

THE WHITE HOUSE

WASHINGTON

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INFORMATION

MEMORANDUM FOR LAURA TYSON

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SUBJECT: NEC Record - International Trade

We thought it might make sense to respond to your memo of September 26 by providing one memo for the entire International Economics Group.

I. NEC Successes

A. NEC/NSC Generally: The International Office under the combined NEC/NSC has been one of the most successful innovations of the Clinton Administration. Most of the major international initiatives we are confronting in the post-Cold War world involve the intersection of economic and foreign policy, whether it is NAFTA, the Uruguay Round, liberalization of export controls, economic sanctions policy, China MFN or a host of trade disputes involving important allies. The joint appointment of staff to both the NEC and the NSC has also had the benefit of reducing policy parochialism; it encourages sensitivity to both economic and foreign policy concerns. We think this kind of dual tasking should be used more commonly in government.

B. Leading/Coordinating Large Initiatives: The NEC has taken a leading role in virtually every major international economic initiatives of the Administration. As a general matter, the NEC has been most effective in coordinating policy. It should avoid becoming operational. In the case of large, operational initiatives (e.g., NAFTA, Uruguay Round) the process worked best when a separate White House coordinator was named to lead the operational/Congressional effort. Even in these cases, however; the NEC/NSC continued to coordinate the policymaking effort. Examples include:

- NAFTA: The NEC led an interagency principals process that ultimately led to the momentous decision to conclude the NAFTA. NEC was instrumental in ensuring economic agencies' views were fully aired, adding an important domestic economic rationale to the foreign policy case for pursuing the agreement. The NEC convened a series of principals and deputies

meetings to guide key decisions during the negotiation process. In the runup to the Congressional vote, the NEC/NSC continued to provide policy guidance, complementing the operational direction provided by Bill Daley and White House staff. Since the NAFTA was ratified, the NEC has played a central coordinating role on controversial implementation issues. NEC decisions have struck a careful balance between domestic political considerations, economic considerations, and foreign policy considerations in implementing the trucking provisions and responding to allegations of injury by the domestic tomato industry and the domestic broomcorn broom industry.

- Uruguay Round: The NEC led the policymaking process involved in every step of the Uruguay Round process, from the decision to secure the initial fast track authority in 1993 to final negotiating positions to policy decisions regarding the content of the implementing legislation. Again, the NEC operated most effectively when it left negotiating to USTR and the Congressional effort to John Emerson, the White House coordinator of the Congressional effort. But Bo Cutter convened weekly meetings of a small interagency group that provided a consistent policymaking forum for deciding the multitude of policy issues that needed to be addressed to secure final passage of the agreement.

- China MFN: The China MFN process has gone through an evolution in which the NEC has developed an increasing leadership role. The first policy decision actually was made during the election campaign, when the President favored linking China MFN and human rights. The 1993 decision to continue that linkage occurred through a fairly informal process led chiefly by NSC and State, with NEC playing a moderating but secondary role. Largely because of dissatisfaction with the 1993 process/result, the NEC and NSC led a more formal process in 1994 resulting in delinkage. The process probably took too long, permitting interagency disagreements to emerge publicly before the President made his decision. But the NEC/NSC process honestly presented all views to the President (including substantial data on the economic effects of various options), then coordinated agency rollout of every dimensions of the announcement.

By 1994 and 1995, a by then formalized NSC/NEC Deputies group organized an effort that won large Congressional majorities on this issue. The 1995 effort in particular required the White House to weave through numerous issues prior to the MFN debate: missile firings in the Taiwan Strait; the ring magnets issue; a burgeoning trade deficit; little progress on human rights and China's failure to comply with our intellectual property agreement. The breadth of these issues demonstrates why both NEC and NSC joint leadership was critical. The NEC/NSC International Economic Affairs staff worked successfully to forestall alternative resolutions, coordinated cabinet level meetings with members of Congress and generated all of the Administration's issue papers. Laura and Dan held countless meetings and breakfasts with members to generate support. The NEC itself oversaw the intellectual property dispute that yielded, just prior to the MFN vote, a commitment by China to step up enforcement against pirates of American CD's and software.

- Japan Trade Policy: In prior Administrations, Japan frequently played warring agencies against each other regarding disputes with Japan. One of the legacies of the NEC process has been to minimize this phenomenon by creating an NEC process in which all

agencies participated. Most outside observers note a striking difference between the unity of this Administration and disunity of those in the past.

This began with an intensive process in 1993 to craft a create a new “results oriented” policy. The Framework Agreement signed by the President in July 1993 has produced over 20 such trade agreements, including a successful auto agreement. Exports in sectors covered by these agreements are up 85% -- total 1995 exports are up 35% since 1993.

At times, action has occurred in this area without interagency consultation. Examples include the decision to seek a new U.S.-Japan semiconductor agreement and various early decisions in the U.S.-Japan auto dispute. But the NEC played an important role in steering the Kodak dispute to the WTO, in ensuring our objectives in a semiconductor agreement were useful and reasonable and in creating more formalized interagency consideration as the auto dispute progressed. Dan Tarullo has helped ensure Japan continues to uphold our bilateral insurance agreement, and has provided active oversight of our dispute over civil aviation, where our economic stakes are enormous. Finally, the NEC has played a central role in articulating the Administration’s trade accomplishments with Japan, and ensuring that our claims are well founded.

- APEC: The initial decision to host the first-ever APEC leaders meeting was developed through an NEC-led process. Since that time, the NEC has effectively acted as the “sherpa” in coordinating the policy process that leads to the APEC leaders meeting each year. APEC is similar to the G-7 in that much of the preparatory work is carried out by economic agencies in international meetings. The NEC ensures that the President’s priorities are reflected as initiatives are proposed and developed through APEC’s myriad working groups and ministerials, negotiates the leaders statement, and briefs the President on his objectives for the leaders meeting. The NEC is also the primary point of contact for the U.S. CEOs who are appointed by the President to serve on the APEC Business Advisory Council.

- FTAA: The NEC process shaped the economic agenda for the Summit of the Americas, providing policy guidance to economic agencies as they negotiated the Summit declaration. The NEC process led to the decision to pursue free trade in the hemisphere by 2005 -- the commitment that ultimately dominated the positive press coverage of the Summit.

- Trade Message: The NEC has played an important role in coordinating the economic message on trade, which has proven very effective in deflecting attacks and defending the record. The NEC/NSC has developed and coordinated the Administration’s message at critical junctures: during the lead-up to the NAFTA and Uruguay Round votes, defending NAFTA in the wake of the Mexican financial crisis, providing the rationale for China MFN renewal, and demonstrating the success of the Japan Framework Agreement. It has played an important role in ensuring consistency among agencies and in ensuring high analytical standards for all quantitative claims.

- G-7 Summits/Halifax Initiatives: Overall, the NEC (through the sherpa) has taken the lead role in organizing all of the annual G-7 Summits. A good example was the Halifax Summit for the which the NEC/NSC pressed, among other things, for initiatives to

address the possibility of future financial instability in big emerging markets. It is a good example of the White House exerting leadership to get ahead of potential problems.

- Export Controls: Probably more than any international economic issue, export control policy involves policymaking among entrenched agency interests with strongly differing views and a long history of distrust. The NEC/NSC has been enormously successful in overcoming these differences to secure landmark export control reforms. In 1993, an NEC/NSC process led to the decontrol of \$37 billion worth of U.S. telecommunications and computer exports. To give some sense of the magnitude of this reform, when the Administration took office all computers operating above speeds of 10.5 MTOPS (million operations per second) were controlled. The 1993 reforms decontrolled virtually all computers below 1000 MTOPS. Subsequent reforms have also been achieved.

C. Developing Coordinate Policies/Themes Involving Several Initiatives

- Triple Play: The NEC has also played an important role in bringing coherency to U.S. international economic policy and making sure our communications strategy emphasizes it. A good example occurred in the fall of 1993, when the Administration completed the “triple play” of winning the NAFTA vote, launching the leaders’ APEC process and completing Uruguay Round negotiations. We both achieved and communicated a coherent policy favoring opening foreign markets and creating good jobs in the U.S. This triple play was repeated by another in 1994, when the Administration won the Uruguay Round vote, held the second APEC leaders’ meeting and convened the Summit of the Americas to launch the free trade process in this hemisphere.

D. Ensuring Full Consideration of Economic Views

- Sanctions: Over the last two years, there has been increasing resort to economic sanctions as a foreign policy tool. The NEC worked with the economics agencies to ensure that economic implications of possible sanctions options were considered (e.g., Iran-Libya, Nigeria, Liberia, Burma, Vietnam). We coordinated the legislative negotiations on the Iran and Libya Sanctions Act of 1996 and the Cohen legislation on Burma. We established a procedure whereby any agency action taking us down a sanctions path must receive approval from both Sandy Berger and Dan Tarullo.

- Economic Espionage Legislation: The NEC brokered an agreement between economic agencies and the law enforcement agencies on proposed legislation to criminalize theft of trade secrets. The legislation had been under interagency consideration for over a year, with agencies at loggerheads. At the same time, the Congress was considering similar legislation that contained many problematic provisions. The NEC’s intervention allowed agencies to agree on an Administration proposal that met economic agencies’ concerns while maintaining the core provisions that Justice and FBI believed were essential. Congress subsequently passed legislation that was modeled on our proposal.

- Economic Assistance: The NEC ensured that economic agencies views and sound economic principles were taken into account in the consideration of economic

packages for key countries. For example, we worked with the NSC on assistance for Russia, and at a critical time in Russia's reform efforts, we brought in outside experts to present the case to senior NSC officials that there was no alternative to the adjustment path that Russia was pursuing. When State sought to offer loan guarantees to Turkey, we convened a meeting of economics agencies that provided the analysis used to convince senior White House officials that was not necessary or feasible.

II. Areas of Improvement

The NEC has had a remarkable amount of influence and positive effect, particularly for an entity that has existed for less than one administration. The points below are not meant as criticism as much as how the evolution of this institution should continue.

A. Decisionmaking Process: The NEC process has improved, but still could be better. Early Deputies meetings were inconclusive or reopened earlier decisions. At the same time, the TPRG mechanism, which decided many routine trade issues, became moribund. The institution of weekly international deputies meetings with early circulation of papers and agenda has greatly improved decisionmaking. Beyond this, there needs to be a more active IWG process to settle issues or sharpen them for Deputies consideration. This could be achieved by reviving the TPRG mechanism or by adding more NEC staff with the understanding that they would chair these processes. Since USTR is unlikely formally to forfeit the TPRG role, one solution may be to have NEC play a somewhat greater IWG role as necessary, while pressing greater TPRG activity when that is appropriate.

B. Agency Drives Process Too Much: A second problem has been that agencies sometimes advance their initiatives quite far without interagency review, foreclosing options once the NEC weighs in. Part of the solution is simply to better anticipate initiatives on the horizon and to insist on lower level interagency review (such as through the TPRG). Modest additions to the NEC staff might help monitor the full range of issues developing.

C. Coordination Between Domestic/International Policymaking: When the NEC was formed, there was much discussion of the need to coordinate domestic and international economic policy. We suspect that Laura/Dan may do some of this, but there is very little discussion between, for example, the International Economic Group and Dorothy Robyn/Tom Kalil on how to structure a coherent telecommunications policy that links domestic and international policymaking. This tends not to happen unless some pressing issue invokes both dimensions, as was the case with the recent, good discussion over the position we should take in the WIPO talks on intellectual property. We do not have a specific solution, except to note that this is one area where the original expectations for the NEC may be falling short.

D. Too Little Attention Paid to Agencies: There have been situations in which the NEC/NSC paid too little attention to red flags correctly raised by the agencies. A good example is Global 2000, the trade initiative proposed by the NEC/NSC somewhat belatedly before the Naples G-7 summit. Various agency officials warned that the proposal had not received sufficient vetting before the summit to be received successfully - and they were right. The lesson is that a healthy respect for agency expertise and career officials is warranted.

E. NEC Role Vis-a-Vis Treasury: The NEC exercises far greater interagency oversight role over other agencies (e.g., USTR) than over the Treasury Department. Undoubtedly, some restraint makes sense, given the sensitivity of some Treasury issues and Treasury's sensible handling of many issues. But some Treasury issues are not unusually sensitive and the unequal treatment is a sore point with USTR. We ought to give greater thought to the types of issues that should be reviewed and the appropriate types of processes.

CC: DAN TARULLO
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