 account for over three- quarters of our imports under GSP. Similarly, if you consider all ***preference*** programs together, the top four beneficiary countries account for over half of our imports under those programs while the top 25 account for over 95 percent of such imports. A threshold concern, then, is how to spread those ***benefits*** more broadly.

The composition of our imports raises another concern. Fuel accounts for about 60 percent of our imports under ***preference*** programs. How can we utilize our ***preferences*** to better facilitate vertically integrated business developments in business countries outside the energy sector? That's an issue that we've been grappling with under the African Growth and Opportunity Act.

On the other hand, if we also need -- we also need to consider the point at which it becomes appropriate to limit or withdraw ***benefits*** under ***preference*** programs. The GSP does contain limitations on the amount of preferential treatment to beneficiary countries, but those limitations can be waived. Congress took a first step in reforming waiver framework in 2006 by providing for the review and revocation of such waivers if they'd been in place for five consecutive years and the volume of imports reflects that such imports have become super competitive.

We need to further review the conditionality that attaches to our various ***preference*** programs and assess whether the operation and administration of those conditionality can be improved. We must also guard against complacency. ***Trade*** ***preferences*** should not be taken for granted. That goes for importers as well as -- U.S. importers as well as foreign governments.

I'm concerned that we're seeing evidence of complacency from some of the advanced developing countries in ongoing Doha round negotiations, WTO. If ***trade*** ***preferences*** become an obstacle to achieving broad multilateral market liberalization, then we need to rethink the construct of our ***preference*** programs.

And finally, we need to consider what are limitations of these programs, other factors such as civil strife, conflict, inadequate infrastructure, an inefficient transportation network, poorly developed capital markets, and even political corruption may play a large role in impeding sustainable economic development.

So I put it to our witnesses: How should we utilize our ***preference*** programs to better facilitate this sort of sustained economic development, and as developing countries prosper, how do we transition them to more mature reciprocal ***trading*** relationships?

Thank you.

SEN. BAUCUS: Thank you very much, Senator.

I'd like now to introduce our witnesses. Today's panel begins with Loren Yager, director of international affairs and ***trade***, United States Government Accountability Office. Following Dr. Yager is Mr. Grant Aldonas, principal managing director of Split Rock International.

Grant, welcome back to the committee.

The third witness is Ed Gresser, director of the Project on ***Trade*** and Global Markets at the Progressive Policy Institute and the author of "Freedom from Want."

And Ed, it's very good to see you back again.

And finally we welcome Father Andrew Small, foreign policy adviser for the United States Conference of Catholic Bishops.

Thank you, Father, for attending.

As our usual practice, each of you I ask to give about five- minute statements, and your prepared statements automatically will be included in the record.

Dr. Yager?

MR. YAGER: (Off mike.)

SEN. BAUCUS: You may want to pull your microphone closer, Dr. Yager. We want to hear you.

MR. YAGER: Okay. I'm pleased to be here today --

SEN. BAUCUS: Maybe closer yet. (Laughter.)

MR. YAGER: All right.

SEN. BAUCUS: We really want to hear you. (Laughter.)

MR. YAGER: I'm pleased to be here today to report on our work on U.S. ***trade*** ***preference*** programs.

Since the committee's hearing last year on this subject, GAO has completed two in-depth studies of U.S. ***preference*** programs for the Finance Committee and the Committee on Ways and Means. This hearing is particularly timely as it provides an opportunity for the Congress to review the progress and performance of these programs as a group and begin to address some of the difficult questions that you posed in your last hearing and that you both posed in your opening statements.

In order to contribute to that discussion, I will address two topics today. First, I will outline key policy ***trade***-offs involving various domestic and foreign interests that are inevitable in the design of ***preference*** programs. Second, I will summarize our recent recommendations regarding the importance of considering the ***preference*** programs as a group.

Let me first talk about the policy ***trade***-offs, and I know that the committee discussed some of these ***trade***-offs at the last hearing. I know two of my fellow panelists are also very familiar with the difficult policy ***trade***-offs from their time working for the Finance Committee and in the administration on these very issues.

First, the programs are designed to offer duty-free access to the U.S. market, but only to the extent that they do not harm U.S. industries. Because of this, they exclude certain products from duty free status, including some that the developing countries are capable of producing and exporting. As a result, there are notable gaps in product coverage, particularly in agricultural and apparel markets.

The second ***trade***-off involves deciding which developing countries can enjoy preferential ***benefits***. Two least-developed countries -- Bangladesh and Cambodia -- have become exporters of apparel to the United States but do not have duty free access for their goods because they do not qualify for a regional program.

On the other hand, African private sector spokesmen have raised concerns that giving preferential access to Bangladesh and Cambodia might endanger the African apparel export industry that has grown up under AGOA.

This same ***trade***-off involved decisions regarding the graduation of countries or products from the programs. In terms of products, over one-third of the ***trade*** from GSP beneficiaries, $13 billion in 2006, is no longer eligible for ***preferences*** because countries have exceeded the competitive need limitations for those products.

Although the intent of country and product graduation is to provide greater ***benefits*** to poor countries, we repeatedly heard concerns that China would be most likely to gain U.S. imports as a result of a beneficiaries' loss of ***preferences***.

Policymakers face a third ***trade***-off in setting the duration of preferential ***benefits***. ***Preference*** beneficiaries and U.S. businesses that import from them agree that longer and more predictable renewal periods are desirable. Members of Congress have recognized this argument with respect to Africa and renewed AGOA's general provisions until 2015.

However, some U.S. officials believe that periodic program expirations can be useful as leverage to encourage countries to act in accordance with U.S. interests, such as global and bilateral ***trade*** liberalization.

Let me now turn to the second issue, that the ***preference*** programs have proliferated over time.

In response to differing statutory requirements, agencies pursue different approaches to monitoring the various criteria set for programs. The result is a lack of systematic review and little to no reporting on impact. Let me list just a few examples.

One, many countries participate in more than one of these programs. Of the 137 countries eligible for ***preference*** programs, more than half were eligible for two or more programs. And while there is overlap in various aspects of ***trade*** ***preference*** programs, each program is currently considered separately by Congress based on its distinct timetable and expiration date.

Only one ***preference*** program directly links to capacity building, even though many nations lack the capacity to effectively participate in international ***trade***.

Finally, separate reporting for the various ***preference*** programs makes it difficult to measure progress towards achieving the fundamental and shared goal of promoting economic development.

To address the concerns I've summarized today, GAO recommended that USTR more consistently review beneficiary countries and hold more joint evaluations and discussions. USTR just wrote a letter to the Congress detailing their plans to address the GAO recommendations.

We also suggested that Congress should consider whether ***trade*** ***preference*** programs review and reporting requirements could be better integrated. We believe that the hearings held by the committee last year and again today are consistent with the need to consider these programs in an integrated fashion.

Mr. Chairman, this concludes my prepared statement. I'd be happy to answer any questions that you or other members have.

SEN. BAUCUS: Thank you, Dr. Yager.

Mr. Aldonas?

MR. ALDONAS: Thank you, Mr. Chairman.

Mr. Chairman, Senator Grassley, members of the committee, I want to thank you for the opportunity to appear, to come back to the Finance Committee.

And before I start, I'd just like to add, Mr. Chairman and Senator Grassley, a thanks for the hard work that you've done and the committee has done on ***trade*** adjustment assistance over a sustained period. I have to say that personally I think the reform and expansion of those programs is absolutely critical to help American workers meet the challenges of competing in a global economy. So thank you very much for the --

SEN. BAUCUS: Can you say that one more time, please? (Laughter.)

Thank you.

MR. ALDONAS: With respect to today's topic, I want to thank you as well. I know that it's a busy time for the committee and a busy time for the Senate, so taking the time to do the oversight necessary on our ***preference*** programs is important.

As reflected in my written statement, our ***preference*** programs can play a critical role in our ***trade*** and development policies, but, in my view, as currently structured they work at cross purposes with our goals in both those areas.

I'd summarize my critique of our ***preference*** programs like this: Economic development is a microeconomic rather than macroeconomic phenomenon. It involves the process of economic change. That requires changes in economic incentive structures that shape individual behavior.

In a global economy, economic development depends heavily on connecting people to world markets, both as producers and, significantly, as consumers. To be effective in that context, our ***preference*** programs, along with the other elements of our development policy, should focus on eliminating the disincentives that prevent the poor -- both as consumers and producers -- from realizing the ***benefits*** of markets.

Our goal, as a consequence, should be to offer the broadest possible opportunity for the poor to engage in ***trade***. In return, we should ask that the beneficiary countries create the conditions necessary for local markets to flourish.

The question the committee should ask, therefore, as a part of its oversight is whether our ***preference*** programs meet that challenge. Do they maximize the incentives facing market participants in beneficiary countries in ways that ensure broad economic opportunity, both locally and globally, for the poor? In my view they do not, for the reasons I stated in my written statement.

Within that framework, I do want to highlight one problem in particular and that's the inconsistency between our ***preference*** programs and the other aspects of our ***trade*** policy that, from my perspective, are just as important to economic development, and here I may differ slightly with some of my colleagues, including my good friend Father Andrew.

Trade agreements are preferable to ***preferences*** for a pretty simple reason. The ***benefits*** of ***trade*** flow from both exports and imports. The real gains from ***trade*** come from the efficiencies generated by specialization -- in other words, shifting your economy toward what it does best. Focusing solely on exports eliminates the ***benefits*** you gain from imports and the freedom they give you specialize, which is why we should encourage developing countries, particularly the more advanced developing countries, to engage fully in ***trade*** liberalization so that they gain from both ends of the ***trade*** equation.

As currently structured, our ***preference*** programs work against that goal as well as working against America's own ***trade*** negotiating objectives. Both my own experience as a ***trade*** negotiator and the economic evidence to date reinforce the conclusion that our ***preference*** programs have in practice eroded the incentive to negotiate further ***trade*** liberalization among a number of rapidly rising developing countries. Indeed, the Doha Development Agenda has in part foundered on precisely that problem.

As a remedy I'd suggest a six-point agenda for achieving our ***trade*** and development goals.

First, I would recommend the committee expressly limit the availability of our ***preferences*** to the least-developed countries in the world.

I would suggest adopting a single set of conditions that apply to both our ***preference*** programs and our development assistance conditions that focus on eliminating the barriers the poor face in gaining access to markets, both locally and globally, both as consumers and as producers.

Third, we should create a single process for consideration of potential beneficiaries both for our ***preference*** programs and for our development assistance.

We should gear our development assistance toward individual entrepreneurs rather than governments, particularly where it would help connect them to global supply chains that form the basis of competition in the global economy.

Fifth, we should gain greater operational consistency by combining the administration of our ***preference*** programs with our development assistance programs.

And sixth, I feel we should adopt a broader ***trade*** policy approach consistent with delivering on the promise ***trade*** holds for the poorest in the world. Toward that end, I'd recommend a grant of negotiating authority to the president to, number one, negotiate a free ***trade*** area within the WTO among developed countries willing to move rapidly toward that goal in order to offer the broadest possible market opportunity not only for our exporters but also for firms and workers in the least developed world.

I would also suggest, number two, that we harmonize our ***preferences*** with our developed-country ***trading*** partners so that entrepreneurs building businesses in Africa, in Asia and Latin America would know that they could sell as easily in Athens, Greece as they could in Athens, Georgia.

Thank you.

SEN. BAUCUS: Thank you very much. That was very helpful.

Mr. Gresser.

MR. GRESSER: (Off mike.) Let me echo Grant's comment on ***trade*** adjustment assistance. I think the committee really deserves some praise and thanks for its work on that issue.

Let me make three basic points.

First, I believe ***trade*** ***preferences*** over the last 30 years have made a very valuable and important contribution to American ***trade*** policy and to some of our national security goals. They cover a modest fraction of ***trade*** -- roughly 2 percent of non-oil ***trade*** or roughly 4 or 5 percent if one includes energy -- but within this small scope they've done some important things.

The Caribbean Basin Initiative in the 1980s and 1990s helped Central America restore its economic stability and recover from the era of wars and guerillas and death squads of that time. The AGOA program has helped Lesotho and Swaziland -- these are very small and poor countries hit hard by HIV and AIDS -- as well as Madagascar to employ thousands of women in garment industries. ***Andean*** program flowers are a major job opportunity for

Colombians and for Ecuadorians, especially in rural areas. And many middle-income and lower-income countries -- Paraguay, Thailand, India, Armenia, Philippines, Indonesia, Turkey -- rely very heavily on GSP for competitiveness in light industry vis-a-vis China.

They're not substitutes for multilateral liberalization nor are they guarantees of export success for beneficiaries, but as these examples show, they are an important part of American ***trade*** policy. They have contributed to development, and they have made an important contribution to security as well.

Looking ahead, though, I would say they face two significant challenges. One of these is geographical. ***Preferences*** offer relatively little ***benefit*** to least-developed countries in Asia and the Pacific, and they do not offer much ***benefit*** to some of the large majority Muslim countries that are at the heart of our largest national security concern.

Here we could cite Cambodia as a good example. Cambodia's clothes are some of the -- face some of the highest tariffs we have in our schedule. Last year, Colombia's (sic) $2.4 billion in exports faced a $419 million tariff penalty. This is a larger tariff penalty than the $412 million that British goods faced and those totaled $57 billion altogether.

Pakistan is in a similar state. Bangladesh is similar, Nepal and a number of otherwise small, low-income countries that are important to us for a variety of reasons.

Here I would like to note and applaud two proposals, one by Senator Smith and Senator Feinstein, the ***Trade*** Act, one by Senator Cantwell and some others to provide a special ***benefit*** for Pakistan's border regions in Afghanistan.

The other challenge is in policy. Some countries I believe could use their ***preferences*** more effectively with better technical support in capacity building. Here I would point in particular to Africa, where a number of countries are struggling with inadequate infrastructure and port management. A number of countries could be selling non-import sensitive agriculture products to the U.S. if they had better support and advice on sanitary and phytosanitary standards.

And on a deeper level, I would say three of the programs -- AGOA, CBI and ATPA -- are struggling. If you look at their share of American clothing markets, their share is going down and is not only going down by share but by absolute exports. So despite the extensive ***benefits*** these programs offer, the beneficiaries aren't using them as well as one would have hoped.

My hypothesis is that the unusual qualifying procedure for clothes known as the rule of origin may be at the heart of this problem because one can see the same thing happening under FTAs.

The GSP system is less extensive. It covers fewer products, but the beneficiaries seem to be holding their share of the market. In the regional programs for clothing, they're losing their share of the market. This I believe is because in order to qualify a T-shirt or a pair of pajamas, most of the beneficiaries have to show that the inputs came from particular places -- from the United States, from internal sources -- and I don't think this matches up very well with the multinational supply chains that most manufacturers use and that are most convenient for retailers and buyers to use. If these programs are to contribute in the future as they have in the past, I'd suggest that we need to look hard at these rules and maybe reshape them.

The final point is that these programs are not the world of ***trade***. Africa is struggling in its clothing exports. Africa at the same time is surging in its exports to the world. Since 2002, the African continent's exports have grown from about 140 to about 420 billion (dollars), led by energy and metals and so forth.

I would suggest that it is time for us to look and work with the African countries to see how this influx of cash can be used to fix some of the infrastructure problems and capacity problems that have made ***trade*** difficult for Africa to succeed in.

Let me close there, and once again I thank you very much for your invitation and for holding this hearing today.

SEN. BAUCUS: Thank you, Mr. Gresser, very much.

Father Small.

REV. SMALL: Good morning, Mr. Chairman, Senator Grassley, honorable members of the committee.

I'd like to begin by offering my condolences and those of the Bishops' Conference to the senator and the people particularly who've lost loved ones very abruptly and tragically.

The Bishops' Conference is grateful for this invitation to offer testimony in oversight of ***trade*** ***preference*** programs. The notion of ***preference*** itself, the subject of today's hearing, is one that lies at the heart of the church's vision for economic activity in which rules governing economic life can and should be designed so that the dignity of all, especially the poor and vulnerable, is respected.

Promoting development among the world's poorer nations was a priority at the dawn of the world ***trading*** system, and this squares well with the Catholic tradition where the economy exists to serve people, and not the other way around.

Pope Benedict XVI's recent visit to our capital city reiterated this call only last week, speaking about the need to globalize solidarity as the global hunger crisis worsens. And our entire body of bishops offer the following advice, as they do every four years, this year during this election season; they say, quote, "While the common good embraces all, those who are weak, vulnerable and most in need deserve preferential concern.

"

The committee has heard from several experts on the current state of U.S. ***preference*** programs. I'd like to highlight the impact of these programs on two of the poorest countries in our own hemisphere, Haiti and Bolivia.

Church leaders from both countries visited Washington to speak about the need to both expand and strengthen these programs, and we're grateful to you, Mr. Chairman, Senator Grassley, and the committee for the support that you've given to these programs.

Haiti, as we all know, has known a great deal of hardship. In the early '80s, employment in the apparel sector began to decline from 100,000 jobs to around 15,000 by 2004. Since the U.S. began implementing the HOPE Act in 2006, Haiti has recovered approximately 5,000 jobs.

Now this achievement is modest, but it's especially important for people like Carlene, a mother of two who lost her job in October '06. But with new orders coming because of HOPE, Carlene started working again in January of this year. The same is true for Samuel, a father of two, who, like Carlene, now gets his paycheck every 10 days. Arnelle received computer training after she lost her job in 2006, and her training was paid for by remittances sent by a family living in the United States. So ***preference*** programs actually help people remain in their home countries and resist the push to emigrate.

These kinds of jobs on average earn about $5 or more a day, and while this might seem incredibly low, it's four times the country's per capita income and is enough for a family to pay for food, shelter, clothing.

And so as well as meaningful ***preferences***, these programs need to be reliable. On a visit to Washington last February, Cardinal Terrazas from Santa Cruz, Bolivia urged long-term extension of the ***preferences*** Bolivia receives under ATPDEA, and he reported how much these U.S. ***preference*** programs are known by the Bolivian people and they're valued by ordinary Bolivians, many of whom depend upon them to develop viable alternatives to coca production.

Of course, ***trade*** policy needs to promote more than economic growth, and that's why USCCB has urged a strong link between ***trade*** and human rights, including labor and environmental protections, access to lifesaving medicines and respect for freedom and democracy. As the global economy integrates, USCCB, the Bishops' Conference, urges lawmakers to prioritize the rights and dignity of workers at home and abroad, taking meaningful steps to help those in the U.S. that lose their jobs because of globalization.

There is a Haitian proverb: Beyond the mountains, there are more mountains. It refers to the peasant farmer's dream of never-ending land yielding bounty upon bounty, but for many the path to a better life is blocked by insurmountable obstacles. U.S. ***preference*** programs make straight the path for poor country exports, and they offer a unique way for countries like the United States to build global solidarity using ***trade*** laws to privilege the powerless. They bring hope and life to millions of people like Carlene, Samuel and Arnelle, and for that, I'd like to say thank you.

SEN. BAUCUS: Thank you, Father, very much.

I'd like to ask each of the four of you a couple, three changes you think should be made to the current ***preference*** programs or maybe the things you like best. Just the main points you want to make with respect to the ***preference*** programs, with more emphasis on changes. What are the top three that you think we should make?

I'm going to go down the table here. We don't have a lot of time here. I have about four and a half minutes left, so could you just very briefly -- like one minute.

MR. YAGER: Okay, Mr. Chairman.

I think we made a couple of specific recommendations in our reports to USTR to align the reporting of the results of these programs as well as to look for different ways to ensure that the review of different countries -- for example, in GSP -- is more uniform than it has been in the past.

I think there are also opportunities for the Congress to help align the goals of these programs and to simplify them, not necessarily as Grant said, along with other countries, but even within these programs to ensure that they're not working at cross purposes, because, for example, some countries now, while they might not choose to be reviewed for AGOA or may not be eligible, they may in fact be still eligible for GSP, which could be at cross purposes with the goals of the program.

So there's --

SEN. BAUCUS: You want more reporting, more alignment, more accountability?

MR. YAGER: That's correct.

SEN. BAUCUS: Basically.

Mr. Aldonas?

MR. ALDONAS: The first thing I would do is limit them to the least developed in the world, the poorest who need the opportunity.

We're now living in a world where the more advanced developing countries have access to investment capital, that the least developed don't. In that world, they don't need that ***preference*** any longer, so number one --

SEN. BAUCUS: So who would you cut off?

MR. ALDONAS: Brazil. Gosh -- Zimbabwe, Venezuela.

There's a host of countries that either aren't doing the things they need to do domestically to allow the ***preferences*** to work or, frankly, they work against the broader effort to liberalize ***trade*** that would ***benefit*** the least developed.

SEN. BAUCUS: So you'd shift away from the more developed and focus much more on the least developed?

MR. ALDONAS: Absolutely. It increases the ***preference*** that they ***benefit*** from if you focus it on the least-developed countries in the world.

Second thing is a single set of criteria that focuses on developing markets domestically in the developing countries.

And the third thing is we should put the money on the table with our ***trade*** ***preferences***. We really should come to the table, both with our development assistance budget and our ***preferences*** when we sit down to talk with countries. And we should say look, let us understand what you need in the way of infrastructure to get your goods to market, let us build those markets with you domestically, and let's find a way to help you link those markets to the global economy, which is what our ***preferences*** do.

SEN. BAUCUS: Okay.

Mr. Gresser?

MR. GRESSER: I would say try to fill the gap for the least- developed countries in Asia and the Pacific in the Muslim world.

Two, improve development assistance and capacity building for Africa.

And three, probably make the programs a bit longer and with more synchronized renewals.

SEN. BAUCUS: What do you think about the eligibility criteria? To what degree are countries who participate do we know that they're focusing on those -- that those conditions are being met?

MR. GRESSER: I think we could probably do a better job in weeding out genuinely bad actors. Grant mentioned Zimbabwe and Venezuela as kind of odd beneficiaries of these programs.

I would say also that we should have a shorter and less- complicated list of eligibility criteria than we do now because the more you create very specific and, you know, multiple categories -- reasons for eligibility or non-eligibility and the more you create very detailed limits on the type of products that can be imported under these programs, the harder they become to use and the less valuable they become to the beneficiaries.

SEN. BAUCUS: Okay.

Father Small?

REV. SMALL: Just agreeing with a lot of what my colleagues have said, but it just seems such a difficult thing to try and figure out, which is why we tend to talk about it on a case-by-case basis.

Associating worker protections and labor provisions, as we did with the recent HOPE II Act, I think was a great way forward. Maybe increasing that so that it's more of a capacity building around labor rather than -- there's always the carrot and the stick. I think the carrot will probably work if we focus on those countries that Grant says should be focused on, to the least developed.

SEN. BAUCUS: So, I mean, do you all agree that we should begin to limit some of the more developed countries and focus more on the least developed? Anybody disagree with that basic point?

REV. SMALL: I suppose the conference couldn't go on record as saying who shouldn't get ***preferences***.

SEN. BAUCUS: Right. Yeah, right.

REV. SMALL: We generally say who goes to heaven, but we don't say who goes to hell. (Laughter.)

SEN. BAUCUS: Right.

MR. ALDONAS: As a Lutheran, that's not my experience with the Catholic Church. (Laughter.)

REV. SMALL: Not even Martin Luther got that.

SEN. BAUCUS: What about India? Anybody have a view about India?

MR. ALDONAS: Yeah, India's the principal obstacle, frankly, to the launch of the Doha round in Doha and the principal obstacle now in terms of actually concluding a round. Any movement at all in terms of goods and services could make a significant contribution to liberalization not only for the ***benefit*** of American exporters but for the poor in the world.

SEN. BAUCUS: Yeah.

My time's expiring, but one question -- what are the potential unintended adverse consequences of starting to phase out the Indias and the Brazils of the world? What are the consequences of doing that?

MR. GRESSER: Well, most of the goods, particularly under India's GSP, are not import-sensitive. If India's privileges are limited, they will drift off to China or Vietnam or some other country.

And India is a large, rapidly developing country, but it's also a very poor country, 7(00) or 800 dollars per capita income. And many of the people who work in the GSP industries in India are low-income women who I think deserve and need some support.

SEN. BAUCUS: Thank you very much.

Senator Grassley?

SEN. GRASSLEY: Yeah. Thank you very much.

Mr. Gresser, I think you wrote about something I want to ask you about, so not a very specific question but your views, and this is where I'm coming from because I've noticed that some of the strongest congressional supporters of ***preference*** programs also oppose negotiating new ***trade*** agreements. That's puzzling to me.

It seems to me that liberalizing ***trade*** is a powerful tool for helping poor in other countries, and GSP's one example of trying to do that. And when folks oppose greater ***trade*** liberalization, they're hurting the poor, not helping them.

Your views?

MR. GRESSER: Well, among the group of people who are supporting ***preferences*** and unhappy with ***trade*** agreements, I think there are probably a range of views.

I don't presume to speak for them, particularly for people in Congress, but there is a group of people who feel that the FTAs ask too much of low-income countries.

SEN. GRASSLEY: Yeah.

MR. GRESSER: There may be people who place kind of very high reliance on conditionalities and the potential of withdrawing ***benefits*** as ways to influence the policies of beneficiaries.

In my experience, this is not as easy to do as one might think at first glance, but maybe those are some of the explanations.

I do agree with you that liberalizing ***trade*** has been a real ***benefit*** for the poor in the world, and last year had Muhammad Yunus from the Grameen Bank testifying to that. And I think his words were very eloquent and well worth recalling.

SEN. GRASSLEY: Yeah.

Now, Mr. Yager, last year the administration revoked competitive need limitation waivers for eight super-competitive products under GSP. The purpose of the revocation was to provide additional import opportunity to other beneficiary countries.

Your testimony mentioned that beneficiaries of GSP will not necessarily profit from another country's loss of ***preference***; however, I feel we have some ***trade*** data suggesting revocations were a success. Just to give you an example, import of gold jewelry rising from other GSP beneficiary countries as well as from our free ***trade*** agreement partner Dominican Republic. I expect that the administration will continue its efforts this year and revoke waivers on super-competitive requirements set out in the law.

In any case, then, how do you respond to the ***trade*** data, assuming I read the ***trade*** data right?

MR. YAGER: Yes, Senator Grassley, I believe you're correct.

I'm familiar with one particular case where a competitive need limitation on gold jewelry I think is the one you mentioned. That was certainly an unusual case because the volume that was being shipped under the waiver by India I believe was over $2 billion, and so more than 10 times the threshold that normally would push a country product out of the GSP program.

So it certainly is no surprise that when you have an exporter like India that's pushed out of that kind of a volume of ***trade*** that the ***benefits*** would be widely distributed across both ***preference*** beneficiaries, free ***trade*** partners, as well as other countries around the world.

I think it is a very useful exercise to go through and look to see what the effects of these revocations of the waivers are, and so we can actually do a little bit more and communicate with your office on that because we think it is useful to see what happens in these cases.

The case that you mentioned, gold jewelry, though, was certainly one where there was a great deal of shipments under that program vastly in excess of the (CNL/C&L ?) limits, and so it's not surprising that those ***benefits*** were spread around the world.

SEN. GRASSLEY: I presume then that you feel that we don't have enough ***trade*** data to justify a very sweeping opinion in that direction.

MR. YAGER: Well, I think what we wrote in the testimony was that there's no guarantee that the ***benefits*** will go to other ***preference*** beneficiaries. And so I think that by looking at the data, it's certainly a good way to determine whether in fact it occurs in that way, so we think it would be a very useful exercise.

SEN. GRASSLEY: Okay. On another point, Grant, you suggested in testimony that we should ask beneficiaries of ***preference*** programs to create conditions for markets to flourish. For example, you mentioned private property rights for the poor and the needs to ensure enforceability of contracts.

Are you suggesting that we should require countries to implement these types of reforms as a condition for receiving ***preferences***?

MR. ALDONAS: Thank you, Senator Grassley. That's exactly what I'm suggesting.

In the absence of those domestic reforms that allow individuals in the developing country to engage in that simple human freedom of exchange, there's not much hope for economic development, number one.

The other thing is those rules are also consistent with creating contestable markets in which our exporters can compete fairly. So it helps both in terms of the development as well as our own commercial interests.

SEN. GRASSLEY: Okay.

Senator Baucus asked me to call the next person on the list, and that's Mr. Bingaman.

Senator Bingaman?

SEN. JEFF BINGAMAN (D-NM): Thank you all for being here.

Mr. Yager, let me start with you. I've thought for a long time that one of our problems with ***trade*** generally is that we don't properly staff up the U.S. ***trade*** representative's office to do all the things that we require them to do. And accordingly, their priority has been let's get more agreements signed. There's not enough time and not enough people to properly monitor what we've already got in place.

Your comments about how these programs are not properly monitored and not properly reported on, all of that, am I right that this is a symptom of the larger problem that we're not properly staffing, not adequately resourcing our ***trade*** representative's office?

MR. YAGER: It's certainly related to that point.

For example, there is an annual review under the AGOA program in which each country is looked at each year. On the other hand, GSP, it can be many years between program reviews for individual countries. In fact, many of the countries in the GSP program have never been reviewed.

So when we talked to the ***trade*** representative's office, one of the things that did concern them was the work and the amount of effort necessary to go through the entire list of GSP countries on an annual basis. They looked at that as quite a daunting task.

And so there are issues related to the requirements and the expectations on USTR and the staffing that they have to try to comply with congressional interests.

SEN. BINGAMAN: Mr. Gresser, you point out here that in 2007 GSP covered ($)30.8 billion in goods or ($)20.3 billion in goods excluding oil.

Why are we including oil in this? I mean, I have real trouble understanding, given the demand for oil today, which we see reflected every time we drive up to the gas pump, why do we have to give particular countries a ***preference*** to import oil into this country?

MR. GRESSER: Senator, I can't see any good reason for it.

The tariffs on oil are small specific duties, typically a quarter or a nickel or 50 cents per barrel. I don't think they have any noticeable effect on ***trade***, and I think it's not really meaningful to include them in these programs. They should probably not be included.

SEN. BINGAMAN: And would that be -- is oil the main one or is there others that you would put in that same category, that it just doesn't make any sense?

I mean, these are not -- people producing oil or companies producing oil in these countries are not giving work to low-income people who otherwise would have no income, as a general matter.

MR. GRESSER: Yes, this is a very good point. And we would be importing it no matter what in either case.

There may be some other natural resource products that -- in a similar state. I'd have to look at the schedule. But I think oil is the big one.

SEN. BINGAMAN: Okay. This business of -- Mr. Aldonas, let me ask you here. The business of coordinating our development assistance and our ***trade*** ***preference*** policies makes a lot of sense to me, and I think Mr. Yager, Dr. Yager, talks about the fact that we don't have this linked to capacity building. How do all these three fit together? I mean what are we talking about by way of capacity building that's not included in what you're describing by way of development assistance? Or maybe it's all the same thing?

MR. ALDONAS: It's a great question. The world we're living in is really driven by competition among supply chains, and it would be useful to take that mode of thinking about the world and applying it to what we do from a development perspective, because what you'll identify is what kind of domestic reforms you need inside the country to ensure that it has a vibrant market domestically; you'll see what the infrastructure problems are, to be able to link that to a global market; you'll also identify the external barriers those exports face, which is really what our ***preference*** programs address.

So in one sense you'd be mirroring precisely what the buyers of the goods that Ed was describing look at when they say, "Am I going to source in a place like Cambodia? Am I going to source" -- and the financial part of it is to say, how do we finance the infrastructure, both human infrastructure, institutional infrastructure and physical infrastructure, to allow this to happen?

So ultimately if you want to line up both our development assistance and our ***preference*** programs with the way the world works in the global economy, the best thing is to take that methodology and apply that analysis and really set a single set of criteria that would apply to both, so when you come to the table with a least-developed country, you have the opportunity to talk both about the money and about the ***preferences***.

SEN. BINGAMAN: My time is up.

Thank you, Mr. Chairman.

SEN. BAUCUS: Now up next on the list is Senator Smith.

SEN. GORDON SMITH (R-OR): Thank you, Mr. Chairman.

Ed Gresser and Grant Aldonas, a number of members of the committee have introduced different types of models of ***trade*** ***preferences***. Senator Feinstein and I have introduced legislation that would extend AGOA-like ***benefits*** to developed countries throughout Asia and the Pacific, and I know others have models that are more targeted to areas within those areas. I wonder if you could briefly discuss the pros and cons of both models and how business and investments respond to the two. Is there a better way, a ***preference*** that you have as between these two types?

MR. GRESSER: In terms of -- just so I understand this correctly, a broad ***benefit*** for least-developed countries in general, or a targeted --

SEN. SMITH: Well, Senator Feinstein's and my bill for least- developed countries targets the entire region, and, for example, I think Senator Cantwell and Senator Hatch have one more targeted within a specific area within a country. My question is not a criticism of either but really more of a question of which is getting a greater response in terms of investment and business activity.

MR. GRESSER: Well, I have thought that -- PPI has advocated a broad kind of ***benefit*** for the Muslim world and for least-developed countries. Senator Cantwell's bill covers Afghanistan as a whole and the border areas of Pakistan. And if you could successfully bring jobs and growth to those regions -- Northwest Frontier -- (inaudible) --

and so on, that would be a major contribution to American security. I guess I don't see the two in conflict. I see them as both good ideas and complementary, especially in that Pakistan is not a least- developed country and doesn't have a very meaningful ***benefit*** right now.

SEN. SMITH: The fact that Pakistan is not -- doesn't qualify under the bill that Senator Feinstein and I introduced -- but the truth is, its economics are just slightly above those of Cambodia, which do qualify. And I wonder if you can give me an update on what is the state of Pakistan's apparel industry and what ***benefits*** -- obviously you've cited national security, but are there other ***benefits*** that come from helping them in this regard?

MR. GRESSER: I think that for our perspective the big ***benefit*** is national security. Pakistan is at the center of our largest current concern. In a social sense -- I've visited Karachi, walked around the area where they have textile industry. And you can see many young, 20-, 30-year-old Pakistani women coming to work wearing, you know, black and pink and red and yellow clothes, very colorful sight. And this is one of the relatively few opportunities for Pakistani women to become self-sufficient, to build up some savings, and I think has a social ***benefit***, especially for a large and quite conservative Muslim country, that we shouldn't ignore.

SEN. SMITH: And you think they're -- I think one of you mentioned, they are very mindful that they have these opportunities for these jobs because of the United States offering these ***trade*** ***preferences***.

MR. GRESSER: I would hope that they are. I've read and, you know, talked to Pakistani people -- each container full of towels sent to the United States, very simple, cheap good, puts 500 Pakistanis to work, takes people out of madrassas, takes them out of kind of sitting around in village squares, and I think can help, you know, on a large scale, bring down the social temperature, and make some of our political goals easier to achieve.

SEN. SMITH: I know this is about ***trade*** ***preferences***, but Senator Cantwell and I have a bill that is related to affordable footwear. For example, many parts of the world still have duties of 67 percent that relate back to the days of Smoot-Hawley. And it was designed in Smoot-Hawley to protect an industry that frankly no longer exists in our country at much of a level. And our bill is actually supported by the remaining American foot -- shoe manufacturers. And I wonder, as you look at, you know, kids going back to school in a few months, when families are going to have to buy them new shoes, would it not be advisable to pass this affordable footwear act now so that the poor in those countries get the ***benefit*** and those who are less advantaged in our country get the advantage of the footwear that is not produced here?

MR. GRESSER: Very good idea. One of the interesting things --

SEN. SMITH: I like your answer. (Laughter.)

MR. GRESSER: (Laughs.) One of the interesting things about our tariff system is that its highest rates are on clothes and luggage and shoes, at least in manufactured goods, particularly in shoes and luggage. There are very few made in the U.S. and very high duties. Those two products account for about a tenth of all tariff money and probably cost families about 5 to 8 billion dollars a year. The highest duties, as you mentioned, are on the cheapest sort of shoes, which are most important to poor families. There are none made in the United States. And it is really worth a look. And the question, why do we do this? What's the point? And so I applaud your bill.

SEN. BAUCUS: Senator Cantwell.

SEN. MARIA CANTWELL (D-WA): Thank you, Mr. Chairman, and thank you so much for having this hearing. I asked if I could submit a longer statement for the record about the GSP system and --

SEN. BAUCUS: Without objection.

SEN. CANTWELL: And on legislation you mentioned, and I appreciate that, and some of my colleagues have already talked about -- related to creating a reconstruction opportunity zone within Pakistan and Afghanistan. And you know, as my colleague from Oregon said, the Northwest kind of looks at this issue in a broad prospective.

Trade has been an important part of our economy, but it was after 9/11 that a group of constituents --Bill Gates Sr., former U.S. Senator Dan Evans, General Johnny Shalikashvili -- formed what was known as the Initiative for Global Development. And their focus was to use -- basically, that at the root of global poverty, if we could address that, that it would be a critical factor in addressing our security as a nation.

And so Mr. Chairman, I would also like to add to the record letters submitted from the secretary of State, Condoleezza Rice, the Afghan and Pakistan ministers of commerce, and also a letter submitted by former Ambassador Richard Holbrooke and 9/11 commission Chair Lee Hamilton --

SEN. BAUCUS: Without objection.

SEN. CANTWELL: -- for the record.

So, obviously, you've already started discussing this notion of what we can do in these communities of the tribal region of Pakistan and Afghanistan, and I guess I'm curious, Mr. Gresser, to go on further about this, because obviously we have a drug problem in Afghanistan, and I am told by businessmen and women in the Pakistan area that they would use the money ***benefit*** of this to actually send children to school. And so I don't know what your feelings are about the secondary ***benefits*** of this, in being able to bring up a higher standard of living, of education, from the business development that is happening. And if you could comment on that and any comments about the drug problem and how this will help with Afghanistan.

MR. GRESSER: Well, I'm afraid the drug problem's a little bit out of my expertise. Maybe I'll defer to others on that. But when, you know, one region or part of the country develops successful businesses, then the local government begins to collect taxes, public services can improve, education can improve. You'll have more women working in factories, and that will create, I think, a climate in which education for girls is, you know, more widely supported and accepted. So I think these are very good aspirations, and with your bill I think we have a better chance of success with them.

SEN. CANTWELL: Does anybody else have a comment on that?

MR. YAGER: If I could make a comment about this, I mean, one option would be Colombia for the lessons we might learn there, because obviously a big part of the ATPA was to encourage agriculture, alternative forms of agriculture, to give people opportunities out of the illegal sector. And we certainly have observed that in the area of cut flowers there's significant employment growth among people within Colombia, so there are examples in which the ***preference*** programs have sent a signal, both to the country as well as investors, to invest. And of course the investment then would create the opportunity for jobs and of course exports back to the United States. So perhaps a look at the Colombian experience would provide some insights into the ROZ options that you're putting forward.

SEN. CANTWELL: That's a good point. I traveled to Colombia at the chair's suggestion to do so. And I did tour that flower-growing region and the facilities, and some of the additional ***benefits*** of job training and education that is accruing to that work force. So we will look at that.

MR. ALDONAS: Senator, if I could just add in response, you know, business and employment contribute to stability. And there's a tremendous spillover effect in terms of societal ***benefits***. That ought to be the goal of everything we do, both in terms of ***preferences*** and in terms of development assistance. And I didn't get a chance to respond to Senator Smith's question, but I don't see your proposal and the proposal for the least developed as consistent; in fact, I think they reinforce one another. But you have to get out of the mind-set that development is something that takes place only within the confines of a geographical border designated as a country. You have to sort of grapple with the fact that you have regions that are underdeveloped, and we might want to focus on that. And this is a proposal that would allow us to do that for the first time, in many respects.

SEN. CANTWELL: Thank you, Mr. Chairman.

SEN. BAUCUS: Thanks, Senator Cantwell.

Senator Bunning.

SEN. JIM BUNNING (R-KY): Thank you, Mr. Chairman.

Mr. Aldonas, I'm interested in your testimony that the availability of ***trade*** ***preferences*** is eroding the support of certain developing nations for more comprehensive bilateral and multilateral ***trade*** agreements. You mentioned India in particular. Why should we continue to extend these programs if they are barriers to promoting bilateral ***trade*** agreements?

MR. ALDONAS: I think particularly for the rising export powers, you've got the equation exactly right, Senator Bunning. The truth is is that for those countries you actually want an incentive for them to engage in full liberalization. It's actually in their economic interest. It's also in our economic interest. And so ultimately that's why I'd like to see these things focused on the least- developed.

The other point I'd make is that in today's world, the ***preferences*** were originally a way of trying to track investment capital to very poor countries. There's no doubt, in India, China, Brazil, as you go down that list, they have plenty of access to global capital flows at this point. There's lots of private investment in each one of those economies. You don't need the additional incentive of the ***preferences***.

SEN. BUNNING: Okay, this is a question for the entire panel. Last summer the IMF issued a set of objective criteria to evaluate whether a country is manipulating its currency to gain a ***trade*** advantage. The example of China, which now has chose close to ($)2 trillion in foreign reserves, is encouraging other developing countries to use the same techniques. The Port of Los Angeles is busy all day emptying thousands of cargo containers from China and shipping empty containers back. Empty containers back from Los Angeles. When we reauthorize GSP, should we consider current manipulation as a disqualifying factor? Any of you.

MR. ALDONAS: I'd say what you would want to do is ensure that the operation of their capital markets reflected the market. And that's broader than just the foreign exchange rate. But ultimately, you want to have conditions in the domestic market that give you some assurance that people there have the opportunity to invest fairly and engage in exchange and that we have the opportunity to link them to global markets. And part of that is making sure you've got the rules right in the capital market, as far as I'm concerned.

SEN. BUNNING: Well, there's no question in my mind that China passed the right laws and rules to engage in the WTO, but they're not enforcing them, and therefore, if a country is not enforcing the laws that make the playing field level, why should we give them ***preferences***?

MR. ALDONAS: Yeah, I appreciate what you're saying. I think the problem is more fundamental that the demands that we made in the context of the WTO accession agreement on financial services -- in large part because the Financial Services Committee wasn't very demanding -- were inadequate to ensure that you have a functioning capital market in China. And until you have a functioning capital market in China, you'll see all sorts of distortions in their economy that spill over our way as ***trade*** problems. They've metastasized because of the lack of a functioning capital market. That's one of the essentials; whether you're talking with the Chinese under our anti-dumping laws about whether they're a market economy, or whether it's in the context of ***preference*** programs, I think you always want to insist that one of the things we're trying to create for their own ***benefit*** is a functioning capital market.

SEN. BUNNING: Anybody else like to comment on that?

MR. YAGER: If I can make a brief comment on that, Senator Bunning -- I think one of the things that we're suggesting that USTR do is make a more conscious decision about eligibility of countries, whether it's on an annual basis or on a, you know, number of year basis. We think it's important that they make an actual explicit decision about certain countries, whether it's for movement towards a market economy, or whether it's to comply with other U.S. priorities, such as IPR rights or human trafficking or things of that nature.

And I think the point that we would like to make to USTR is that there should be a decision, if not every year, at least on some period of years, so that considerations can be discussed. And there may be different considerations for different countries and different regions, but at least there is a discussion about it, and there's been a decision made. The example of Zimbabwe came up earlier, that those are the kinds of things that would provide an opportunity to ask questions about their performance on different aspects, not necessarily currency in that case, but in other things that are important to the United States.

SEN. BUNNING: This is a follow-up, because I've only got about 10 seconds left. When we reauthorize GSP, should we re-evaluate the criteria for graduating countries from the GSP program?

MR. ALDONAS: In my view, absolutely. I think one of the things you want to be looking at is to the extent that they still need the ***preference*** to track capital, which was the original goal, to track investment capital -- and that's part of why I think you ought to have that single criteria that applies both to what we do on a ***preference*** society and what we do with respect to our development assistance.

SEN. BUNNING: Mr. Gresser?

MR. GRESSER: I think on the whole, I'm pretty satisfied with the graduation criteria. Malaysia and Korea and Hong Kong have moved on as time passes. I'm not -- I think I'm not quite so alarmed about this as Grant would be.

SEN. BUNNING: (Laughs.) All right. Thank you very much.

SEN. BLANCHE L. LINCOLN (D-AK): I think it's my turn. (Laughs.)

I want to thank Chairman Baucus and Senator Grassley for holding our hearing.

And thanks to all of you all. Welcome back to many of you.

I've said it time and time again in this committee room, I'm certainly a supporter of free ***trade*** and it's not hard to point to the ***benefits*** that ***trade*** has brought to my home state of Arkansas. We certainly, on behalf of agricultural products and others, want to make sure it's fair ***trade***, but Arkansas is also home to Wal-Mart, a business with one of the most sophisticated sourcing operations in the world. It's created countless new jobs and opportunities around the globe, as well as focusing now domestically on sustainability and a host of other things that they've done a tremendous job on. Our row crops, livestock, poultry producers help feed the world when they can get into those markets, and our steel producers have built some of the most efficient and effective environmentally friendly steel mills in existence today in Arkansas.

So just as ***trade*** has ***benefited*** our state, granting less developed countries greater access to our markets can, I think, be one of our more powerful tools to help alleviate poverty by creating those opportunities for entrepreneurism and investment. Our ***trade*** ***preference*** programs are great examples of how we can provide countries a hand up, and I think many of you all have really contributed to that in today's hearing. We appreciate your being here and your testimony and bringing forth those -- certainly examples of those ideas.

It's also added foreign policy ***benefits***, fostering political and economic stability, as you all have mentioned, creating good will for the United States, shoring up relationships with important allies. I know, just mentioning some of what Senator Cantwell talked about, I, too, visited Colombia, and being able to not only visit and experience walking through the motions of what the military there, along with our military and the assistance of both our aerial -- even aerial applicators who've been able to go in and work with the military in Colombia dealing with how they go into the drug areas -- and the use of canines has been phenomenal.

But we've used a lot of that now, as well, in Iraq, in where we've been looking to locate IEDs and a whole host of other things. So it's been something that when we engage, it provides us mutual information.

You mentioned the flower industry. I, too, toured one of the farms, and without a doubt providing jobs and additional agricultural industry, but it also was a relocation program for victims of violence to be able to move out of a violent area and move into a sustainability situation, and there's tremendous support for that in those countries, and I really attribute a lot of the progress that we've made in that to those types of programs that have been fostered through the ***trade*** that we've really tried to encourage.

I'd kind of like to just quickly ask a couple of questions.

Mr. Aldonas, I was -- I've been very interested -- you've talked about expanding our ***preferences*** to the least developed countries and really focusing on that. Do you have a thought or maybe an experience or something in terms of explanation that really led you to that conclusion? I mean, you've talked about what it means. I know that, but I'm just wondering if there's one specific that really, you know, kind of comes out in your mind?

MR. ALDONAS: A couple of things. One is looking at Bangladesh, which is one of the poorest countries in the world and recognizing that it suffers in competition with China and a variety of others in making -- turning a long staple cotton crop into goods that would ***benefit*** us and ***benefit*** the rest of the world and recognizing that they would ***benefit*** from these ***preferences*** that are excluded. So that's one example.

The other one I would pick is this odd sort of anomaly where by limiting what we do on textiles under the African Growth and Opportunity Act, where, as Ed was pointing out, there are some significant constraints of the rules of origin. We actually ended up in some respects not building a strong enough industry, and as a consequence, Chinese exports are now out-competing local production in Africa.

And so in one sense, what we did -- and I was a part of it -- I admit it -- in drafting those rules of origin was create something that didn't give them the competitive edge that would allow them to sustain their competition in their own market, not only in the market abroad.

If I could just add, Senator Lincoln, that I used to kid Lee Scott and Mike Eskew that, you know, in today's world, that Wal-Mart represents the Agora, the old Greek market where everybody had to bring their goods on a donkey, and UPS represents the donkey. (Laughter.) And in this world, it'd be very useful to take what Lee and the folks at Wal-Mart have done, take a look at their sourcing model and think about our ***preference*** programs from that angle, because it's actually a wonderful way of saying, how would I set the incentives so that people can participate and bring their goods to the Agora.

SEN. LINCOLN: Yeah. Just the last question I have, because my time's about up and well, I don't know what -- we'll probably finish up the hearing.

But how might USTR better coordinate with other agencies to improve ***trade*** capacity in some of those less-developed nations? We talked a little bit about USDA. My husband's godfather in the '50s worked for USDA and was in countries like Afghanistan and Lebanon and other places, you know, trying to have a coordinated effort of knowledge in terms of agricultural practices and a host of other things. Is there some way that USTR could better coordinate with other agencies in terms of using ***benefits*** that would help escalate the development of industries in certain ways?

MR. YAGER: Senator Lincoln, I think the answer is yes, and in fact, they've done so with regard to the AGOA program, because the AGOA program does specifically link the ***preferences*** to capacity building, but it's only the one ***preference*** program that does that. And of course, there's a number of other countries around the world outside of Africa that could use the type of ***trade*** capacity-building assistance that are built in and are linked with the -- you know, with the actual ***preference*** program. So there's probably both an argument for it as well as some experience that might be gained from what the United States has done through the AGOA program to learn a little bit more about how that capacity building can be provided, along with the ***preference*** programs to gain greater ***benefits***.

SEN. LINCOLN: I know there's a lot of different nonprofits. We're the home in Arkansas to Heifer International, as well as Winrock International, both of which teach an awful lot about microeconomics and, you know, entrepreneurship and building those kind of industries from a very small entity up. And I'm assuming that USTR in some way connects with some of those; I don't know.

MR. ALDONAS: Senator Lincoln, they don't. I actually chair one of those institutions, and while, based on what I know about the ***preference*** programs, we certainly take them into account deeply in terms of the sorts of investment projects we would look at, it's without reference to any discussion with USTR or the sort of formulation and administration of the ***preference*** programs, because there's not a point of access that allows you to do that.

Equally important, there's no place where you can go in the U.S. government for a single conversation about an entity which is designed to finance cooperatives among small producers of asparagus ad figure out how to link them to General Mills. There's no way to go and have the conversation. And when you go talk with the Department of Agriculture and APHIS, which sets the standards, the folks at AID and MCC, which both have different operating rules, and USTR, what you're going to end up with is dealing with four conflicting standards. And that's why I think one of the things you have to do is draw all of the threads together. And I understand it raises jurisdictional issues, but I know that this committee has squared those jurisdictional issues in the past, particularly with respect to AGOA, but that's where I think the heart of the problem lies, because it's very difficult in the position of being that provider as an NGO to find one source, one consistent set of advice and support for trying to draw the threads of finance and ***trade*** together.

SEN. BAUCUS: Father Small, could you please -- thank you very much, Senator.

Could you tell us a little more about your experiences in Bolivia and also in Haiti? And I'd like you to focus on the degree to which GSP is really -- the ***Andean*** ***Trade*** ***Preferences*** Act is really helping, say, in Bolivia and what effect it's having on people.

REV. SMALL: Sure. Thank you, Senator.

I was just going to tag on the end that Senator Lincoln talked about Wal-Mart -- I just -- I'm always stunned why this is sort of such a best-kept secret of our development policy through our ***preferences*** at a time when ***trade*** is not really seen as friendly to the U.S. economy, et cetera. It's sort of, in a popular way, it's seen as something that's inimical to economic development, and yet our ***preference*** program should be the flagship of how genuinely it is about development.

And if you take the case of Bolivia, for example, even though there are some tensions there, from the reports that we get and from church leaders who've been there, they're very literate in what this ***preference*** program means to their people. Certainly, in the past, in the western regions, those areas that President Morales has spoken about as people who need liberation and who need equality -- they actually provide some estimates up to 25,000 jobs. Others claim that it's much larger.

In a very tense and difficult situation in that country, U.S. ***trade*** ***preference*** programs are something that stand as a beacon, at least for the people that they have assistance that's beyond traditional development assistance. If you take that away or if that lapses, and I understand the largest producer -- the largest employer, private employer in Bolivia -- 45,000 jobs -- has started to move some of that production to Peru, given the uncertainty around the extension of those ***preferences***. They've been extended relatively short periods, which is deeply troubling and sort of gives something of a propaganda victory to those who say that this model of ***trade*** and openness and integration is not something that we should be pursuing. It's more about looking sort of internally.

But if you think of the rest of the hemisphere, now that Haiti has what it has, you think of the DR-CAFTA, you think of the CBI -- Bolivia would be left as pretty much the poorest country in the hemisphere with nothing outside of GSP, which, as you said, when you think of your neighbors who need it -- who need a lift up, is that the signal and the message we want to be sending at this time?

So it's deeply important. I just regret that we don't do a better job of showing how valuable and important these ***trade*** ***preferences*** are domestically.

SEN. BAUCUS: I'd like to ask some of the panel -- go ahead --

MR. ALDONAS: Sorry, I just wanted to say -- just make mention of -- I think it's the same individual -- it's Marcos Iberkleid and it's Ametex which does a lot of the textile and apparel exporting out of Bolivia, and they are going to be forced to shut down in the absence of the ***preference*** program. And the reason I raise that is that that firm implements one of the most forward-looking policies with respect to workers and worker rights of anyone in the hemisphere.

SEN. BAUCUS: What's the firm?

MR. ALDONAS: It's Ametex. And it's a remarkable story about how the incentives and certainly Marcos thinking about our market is responding and is making available rights to his workers well beyond those that are guaranteed under local law. And so that's exactly the sort of thing I think we'd want to highlight and reinforce.

SEN. BAUCUS: Others on the panel might want to comment on the degree to which ***preference*** programs help United States businesses, United States consumers. Anybody want to comment on that?

MR. GRESSER: Well, okay. One particular product: roses and flowers. Most of the flowers sold for Valentine's Day are flown in from Colombia and Ecuador. If the ATPA lapses or is cut off, their prices will go up. You know, people buying flowers for their wives and girlfriends next year are going to paying more money and probably buying fewer roses. There is a real ***benefit*** in there for ordinary people and for a bunch of florists, whose businesses improve, and I think that's a very nice thing to do.

If I can just make two brief comments about your last question -- Haiti -- I was just there a few weeks ago -- 8.6 million people. They have 200,000 or so paying jobs. People in Haiti live very close to the margin. About 20,000 of those jobs are garment exports to the United States. And each of the workers there is supposed to feed about 10 people in extended families in rural areas and so on.

The other one is the Cambodian case. A big garment factory in Cambodia can employ 4(,000) or 5,000 young women. They wear little silver earrings and bracelets, which is how they save money, because they can't get bank accounts most of the time. A factory like that takes about four weeks to set up and two weeks to bring down if they want to move to Vietnam or if they want to move to some other country which is larger, which has, you know, a better port, those sorts of things. I think people in Cambodian government and business feel if they had a good ***trade*** ***preference*** ***benefit***, they would be secure for a while. It would allow the development of the last 10 years, which is taking Cambodia from basically failed state desperate condition into a fairly rapidly growing least-developed country and allow it to move into beyond the least-developed stage and become a self-supporting place for the first time really since the '50s or '60s. That would be a big accomplishment.

SEN. BAUCUS: Yes --

MR. ALDONAS: I just wanted to chime in, because your question invites something about the broader ***benefit*** of our openness and the ability of the American companies to source. We're living in a global economy where the nature of competition has changed fundamentally to a global competition over capital, talent and ideas, and our goal, as you know working on tax policy and health care and a variety of other things, is to make ourselves as inviting a place for people to invest as possible by the mix of those policies. Well, ***trade*** policy plays a role in that. And the more broadly open we are, particularly to new sources of supply, we're ***benefiting*** people, including small businesses on the low end that have to be a part of a global supply chain to be able to compete. So in a weird sort of way, in the world we're in now, this very openness is what makes us most attractive.

SEN. BAUCUS: How does the European -- EU ***preference*** program compare with the U.S. generally?

MR. YAGER: They have a couple different programs which are related to our ***preference*** programs. They have one program, which is called the Everything But Arms program, which is available to the least-developed countries. And while some of the products -- some agricultural products in particular -- were phased in over a long period of time, it provides duty-free access to LDCs for virtually all products being shipped into the EU. And so they do have some rules of origin, and some of those are fairly restrictive and complex, as are the rules of origin in some of the U.S. programs, but they have the Everything But Arms program for the least-developed countries.

They also have other agreements that they have set up -- the ACPU, which is designed also to help a particular group of countries, and in those cases, they have a multistep program, which aligns not just the ***trade*** aspects but also the development aspects with other considerations. And so they have a package of programs, as does the United States, with different targets and different kinds of --

SEN. BAUCUS: But generally, about as generous, less generous, more generous -- if you could generalize.

MR. ALDONAS: Well, I used to crack jokes about it, Senator Baucus, saying that Everything But Arms was the Venus de Milo approach -- it was only half a sculpture is what it was. You know, the problem is that -- as Loren was pointing out -- is that the rules of origin are horribly complex. And so in a weird sort of way, if you took the best of our stuff and limit it to the developing world and you took the best of their stuff and limit it to the developing world, you might have one good program. But that's the sort of thing that you'd want to think about, and that's why I was suggesting harmonizing the rules with our developed country ***trading*** partners so that they were consistent and would offer a much more powerful incentive for folks in the least-developed countries where they need the incentive most.

SEN. BAUCUS: Okay. We're going to have to conclude here. Does anybody want to say anything that's commenting on something that somebody else might have said that was so outrageous it deserves a response? (Laughter.) Seeing not, thank you very much, and we deeply appreciate your time. It's very helpful.

(Sounds gavel.) The hearing's adjourned.

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