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U.S. TRADE DEFICIT REVIEW COMMISSION

HEARINGS

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Seattle, Washington

November 16, 1999

Good morning. I am Ray Waldmann, Vice President, International Affairs for the Boeing Company. On **behalf of** Boeing and its more than 200,000 employees, I first wish to applaud the U.S. Government's establishment of the U.S. Trade Deficit Review Commission and, second, to thank the commission for hosting the field hearing in Seattle today.

As you know, in a few short weeks this city will be the site for the "Seattle Round" of the **World** Trade Organization's trade talks. Seattle was selected for various reasons, including its importance as a modern-day global trading center. It is a major gateway for U.S. exporters and foreign importers. Through this gateway pour billions of dollars worth of products each year from The Boeing **Company**, Microsoft, Paccar, Weyerhaeuser, and other U.S. companies. Billions of dollars worth of agricultural goods also flow through Seattle each year for markets in Asia. In fact, last week the U.S. Department of Commerce issued statistics showing that the Greater **Seattle** area is now the top exporting metropolitan area in the U.S. -- a total of \$34 billion last year.

Chairman Lewis, it is most appropriate that this commission be here today to hear **from** interested parties in the matter of reducing the trade deficit in the United States.

INTERDEPENDENCE OF U.S. ECONOMY AND FOREIGN TRADE

Trade with other nations plays an enormous role in the U.S. economy. Total trade for the U.S. in 1998 -- imports plus exports -- accounted for over \$2 trillion in business activity, or nearly 24 percent of the size of the entire U.S. economy. With 1998 exports in excess of \$930 billion, the United States is the largest exporting country in the world. The Boeing Company contributed nearly 3 percent of total U.S. exports last year. Export growth has accounted for about 27 percent of the nation's overall economic growth over the past ten years. During this time, export growth **outpaced** the expansion of the economy as a whole.

U.S. exports, however, did slow in 1998 due to the Asian Economic Crisis. According to well-respected economists, as the economies of Asia faltered, and as Japan's recession worsened, U.S. export growth tumbled from about 10 percent in 1997 to zero in 1998. This lack of economic growth directly affected the ability of Boeing's international customers to take delivery of hundreds of millions of dollars worth of new commercial jets. As a result, we were forced to delay delivery to certain customers as well as cancel deliveries to others. The stability of economies around the globe should remain a top priority of the U.S. Government, and trade can play a major role in achieving that goal. The U.S. **must** continue to lead the world in the liberalization and negotiation of trade agreements and the enforcement of existing trade agreements.

The U.S. has a lot at stake. National economies are becoming increasingly interdependent. As a result, U.S. economic performance on the domestic **front** will be even more dependent in the years ahead on the world's economic performance. The

“Seattle Round” provides the best opportunity for the US. Government to create a framework for long-term global economic growth

Economists predict that international trade directly **affects** about 30 percent of U.S. GDP, with some sectors of the U.S. economy affected more than others. For The Boeing Company, some 70 percent of our commercial aircraft revenues typically are derived **from** foreign airlines. In 1998, the “new” Boeing Company generated nearly 50 percent of its revenues -- \$26.5 billion -- from exports of not only commercial aircraft, but also military aircraft and space-related products and services. As noted a moment ago, this represented nearly 3 percent of all U.S. exports in ‘98. For Boeing, the importance of international trade cannot be exaggerated.

AMERICA MUST REACH NEW TRADE AGREEMENTS TO PROSPER

Despite the fact **that** trade has never been more important to this nation’s economic growth, some people continue to question the wisdom of our government’s efforts to liberalize trade. I understand that their concerns are based, in part, on whether the benefits of trade are broadly shared around the world and whether U.S. firms, workers and the environment are actually benefiting **from** trade agreements. These are legitimate concerns and need to be addressed. In fact, they must be addressed if we are to work together to build a national consensus for trade and fuel the nation’s economic growth.

It is very important for everyone to fully appreciate the beneficial aspects of international trade for the American worker. Approximately 12 million U.S. jobs--nearly 10 percent--are directly linked to exports. These jobs typically pay between 13 and 16 percent more than the average worker is paid. And despite what some people are saying, trade does **not** just benefit “big” business. Rather, small and medium-size businesses reap the benefits, as well. They do so either as direct exporters or, as part of a larger supply chain to the larger companies which themselves export. Unfortunately, these small and medium size suppliers are **often** “invisible” to the public. Some suppliers themselves do not realize that they are exporters since they are selling their goods and services to U.S.-based companies.

The United States of America represents the world’s largest economy and possesses the most productive employees, the best technology, and the most innovative people in the world. The World Economic Forum’s *Global Competitiveness Report* recently **confirmed** this conclusion. The report indicates that the U.S. is highly competitive in a range of important industries, including: aerospace equipment, semiconductors, computers, computer software, applied materials, biotechnology, telecommunications and other information-based equipment and services. These are all the technologies of today--and of the 21st century. It is incumbent on the U.S. Government to take the lead in directing the outcome of the upcoming negotiations.

I’d like to make another important point. Those who question the desirability of expanding trade need to also fully understand the ramifications of our NOT leading these global deliberations. In addition to possibly losing our competitive edge and ability to

maintain our economic standing in the world community, we jeopardize our ability to remain the world leader in other areas. With economic strength comes diplomatic and military strength. I believe a majority of those who currently question the benefits of open trade would agree that the United States should remain a major player in world affairs generally.

IMPORTANCE OF TRADE LIBERALIZATION TO THE UNITED STATES:

In the **1980s**, it was widely held in the media that the United States had been overtaken by Japan and Germany and might never regain its place as an economic leader. Today, the United States is clearly the world's leader **economically**, politically and militarily. More than any other country, the U.S. is the world's peacekeeper. Our economy has **been** growing faster than the economies of Europe and Japan which is the single most important factor behind the current trade deficit.

Simply put, our economic strength permits us to buy more **from** other countries than other countries can afford to buy **from** us. Yet, as stated earlier, we **still** are the world's biggest exporter of both goods and services because of our amazing ability to stay on the cutting edge. We have created more net jobs in the past few years than all other G-7 nations combined. Our unemployment rate is below that of every other major **industrial** economy except Japan despite the fact that the U.S. is more engaged in trade today than ever before.

ACTIVE U.S. GOVERNMENT PARTICIPATION REQUIRED AT MINISTERIAL

The United States Government must continue as the world leader in opening up markets. Clinton Administration officials do understand that our companies, workers and farmers are the world's most competitive, if **given** a fair chance. Government leaders need to hear from people "outside the Beltway" that U.S. businesses and workers have the most to gain **from** removing foreign barriers to our goods and services through trade agreements. Anyone who has trouble believing that statement should consider this fact: 95 percent of the world's consumers live outside the United States. The opportunities overseas for America's highly skilled, highly educated and highly productive workforce are enormous. U.S. trade barriers are very low, while trade barriers overseas remain high and, in some cases, prohibitive. We need to make it clear to the American public that it is we who have the most to lose if barriers to trade persist. It is absolutely critical that our government continues negotiating new international agreements that lower trade barriers and strengthen the rules of global trade.

Additionally, our government officials must be prepared to enforce existing trade agreements. Compliance with a rules-based trading system is the foundation of the global economy: enforcement of the rules is the basis for public trust and support for U.S. involvement in the World Trade Organization's process. In Boeing's case, we find it extremely challenging--to say the least-- to try to compete with the treasuries of the four European governments of France, Germany, the UK and Spain all of which provide **financial** assistance to Boeing's major commercial **aircraft** competitor. Together, the

Department of Commerce estimates conservatively that the current value of European subsidies for the development of new commercial aircraft -- subsidies that are impermissible under the WTO Subsidies Agreement -- to be more than \$30 billion--They are **also in** violation of the 1992 US-EU Large **Civil** Aircraft Agreement by tailing to provide data to the U.S. Government on the launch of the \$3 billion **A340-500/600** development program. This European government-subsidized **aircraft** competes with the B777. In addition, those governments have also violated other international agreements by providing billions of dollars in financing to airline customers, many of whom had previously purchased Boeing aircraft.

As a result of these impermissible government **subsidies**, **Airbus** now has a **full** “family” of aircraft, except for a **747-size** plane. It is currently considering the launch, possibly in late December, of an aircraft even larger than the 747--currently called the **A3XX**. The cost to develop that **aircraft** is estimated to be between 12 and 14 billion dollars. **Airbus** partners are currently seeking European government subsidies to proceed with the program. Notwithstanding the very high probability that the program will never be profitable, the governments are expected to fund the **program**.

On the other hand, Boeing must finance the development of its new **aircraft** with profits and bank loans at **commercial interest rates**. Needless to say, the playing field is not level **from** our perspective and we hope **that** the U.S. Government and European governments can resolve this matter soon. The U.S. Government has sought to engage the European Union and the four European national governments, but to no avail. As stated above, it is critical to the future of the WTO that governments live up to their obligations under this rules-based trading system

RECOMMENDATIONS FOR REDUCING UNITED STATES TRADE DEFICIT

*Federal policies and regulations should take into consideration the **full** impact they might have on the competitiveness of American businesses in the global economy.*

The U.S. Government should implement policies that encourage the growth of international **free** trade, promote rules-based trade practices around the world, and support the global competitiveness of US industry. Specific ways to achieve these policy goals include, among others:

- Proactive support of new trade liberalization agreements in the WTO trade **talks**
- Improved enforcement of existing trade rules/agreements
- Expanding WTO membership to include China
- Playing a leadership role in regional trade liberalization initiatives
- Robust funding for the US Export-Import Bank
- More judicious application of unilateral economic sanctions
- Revamping the US export control system for military and dual-use items
- Achieving a more productive, international Airport and Airways System

The WTO and Rules-Based Open Trade

The U.S. Government should continue to seek improvements and openness in the world trading system so that there **will** be a level playing field and increased trade opportunities for America. The U.S. can attain these objectives by proactively participating in the new round of WTO negotiations — as well as in regional trade initiatives such as the Asia Pacific Economic Cooperation (APEC) forum and the Free Trade Area of the Americas (FTAA). It is **also** in the interest of the U.S. for China to gain accession to the WTO, contingent on the negotiation of commercially fair terms. China's WTO membership will facilitate US trade opportunities with one of the world's largest and fastest growing economies.

In the upcoming round of WTO **talks**, the U.S. **Government** should actively support new trade liberalization agreements in the areas of services, technical barriers to trade, tariffs and intellectual property rights. Furthermore, the rules-based WTO system should be strengthened and enlarged. In addition, the U.S. should seek improved enforcement of existing trade agreements. Unfortunately, American industry **often** finds it is at a disadvantage when competing against companies that **benefit from** subsidies and other benefits that are impermissible under current trade agreements.

Eximbank

For over 60 years, the Export-Import Bank of the United States has supported U.S. exports, primarily by providing loan guarantees to foreign buyers of American goods that would otherwise have difficulty in obtaining commercial loans. In 1998, Eximbank helped finance about \$15 billion of American exports. It is a fee-for-service agency, charging market rates for its services — meaning there is no taxpayer subsidy. Without Eximbank, many U.S. export opportunities would be lost or would go to foreign competitors who have similar loan guarantees available to them. The U.S. Government should continue to support Eximbank and provide strong, stable **funding** for its operations.

Unilateral Economic Sanctions

Unilateral economic sanctions increasingly have become a standard foreign policy tool used by the U.S. Government. Of the 115 sanctions that the U.S. has imposed since World War II, more than half have been imposed in **the** last 5 years. Our nation currently has sanctions on 70 countries, representing over two-thirds of the world's population. These sanctions have rarely achieved the foreign policy goal they were intended for, and often have had the reverse effect of strengthening the targeted offenders and harming their civilian populations. Furthermore, unilateral measures only mean that targeted nations turn to other countries for their economic needs, and in the process close out export markets for U.S. businesses. Sanctions can be more effective when applied multilaterally. It is time to reevaluate the effectiveness of using unilateral economic sanctions and review the process by which they are implemented.

Revamping US Export Controls

U.S. exports of military or dual-use nature are controlled by a system of policies, laws and regulations that are used to determine whether a U.S. company will be granted permission to market or sell a product to a particular overseas customer. This export control system needs to be revamped in order to address current and future global market **challenges** in a manner that safeguards national security interests and ensures the **international** competitiveness of US companies.

The U.S. commercial space industry is one sector of the economy that is being especially hampered by the export control system. Due to new concerns about the proliferation of ballistic missile technology, Congress recently transferred jurisdiction of export licensing for commercial satellites **from** the Commerce **Department** to the State Department, which handles licensing for military items. This has had the unintended consequence of excessive delays and restrictions in the export of commercial space-related products to even our closest **allies**. Now traditional overseas customers of U.S. commercial space products are shopping elsewhere for these items, which for the most part are already available worldwide. Urgent action is needed to address this situation to prevent near term U.S. industry losses.

Today's system is tailored to the international trade, technology and security environment of the Cold War era. When new regulations are imposed to respond to emerging security or foreign policy concerns, they only add to the demands placed on an overburdened, rigid process. As a result, U.S. companies **often face** inordinate delays and unanticipated roadblocks in the export licensing process. Adequate funding and **staffing** of licensing offices, particularly in the State Department, can help address this problem.

More importantly, our export control process should be reengineered and made flexible enough to handle today's rapid pace of technology developments. For example, there should be regular reviews of what items or technologies need to be controlled. Export controls should focus on technologies that are truly critical to U.S. military superiority while preventing bureaucratic hurdles and red tape that harm the international competitiveness of U.S. business. One objective of a restructured export control system should also be to make it more transparent and predictable to conduct legitimate export business. At the same time, measures should be taken to strengthen multilateral export control regimes to accomplish U.S. foreign policy and national security goals more effectively.

Achieving a More Productive, Global Aviation System

I believe that in order to achieve a more productive, global aviation system a number of things must occur. First, international air services negotiations must move **from** a regulated, bilateral process to an open-skies, multilateral negotiation. Since the goal is a rule-based system with level playing field competition, development of the rules should probably occur under the auspices of an international body such as the World Trade Organization or ICAO.

Second, the airport and air **traffic** management system must be able to accommodate projected growth. Airports and Air **Traffic** Management ("ATM") for the **future** must

contend with significant growth. It took 45 years to reach a world fleet of 13,000 jets, that number should double in the next 16 years. However, with this challenge comes an enormous opportunity. The technology today can provide GPS based guidance in **an** integrated world ATM system. The system capacity can be greatly increased without any additional runways. However, it will be important to build new runways and new airports as well.

Third, safety improvements must be made which will allow public confidence in the system. A doubling of operations without a significant decrease in accident rate is unacceptable. Fortunately, some of the technology, which will benefit system capacity, will also affect safety for the better.

Fourth, there are environmental issues to be addressed if the system is to expand and reach its full potential. It is clearly not enough to compare the emissions **from aircraft** and note that they are small compared to the automobile. It is not enough to point to the reductions made in noise footprint. Industry and governments must continue to actively address environmental issues or they **will** limit growth. This means that international standard for both noise and emissions must be promulgated. This must be done globally rather than piecemeal, country-by-country.

Mr. Chairman I again thank you and the commission for spending time here in Seattle listening to our concerns and heeding our recommendations on ways to reduce the federal trade deficit.

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Mr. Wafdmann is vice president, International Relations (formerly International Business), for The Boeing Company. He provides policy direction on key issues in international strategy, trade policy, regulation, technology and competitiveness. He represents the company's **positions** with foreign governments, federal agencies, the Congress and the public. Before assuming his present position in April 1995, he was corporate director, Federal Affairs. **He joined The Boeing Company in 1985.**

He serves on and formerly chaired the U.S. Government's Aerospace Industry Sector Advisory Committee (**ISAC 1**). Locally he is President of the World Affairs Council and serves on the boards of The Discovery Institute (a Seaffle think tank), the **University** of Washington's Center **for** International Business Education and Research, the Washington Council on International Trade, the Japan America Society, and The Foundation for Russian-American Economic Cooperation. He is also on **the boards** of the National Foreign **Trade Council** and the **U.S. Council on International Business.**

He sewed as Chief of Staff for the APEC Host Committee from September through November, 1993, to host President Clinton's meetings with the Asia-Pacific Leaders in **Seattle**. From **July 1994 through** February 1995 he directed the newfy created National Center for APEC; he maintains his association as **chairman** of its Advisory Council. He chaired the Host Committee **for** the vfsft of Russian President Boris Yeltsin to Seattle on September 29, 1994.

Mr. Wafdmann holds degrees in Chemical Engineering **and Humanities** from the Massachusetts Institute of Technology and in Law from Harvard University. He was a management consultant and assistant corporate counsel **with Arthur D. Little, Inc.** from 1964 to 1970 in its Boston, London and Brussels offices.

Mr. Wafdmann served on the White House Staff under President Nixon and from 1973 to 1975 he was Deputy Assistant Secretary of State for Transportation

and Telecommunications under Secretary Kissinger. He **returned** to the White House for one year with President Ford to review **foreign** intelligence activities and to develop a supervisory structure for the **CIA**. He advised the Platform Committees at three Republican Conventions. He **practiced** law in Washington, DC , specializing in international transactions, from 1976 through 1980.

Mr. Waldmann was international economic policy advisor on President Reagan's Transition Team in 1980431, and in early 1981 was appointed Assistant Secretary of **Commerce** for International Economic Policy, **where** he negotiated international trade agreements, **served** on the **Boards of the Overseas Private Investment Corporation** and the **Eximbank**, and testified before Congress numerous times. Before joining Boeing, he had formed an international trade firm and an international consulting company, both based in Washington, DC.

He founded **the** American Bar Association's Committee on foreign Investment in the U.S. and has been a **member** of the ABA Standing Committee on Law and National Security, the U.S. Chamber's Council on Trends and Perspectives, and a number of professional and **business associations**.

Mr. Waldmann is the author of *a number* of articles and six books on international topics: **Managed Trade: The New Competition Between Nations**, four separate guides for investment in the U.S., Europe and the Pacific Basin, and **Regulating International Business Through Codes of Conduct**.

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October 1998

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