SENATOR HAGEL: Thank you.

First let me thank the Commission for an opportunity to air some of the issues that my more learned colleagues have talked about already this morning and you will hear more about as the morning progresses.

Chairman Gramm has, I believe, really focused on the essence of the issue here. And I would like to add some of my thoughts as well. So, again, thank you for taking the time and giving us an opportunity to share with you some of our thoughts.

Last year's trade deficit of $271 billion is a clear indication of the imbalance between the United States economy and the other economies of the world.

The U.S. experienced a remarkable technological boom over the last few years. This has produced a sustained streak of incredible productivity resulting in an incredibly high rate of return on our equipment and investment.

This boom has given us the buying power to import more goods. Our interest rates, productivity, rate of return, and stable investment environment have been so attractive to foreign capital that we have seen a huge influx of foreign investment in U.S. assets over the last few years. These foreign investments helped finance even greater imports of foreign goods, leading to higher trade deficits.

As Alan Greenspan has said, this is a relatively recent phenomenon that began in the post-World War II years. Before the war, the rest of the world's economic growth was faster than the United States. But in the post-war period, American economic growth has consistently outstripped most of the world. We have had a trade deficit each year for the past 25 years.

What does this mean for long-term economic prospects? Well, I wish I were wise enough to give you wise counsel. I am not. But there are some signs and I would offer the following observations.

As we know, the rise in the trade deficit is caused by a combination of strong demand from U.S. consumers and businesses for imports, weak economies abroad, and large sums of capital flowing into the U.S. economy. The rise in the deficit, therefore, reflects U.S. prosperity and attractive financial markets.

This is a very good thing for the United States, certainly in the short term. However, we may find ourselves in some trouble if we reach a point at which foreign claims on U.S. assets become so great that we have difficulty paying them off. This is all uncharted territory. We all recognize that.

Right now at $271 billion, the trade deficit represents 3 percent of our GDP, one of the highest ratios ever. We are unsure exactly how high that ratio can go before it becomes a problem if, indeed, it does become a problem.

I do not believe that a trade deficit of this size and larger, most likely, can be continuously sustained without having some effects ultimately on our economy. In the future, the level of net claims on U.S. assets will continue to grow. And it could become more and more difficult to service those claims, a major debt burden for America.

The quickest way of reducing U.S. trade deficits is recession, triggered either by interest rate increases, increased domestic protectionism, or both.

Neither is an acceptable solution. The correct approach to dealing with these continued high trade deficits is to open new foreign markets for goods and services. Trade, trade, trade.

The most important market we can open today most likely is China. In my opinion, we should vote to grant normal permanent trading relations to China.

We should support China's move to become a member of the World Trade Organization. China supplies the U.S. with basic consumer goods, like clothes, shoes, toys, and other goods, but American businesses are unable to take advantage of Chinese market opportunities for our competitive goods.

In 1999, we had a $69 billion trade deficit in goods with China. As a member of the WTO, China will be bound by the rules of an international trading regime, realizing that enforcement of those rules is also key to this.

I might add at this point I was in the back of the room listening to some of what Senator Sarbanes said about the WTO. Let's not forget that the WTO, like any institution, is imperfect. There are flaws. The process is imperfect. The system is imperfect. But I think we get bogged down in a swamp of technicalities. Is this a perfect process and system? No. The marketplace is imperfect. And that's where we start.

As a member of the WTO, China would be bound by the rules of an international trading regime, meaning Chinese trade barriers come down and Americans gain access to China's 1.2 billion-population market. This would propel free, fair, and open trade between China, the U.S., and the rest of the world. We can begin to address our trade imbalance with China.

I might also say let's not forget that our national security interests and the guarantor of our foreign policy, a strong national defense, are all connected to these issues.

If we vote against permanent normal trading relations, we will, in effect, be ceding Chinese market opportunities to our European and Asian competitors because they will be able to take advantage of market access agreements and we will not.

We must open new markets for U.S. investment. Many criticize American companies for investing in foreign countries and, thus, draining jobs out of the U.S. Chairman Gramm talked a little bit about this. However, American companies mostly invest overseas to be competitive in foreign markets.

According to United States Department of Commerce research, in 1997, U.S. trade involving

American parent companies, their foreign affiliates, or both accounted for 63 percent of all U.S. goods exported and for 40 percent of all U.S. imports of foreign goods.

American parent companies tend to be a much more important source of supply to their affiliates than the affiliates are to the parents. American firms must invest in overseas markets in order to anchor their export opportunities. They need a local presence in order to be competitive in those markets. And their success overseas translates into new, high-paying jobs here in the United States.

Our businesses and farmers can offer very competitive products and services to the world, but our government must be engaged in helping open markets around the globe.

The President and the Congress must make trade a priority. The President has lacked fast-track trading authority since 1994. That's unprecedented and, quite frankly, somewhat mystifying to me. It has never been a political issue up until this time.

There are some conclusions that can be drawn from why we don't have fast-track authority, but I think it is not in the best interest of our country for the President to continue down this slippery slope of acting like it's not important.

Without this authority which we all know requires Congress to consider trade agreements within mandatory deadlines with limited debate and with no amendments, the President is unable to effectively negotiate the market-opening international trade agreements our companies need.

Latin America offers a clear and present example of what this lack of presidential negotiating power means for U.S. businesses competing overseas. As The Wall Street Journal pointed out on Tuesday of this week, U.S. companies face fierce competition from Europeans in our own backyard.

The Journal quoted a report by the U.N. Economic Commission for Latin America and the Caribbean, which showed that in 1998, for the first time ever, the flow of investment from Europe into this region surpassed investment from the United States.

The U.S. is still the top investor in Mexico. And since the North American Free Trade Agreement went into effect in January of 1994, U.S. exports to Mexico have increased significantly.

The peso crisis that hit Mexico just after NAFTA went into effect weakened Mexico's ability to buy American exports. Despite the peso crisis early on, exports to Mexico increased from $51 billion in 1994 to $79 billion in 1998. Mexico was the U.S.'s fastest growing export market. That year Mexico surpassed Japan to become our second largest foreign market for goods.

As Trade Ambassador Barshefsky has noted, employment and wages have risen in all three NAFTA countries since the agreement went into effect. The benefits of free-trade agreements are obvious.

Again, I might add my thoughts to a comment that Senator Sarbanes made about fast-track trading authority, and what Alan Greenspan talked about yesterday. This is going to continue to be I suspect a rather significant debate as we wind forward into this China vote.

I think it would be a catastrophic error for this Congress to allow environmental and labor rights to be connected in any way to these votes.

They made addendums. They made stipulations. They made amendments. If we start unwinding trade negotiations and trade agreements and trade institutions based on these outside interests, important as they are, we will set the course of world trade on a disastrous path.

We must also stop penalizing our American companies and farmers by inflicting unilateral economic sanctions on countries we don't like or we don't agree with.

In 1997, the President's Export Council listed 73 countries as being subject to some form of unilateral American sanction. These unilateral sanctions only achieve one thing: they deny American businesses and farmers export opportunities. The sanctioned countries still import goods and services from the rest of the world but not American goods and services.

The long-term effects are serious. When we eventually lift unilateral sanctions on these countries, our businesses and farmers find that they still have difficulty selling into these markets because the foreign buyers see them as unreliable. The foreign buyers would prefer to buy from more reliable and competitive sources that have already captured the markets.

Lastly, we must keep our markets open. There are winners and losers in the marketplace, an imperfect system. That is the free market system.

Without exposure to competition, our industries will be weak and fail. Look at the U.S. automobile industry in the 1970s and the '80s. Exposure to foreign competition forced the U.S. automobile industry to respond to market demands in order to survive and produced the kind of products the consumer wanted.

When there is competition, resources get allocated to the most efficient industries and sectors, the law of comparative advantage. Our extremely low unemployment rate bears this out.

Our trade deficit is the highest it has ever been. Yet, our unemployment rate is among the lowest it's ever been. So overall the influx of foreign imports and capital, and American investments in overseas markets, have not conspired to increase unemployment in the U.S.

In conclusion, let me say again that continued large trade deficits might be a concern in the long-term, but it is absolutely critical that we take the right approach to dealing with this issue.

That means opening up new foreign markets for our competitive American goods and services, not shutting down our own markets, which only hurts us.

And I know that this year we will have an opportunity for rather stimulating debate on this. And I would hope also that this issue gets aired thoroughly in the presidential election of this year because the next president of the United States is going to be consumed with these kinds of big issues. They will have a major impact on the future of this country.

Thank you very much.

CHAIRMAN WEIDENBAUM: Thank you very much, Senator Hagel. I hope that you and Senator Gramm can stay for a number of questions from members of the Commission. At this time I'd like to recognize Congressman Moran.