THE CLINTON ADMINISTRATION'S TRADE PRIORITIES FOR 1994... AND REFLECTIONS ON EUROPE

Remarks
By

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It is indeed a great pleasure to speak to you in the aftermath of a very important week in U.S. - European relations. President Clinton and the leaders of Europe have just concluded an important **NATO** Summit. Agreements to dismantle the threat of nuclear weapons have been reached in Kiev and Moscow. And here in Frankfurt, you have had the first formal meeting of the 12 Governors of the European Union's central banks under the banner of the European Monetary Institute. Of course, these important events were part of a continuum of critical meetings, from the flurry of negotiations in Brussels and Geneva to conclude the Uruguay Round last month, to the packed agenda ahead, including the G-7 Summit in Naples this summer.

I am here in Frankfurt for a somewhat less august occasion, to be sure -- the opening of the Business Information Center at the Amerika Haus. The center will combine the libraries of the U.S. Department of Commerce and the United States Information Agency in support of two critical pillars of U.S. - German relations -- commerce and culture. The occasion may lack the pomp and circumstance of grander events, but in terms of the practical kinds of efforts that we can make, month-to-month, and year-to-year, this is -- and should be -- a big deal.

I am delighted to be in Frankfurt for other reasons, too. I spent six of my first twelve years living in Germany, and returning always brings back a host of fond memories. In recent years, as an investment banker and professor, I have had occasion to visit Germany and to engage German business people on a wide range of issues. In this city, I have made countless pitches to German firms to do transatlantic business, and, on occasion, I even succeeded. In the Aspen Institute in Berlin, I had the chance to argue with Germans from all walks of life about the significance of the Gulf War for U.S. - German relations even as the war itself unfolded. On another occasion in Berlin, we argued about the future of European integration. Still later in Munich, I presented my book "A Cold Peace: America, Japan, Germany, and the Struggle for Supremacy" to a German audience which was not shy about critiquing my views! From both professional and personal perspectives, those were wonderful experiences for me. Today marks my debut in this country as a government official, and I am truly delighted to have *this* chance to be involved in Germany on yet another capacity.

This afternoon I'd like to sketch out the broader setting in which I believe the ceremonies at Amerika Haus later today will be taking place. I will begin with a quick review of the past year with regard to the Clinton administration's

international trade and commercial priorities. I will then zero in on 1994. Finally I'd like to reflect on the bigger questions facing America and Europe.

1993 - YEAR IN (QUICK) REVIEW

I would like to say that for America, 1993 was "the year of trade". It was the year when the Clinton administration began to reweigh the balance among many of America's foreign policy priorities, putting far greater emphasis on our international economic interests than ever seen in the last half century. It was the year when the cancerous budget deficit was finally brought under control, contributing to a decline in long term interest rates and allowing a surge of new investment to occur; a year when Presidential attention turned to educating and training our workforce to compete in the twenty-first century; and a year when national non-military research and development policies took off, setting the stage for a rejuvenation of our technological base.

It was a year when America and Japan agreed to a new approach to trade negotiations -- the "Framework talks;" a year when a historic agreement -- NAFTA -- was concluded, leading to further economic integration of the North American market; a year when President Clinton invited the APEC leaders to Seattle to discuss closer economic ties in the Asia-Pacific region; and a year when the global trade negotiations -- the Uruguay Round -- finally came to an end, with great benefits for the multilateral trading system on which all nations depend. It was a year, too, when Washington established its first-ever National Export Strategy.

I won't belabor these events, but I do think one major point should be emphasized: 1993 was not a one-time burst of energy. It was not a new Administration coming out of the starting gate quickly, only to slow down after its first year. No, it was much more than that. It was a period when American public policy began to catch up with where the real world was going, with the dynamism of business and technology, with the aspirations of working men and women and their families -- not just to cope with the enormous pressures of a global economy in transition, but also to take advantage of those very changes. It was a time when an Administration recognized that the global marketplace was filled with fierce competition and that neither America's political influence nor its military muscle would buy economic concessions from our trading partners, as might have been the case in previous years.

In fact, for American trade policy, this past year was the beginning of a change in mindset and a change in trade strategy that is as significant as any that has taken place in our nation's history. Just as after the Second World War, when America accepted its mantle of international leadership, so now does America realize that our future influence will depend on our successful economic engagement overseas. President Clinton offered the motto of this approach -- "Compete, don't retreat!" -- and there is no turning back.

Indeed trade policy has now been linked to virtually all aspects of American life -- to jobs, to stable communities, to research and development programs, to new directions in education, and to health care reform where lower cost burdens on businesses are so important to competitiveness.

Trade policy has also become a leading edge of foreign policy. What virtually every country in the world wants from America is access to this vast open market. More than ever, we want access to foreign markets. This is true for our relationships with our traditional trading partners, but also for our links with emerging markets. Our ties with the nations in transition from non-market to market status, like Russia, turn heavily on trade. So does our future with Big Emerging Markets, such as China.

Other nations have had a longer tradition of aggressive trade than we have had in America. This is particularly true for countries such as Germany and France, which have long known that trade is an important part of vital national interests. They have learned to work hard at trade -- learned to play the game, and to make winning the sole criterion for judging the success of failure of their programs. We have realized that we too, must play to win. But as we win, others need not lose -- for trade is a game at which everyone can win and all nations can be better off.

Moreover, "winning" at trade is a concept that needs careful definition. It would not be much of a victory to win in a world that has mortgaged its values -- the rights of other human beings or the quality of its environment -- in order to gain a business advantage.

For all these reasons, and because of the broadening array of policy

challenges we face, this coming year will be seen not just as a continuation of the efforts made but an intensification. Let me outline what I see as the top upcoming priorities.

THE YEAR AHEAD

Europe

It was not an accident that President Clinton's first overseas trip in 1994 was to Europe. The visits to NATO and to the former Soviet Union, and the strategies on which they were based, were in the planning stages for many months. It was clear, I hope, how broad and deep our mutual agenda is, how closely connected are our security and economic ties, and how much America and the members of the European Union, in particular, have to do not just for themselves but for the former communist economies.

I believe that President Clinton signaled America's strong support for Europe's march towards increasing economic integration and I can add little to what he said. I also believe that he made crystal clear the priority we accord to helping former communist nations enter the world economy as full members. The attention that we are giving to Russia and the other newly independent countries of the former Soviet Union is especially noteworthy, I believe. As you know, Vice President Gore and President Clinton have themselves been leading our efforts. A lot has been said about "macroeconomic" policy and economic reforms. In addition, however, the U.S.-Russian business agenda is now very broad. I had a first-hand look myself last month when I co-chaired the executive committee of the bilateral commission that handles these matters. But from issues of mutual market access, to facilitating some very large scale joint ventures, to important technical matters regarding taxes, custom procedures, and product standards -- the two nations are doing their best to improve the climate for trade and investment. And these efforts will see no let-up this year.

Russia represents a broader category of country that we will be focusing on this year -- "Economies in Transition." These are nations who are moving from one status to another in the international economy, and changing fundamentally their economic structure in the process. Russia, the other countries of the former Soviet Union, the nations of Eastern Europe, South Africa, even the West Bank territories are going to need help making this

transition, and they are also going to have to make major adjustment themselves. Thus far the global framework for helping them is hardly developed. We will need to think through the balance between macro adjustments and industry-by-industry adjustments; we will need to rethink our approaches to development assistance; we will need to look again at barriers to market access that these countries face, barriers which could keep them out of world markets; we will have to think about sensible ways to work with our own industries as they feel the brunt of new production from Economies in Transition; and will have to work closely with the European Union, Japan and other industrial market economies so that none of us is forced to accept disproportional imports or foreign aid burdens.

I'd like to come back to U.S. - European issues later, because they are so rich and so qualitatively deeper than our agenda elsewhere. So let me move on to other areas.

Asia

In 1994, the trade agenda with Asia is more extensive than it has ever been. At the top of the list, in terms of sheer urgency and also timing, is the need to make progress in the U.S.-Japan Framework negotiations. I think it is fair to say that, as of now, we are making little progress on crucial issues such as government procurement in telecommunications, medical equipment, insurance and automotive trade. Moreover, we still must convince Japan to recognize the overwhelming need to find mutually agreed ways to measure progress in the opening of its markets in the future. As we continue in this difficult endeavor, we are not seeking to "manage" our trade with Japan. It is more accurate to say that we are trying to open the Japanese market by seeking to have it become "un-managed". Success will not benefit the United States exclusively, but will open the Japanese market for all who want to sell and compete there.

1994 will also see a major focus on China. Washington and Beijing face an important milestone in their commercial relations this June, when the President must make a decision on renewal of Most Favored Nation status. The Clinton Administration does not want to make an annual MFN assessment the central focal point for economic ties between the two countries year after year. We sincerely hope that there can be enough progress in the human rights area to get these MFN issues behind us. But, it is absolutely essential that significant

progress be made. It would be a mistake to read our hopes for a better trade future as a lack of resoluteness when it comes to the issues currently being debated. Beyond these questions, of course, there are many other complex issues at the forefront of our attention with regard to the world's most populous nation. These include textile transshipments, intellectual property rights, and the need for us to have fair access to the infrastructure megaprojects that will be so important to China's growth.

Elsewhere in Asia, we will be following up on the Asia-Pacific Economic Conference (APEC) meeting of last November. Let me give you a flavor of some of the programs in train. Later this month, we will meet with the Association of South-Eastern Asian Nations (ASEAN) to pursue the U.S.-ASEAN Alliance for Mutual Growth, a program Secretary Brown and Ambassador Kantor presented to the ASEAN trade ministers in Seattle. Recognizing the tremendous potential of the markets of Southeast Asia, the Commerce Department and other U.S. government agencies last summer developed a coordinated commercial promotion strategy for the ASEAN region. Working closely with business leaders, we identified several key sectors -- especially those lined to major infrastructure projects in the region.

Based on these discussions, we put together an aggressive advocacy strategy that will make sure that U.S. companies get the kind of support from senior administration officials that executives from other countries have come to take for granted from their leaders. We are trying to "level the playing field" -- even if our cabinet members must pick up a shovel and do some of the heavy lifting themselves. With that in mind, we are also taking steps to coordinate a financing strategy for the region. We are planning strategic trade and advocacy missions with state governments and industry groups, one of which I plan to lead next month. And we have laid the groundwork for a nationwide program to disseminate Asian market information to U.S. businesses around the country.

We are pursuing similar National Export Strategy-driven initiatives for other key Asia-Pacific markets. This will do for the entire region what the Alliance for Mutual Growth does for ASEAN -- provide a coordinated program of sectoral missions, advocacy, financing, and active U.S. involvement in the expansion of the private sector's role in APEC including the development of the Pacific Business Forum as a business adjunct to APEC's formal meetings.

Latin America

Let me turn to Latin America. We will be following up on the NAFTA. Much effort went into passage of this agreement, and the Administration is determined to make it a tangible success. NAFTA also provides for over twenty-five working groups and standing committees to ensure adequate implementation of the agreement to push liberalization further. The "side agreements" to cooperate on the environment and on labor issues will get tremendous attention. So will the smooth functioning of dispute settlement mechanisms. A structure for the new North American Development Bank will have to be fully designed. We will be following up on several major projects on the U.S.-Mexican border to build road, bridges, and new environmental facilities. Additionally, we will seek to accelerate the benefits of the agreement by trying to negotiate quicker removal of tariffs.

NAFTA is a crucial part of our hopes for closer economic ties with Latin America and the Caribbean, but only one part. There remains the rest of the hemisphere; and the Administration intends to focus on expanding trade through the region. Latin America is the fastest growing export market for the United States now. Trade with the region has grown at an average annual rate of 16 percent for each of the past five years. In 1992, total U.S.-Latin American trade amounted to over $144 billion, with a surplus to the U.S. of almost $7 billion. We have also witnessed the impressive achievements of some Latin American nations to reform their economies and take critical steps toward trade liberalization. Recognizing the benefits to be gained from open markets and expanded trade, Latin American countries have moved at an unprecedented pace to freer regional trade arrangements. Important examples include the G-3 (Mexico, Colombia and Venezuela), Mercosur (Argentina, Brazil, Paraguay and Uruguay), and the Andean Pact (Venezuela, Colombia, Peru and Ecuador), as well as numerous bilateral initiatives.

Economic reform within individual countries has been sweeping, featuring lower tariff barriers, privatization of state enterprises, and more open investment. For example, Chile has lowered its top tariff from over 100 percent to 11 percent; Argentina, its average tariff from 40 percent to 12 percent. At the same time, in Argentina and across the continent, ambitious, fast-paced privatization efforts are taking place affecting virtually all industry sectors. We hope NAFTA will be a building block for even more progress in the future. The Hemispheric Summit announced by Vice President Gore and which will be

held later this year will certainly focus on the future of reform in the Americas -- from questions of sustainable development to the issue of further trade integration.

Passage of Uruguay Round

Another of our highest trade priorities this year is Congressional ratification of the new Uruguay Round. Most observers outside the United States (and many Americans, too!) do not understand how our trade policy works, but -- far more than most countries -- our legislature plays a leading role. Following on the conclusion of the global negotiations a month ago in Geneva, the Administration must now make a vigorous effort to persuade Congress to ratify the accord. We are hopeful of succeeding, for we have reached a good outcome in what history may well judge as the most far-reaching GATT Round yet. But it may be tough, and nothing can be taken for granted. As the debate takes place, America's fundamental outlook on world trade will be in full international view.

Part of the process will be the writing of new laws allowing us to implement the Uruguay Round. We can expect significant revisions of the legal framework within which U.S. trade policy if managed. In the aftermath of the last set of global negotiations, for example, major trade law provisions -- those pertaining to anti-dumping and countervailing duties -- were restructured significantly. These revisions to the law enhanced transparency and due process and gave parties to law suits the right to appeal U.S. government decisions to independent courts. Such concerns for the needs and wants of U.S. business are to be expected from legislators this time also, only more so. Indeed, it is important to remember that past trade negotiations covered a much narrower range of topics than the Uruguay Round -- and therefore the accompanying legislation, while powerful, was much narrower in scope. Implementing legislation not only will make the revisions in U.S. law necessary to implement fully the agreements and provide for continuing U.S. efforts to push global market opening further. It will also establish the process for domestic monitoring to ensure that other countries adhere to the Uruguay Round's agreements. In addition the Administration and Congress will be working together to pass legislation which is fair but tough when it comes to protecting our industries from unfair trade practices.

National Export Strategy

Finally I want to talk about the intense efforts that are being made to develop a National Export Strategy. In late September, the President announced a concerted program to harness the full resources of the U.S. government to stimulate exports. He did this because it is recognized at the highest levels of our government that for now and the foreseeable future, exports will be one of the principal driving forces behind our national economic growth. As a consequence, with Secretary Brown leading the effort, the President directed the 19 agencies that are involved in trade development to work together in new ways to expand U.S. exports.

The results were unprecedented. In short order, we rolled back many export controls that were impeding U.S. businesses overseas. We developed a broader array of government financing alternatives to make U.S. companies more competitive in international bidding situations. We made a decision to work more closely with states and localities. We are working to develop more effective U.S. advocacy for business in international procurement contracts, including a full-time advocacy center within the U.S. Department of Commerce. We plan to set up export centers in several parts of the United States which combine the resources of several government agencies; the first four of these will open in the next few weeks.

We are giving particular effort to thinking about how to develop new and more effective strategies to work with American firms to increase opportunities in the world market. We have been giving a lot of attention to identifying the Big Emerging Markets and the Big Emerging Sectors on which we will concentrate our efforts in the years ahead.

By Big Emerging Markets I mean those nations which hold so much of the promise for the future by virtue of their enormous potential. China is clearly one. Indonesia another. Mexico, India, Brazil, Turkey, and South Africa are on the list, too. If you look at where global trade growth will come from in the next two decades, over two-thirds of increased global GNP will come from outside the industrial market economies (OECD). Of this, 44 percent will come from ten Big Emerging Markets. That's why we're so focused on those countries.

Our Big Emerging Sectors included leading-edge U.S. industries, such as telecommunications, environmental technology, and health care and medical equipment, all sectors in which we can build on domestic strength and global competitiveness. We're not out to create an "industrial policy," let me assure you. But to the extent that their are opportunities for government and business to work more closely together than in the past to open foreign markets, this will be our thrust. Our efforts to focus on Big Emerging Markets and Big Emerging Sectors are being developed in consultation with the business community. The matrix formed by overlaying the Big Emerging Markets and the Big Emerging Sectors will become our road map.

Of course, we are not going to ignore industrial countries. Markets like Germany require a new innovative approach - our "Showcase Germany" program , for example, is aimed at increasing the number of U.S. firms selling in the German market, concentrating on the largest customers in Germany, and utilizing Germany as a base to sell on to other markets in Europe. We want to develop stronger ties with German companies who are the principal purchasers of American goods, including subsidiaries of U.S. companies based in Germany. We are looking forward to more effective trade missions going from the United States to Germany and vice versa. We hope to focus particular attention on sectors like telecommunications and energy, and on big projects like airport construction in Berlin and the ISDN telecommunications network for the Germany army. This enhanced bilateral trade expansion program will put U.S. business at the crossroads of trade policy and market development where we can take advantage of the opportunities of European Union and German market opening policy initiatives.

America's commercial potential will be enormously enhanced by the experience, skills and energy of Ambassador Richard Holbrooke. Indeed, from my vantage point at the Department of Commerce no Ambassador has shown more initiative, nor has been so persistent in trying to get Washington's involvement in international commercial policy. Indeed, in terms of my personal life, I regret having given Dick my home phone number.

These priorities for 1994 constitute a broad and deep focus on trade. They represent a hard-nosed view of U.S. economic interests, an acknowledgement that multilateral cooperation works best -- when it works -- and an orientation towards the future. As President Clinton has said "Our

willingness to fight for these initiatives, for NAFTA, for an invigorated APEC, for a new GATT agreement, should make it clear to the world that America will lead the charge against global recession and the pressures for retrenchment it has created..not just here in our country, but in all the advanced nations of the world."

THE TRANSATLANTIC PARTNERSHIP

Let me now turn to Europe and raise some of the broader questions.

There has been a lot of idle speculation about whether America is turning its back on Europe in favor of Asia. I can understand the concern, given all the attention that Japan, China and other countries have been receiving lately. But I believe that the charge is totally unfounded.

The United States and Europe account for half of all goods and services produced in the world, and half of all world trade. No global economic agreement and no global economic initiative is possible without agreement between the United States and Europe.

The U.S. -European relationship has served U.S. and world economic interests exceedingly well over the last 50 years. Our economic interdependence is unparalleled in the world and is the bedrock of a stable world trading system. Even during the uncertain economic period of 1993, two-way trade between Europe and the United States was $230 billion. Direct investment was almost $250 billion in each others markets yielding, for example as much as $800 billion in sales of U.S. affiliates located in Europe and around $600 billion in U.S. sales by European-owned companies producing in the American market.

To assess what a world-leading relationship this is, compare our bilateral investment with the U.S. - Asia investment stake. U.S. regional investment in Asia is $48 billion - a quarter of our investment in Europe. Sales of U.S. majority-owned affiliates are about $120 billion in Asia -- around one-sixth U.S. company sales in Europe.

It is a mistake to think the United States can choose between Europe and Asia. The United States will not make such a choice -- nor do we see any reason why such a choice should have to be made.

One of the unbreakable bonds that links the United States and Europe is our shared heritage. We say it often, but we should think more about what it means. The United States is a nation that takes great pride in our diversity. It is a source of great strength that we are a nation of European-Americans, African-Americans, Asian-Americans, Latinos, Arabs, Jews, South Sea Islanders and Native Americans. We recognize that the origins of the nation itself, our legal traditions, our philosophy of government, our language, much of our culture all come from Europe.

We could not change this even if we wanted to. Our diversity resides as deeply in our institutions and customs as it does in so many of our people. As an American who grew up for many years in Europe, an American whose father was a career military officer who came to this continent to win and preserve the peace, an American who later in his very first job in the U.S. government worked for a German-born Jew who had risen to become U.S. Secretary of State, I am perhaps even more acutely aware of these bonds than many others in my country. But, I am not alone.

Look at our President who himself was educated in Europe, who met several key members of his cabinet while attending school in Europe, who traveled through Europe as his first chosen act in the freedom of his young adulthood. Look to our Ambassador to the United Nations, born in Czechoslovakia, our top military officer, born in Poland. Look at even the bond that arose during the GATT talks between Leon Brittan and Mickey Kantor, who found that they shared common interest and a common heritage that traced back to Lithuania.

This shared heritage has created exceptionally strong bonds between us. It is a good thing. We will need them in the difficult and challenging years ahead.

The fact is, the "trade agenda" between the U.S. and Europe is much broader than the conventional definition of trade. In Asia we are banging away at market barriers. For the most part, it is pretty traditional stuff. In Europe, however, we are discussing not just market opening but subjects well beyond -- not just the means of commercial policy but the ends, not just trade but how we

organize our societies, not just dollars and Deutsche marks but quality of life. The "economic" agenda between America and Europe is like no other. Let me cite four examples.

Employment

First comes the questions of job security and job quality. There are more than 35 million people unemployed in the OECD countries today. Even this figure underestimates the true human toll because many workers have withdrawn from seeking employment while others have found income supports and disability policies have reduced their incentives to remain in the labor force. The job issue for Europe and the United States comes from a host of macroeconomic factors. In America, the Clinton administration has set out in 1993 the fiscal plan to address them by promoting economic growth, reducing the federal budget deficit and setting out a federal priority for investment in education and worker training. Europe has increasingly realized that the Single Internal Market -- EC 1992 -- was not enough in itself to spur increased employment, and that the structural issues which are the real problem must be addressed decisively.

The ongoing corporate restructuring, downsizing, and reengineering of manufacturing under international competitive pressures -- including the reduced size of defense industries -- means that today's economies experience economic growth with little or no decrease in unemployment. We may be experiencing a major global transformation that requires more than a nationalist macroeconomic job policy, particularly as China, Eastern Europe and Russia emerge onto the world market. The problem may persist for years, during which political and social tensions are sure to rise, as well as new pressures for economic protectionism.

In March we will meet for the Jobs Summit and we must take this opportunity to address the dangers inherent in economic growth without jobs, and new means to create more and better jobs. Also this Spring at the G-7 Naples Summit economic growth and employment will be the top issues on the agenda and Europe. The United States and Europe must be in the vanguard of developing employment policies that respond to this new challenge.

Issues continuing from the Uruguay Round

Second, we must address the issues we were not able to conclude in Geneva in the Uruguay Round Final Agreement. While we have shaped a good agreement in the Uruguay Round texts for many aspects of trade rules -- including for subsidies and anti-dumping measures, we still have unresolved issues in certain areas that Europe and the United States must address in 1994.

Steel trade has been an important aspect of the world economy for the last 25 years and remains high on the trade agenda for 1994, particularly as we strive to integrate Eastern Europe and the Newly Independent States of the former Soviet Union into the world economy. Currently, the anti-dumping and countervailing duty investigations or duties in force in the United States resulting from mass industry filings made between September 1991 and August 1993 are symptomatic of the concerns of unfairness and injury that international steel production and trade introduce to the world economy.

Resolving the steel issue is one of the most important items of business before the United States and Europe. Calls by some for a "political settlement" of the investigations of unfair pricing or limits on future use of anti-dumping and countervailing duties mechanisms for steel are counterproductive if we do not address the issues underlying steel trade. Successful resolution of the steel problem lies in achieving tighter disciplines on subsidies and other trade distorting measures. This is what we are trying to do through a Multilateral Steel Agreement (MSA).

Aerospace also represents an important opportunity for Europe and the United States to lead the rest of the world to an improved and fundamentally fair competition. We did not achieve multilateral disciplines of supports in large civil aircraft in December in Geneva. The United States wants to extend the disciplines of the bilateral U.S. - EC agreement on supports for large civil aircraft to all GATT contracting parties. Many countries in the world other than Europe and the United States are on the brink of launching projects to build large civil aircraft. If these countries expect to compete alongside Europe and the United States, they must also abide by the same disciplines on supports. Therefore, both the United States and Europe should work to encourage countries to sign on to an effective multilateral agreement. The U.S.-EC agreement, while not perfect -- not for engines and not a replacement for the

subsidies disciplines in the Subsidies Code -does provide reasonable guidelines for other governments participation in development of large civil aircraft.

In the Uruguay Round, we made progress in developing rules for trade in services. But there is important work for the United States and Europe to finish in financial services, basic telecommunications services, and other areas. Jointly we need to assure that momentum to reach agreement in these important areas is not lost now that these sectoral negotiations are separated from the Uruguay Round negotiation itself.

An important service area that cannot be left unresolved is the matter of culture and international trade in audio visual services. We are disappointed that the European market for audio visual services is restricted by burdensome quotas. The December GATT services agreement made audio visual services subject to a multilateral trade agreement for the first time. However, the European Union declined to liberalize its trade regime in this important trade area for cultural reasons.

Telecommunications government procurement rules is yet another important item on the agenda not finished in December. Last year the United States and Europe reached agreement liberalizing a broad range of coverage in government procurement in goods and services. We even extended coverage in a bilateral agreement on the purchases of electrical utilities. Negotiations in the telecommunications sector were not completed, and we plan to reach agreement with the EC by April of this year. A bilateral agreement in telecommunications would halt application of discriminatory local content and price preference provisions in the EC utilities directive. Our intention is to reach an agreement on all utilities, including at the local government level, and then seek to multilateralize our agreement. This is very much in the interest of Europe and European industrial competitiveness -- which must have access to better and less expensive telecommunications services.

Post Uruguay Round Trade Agenda

A third area on the U.S.-European agenda must be to address the areas that are key to the future of the multilateral trading system. The recent round of multilateral negotiations tried to settle most of the trade policy issues of the twentieth century -- services, agriculture, textiles, intellectual property rights,

and investment. In the twenty first century we must reckon with a new world economy built in many ways on economies of varying speeds.

It is with Europe that our most sophisticated discussions on these outer reaches of trade policy must occur. The issues must be defined broadly to include trade and the environment, competition policy, the social dimension of structural changes created by trade, worker rights and other labor policy, cooperation at the sub-federal level (particularly relevant for the United States and Germany), and the relationship between regional and multilateral trade.

The Uruguay Round achieved a revitalization of the operational aspects of the trading system -- in particular, significant improvements in the dispute settlement process and the creation of the World Trade Organization (WTO) as the successor institution to GATT. Improvements in the process of settling disputes will expedite decision-making, prevent the blocking of final judgements and making the proceedings more open and understandable. Creation of the WTO will provide a single, coordinated mechanism to ensure effective implementation of the new rules and require, for the first time, the full participation of all countries in all agreements. However, the new trading system can only realize its potential if the members are committed to its success and if its agenda focuses on issues of truly global dimension and importance. Thus it is essential that the United States and the European Union demonstrate leadership within the WTO.

We also need to address trade issues arising from expansion of the multilateral trading system to include economies in transition like Russia and Eastern Europe. Where these economies are moving away from state command economies to market economies, the WTO may prove too inflexible to apply during the transition.

In dealing with these complicated issues we will need to keep a certain framework in mind.

First, we should recognize that the integration of economies in transition into the world economy is a challenge on the order of importance and difficulty as the challenges of reintegrating Japan, Germany, and many former colonies into the global economy after the Second World War. It won't happen

overnight, and it will require a herculean effort. Moreover, the task will challenge virtually every policy we have.

Second, the burden of adjustment must be spread. The effort must be multilateral. The toughest changes must take place in the transitioning countries. But we in the West, and in Japan, must share the burden. I might add that because the United States is the most open large economy in the world, there is a temptation on the part of many other nations to think that we will accept being the dumping ground of last resort -- much as we have often been in the past. This, in my view, would be a serious misreading of the Clinton administration, the Congress, and the mood of the American people.

Third, we need policies that are truly appropriate for "transition." This means devising policies with enough flexibility to reward economies in transition which are taking the tough adjustment measures, and policies which can differentiate between those who are biting the bullet and those who are not.

Big Emerging Markets

Finally, the United States and Europe must join in focusing policy attention on the world's Big Emerging Markets (BEMS) in the next ten years. As I said earlier, there are perhaps 10 countries in the world that are large, fast growing, newly developing and present very significant prospects for market opportunities. They are now the subject of great attention. NAFTA saw the integration of one of these nations -- Mexico -- into the North American marketplace. And we expect the Uruguay Round to be of particular value to BEMS that use their dynamism to expand their economies.

But opportunity also presents challenge. It will be with the BEMS that the most intractable trade and investment issues of the future will be fought out. These include trade and dual use technology, trade and environment, and trade and worker rights. U.S. - European relations will be complicated as sharpening commercial rivalry among the major exporting countries intensifies for new markets. We will be challenged to find the right formula to bring the BEM countries more fully into the world trading system and we will need to work together to reinforce the application of rules and disciplines for trading and competing with these strong economies.

CONCLUSION

I can't help recalling the involvement I've had with Germany over the years, the involvement I mentioned at the outset. When I was an investment banker, Germany looked like a large pool of capital waiting to be tapped by borrowers around the world. Today, of course, you are in a much different situation. I remember being convinced that the Gulf War, and Germany's belated financial response, would drive a wedge between our two countries; well, we weathered that storm pretty well. I also recall arguing that the Maastricht Treaty was dead even before the Danish veto; I missed that one, too. In most of these views I was not alone, of course, but I was wrong, and the experience makes me very hesitant about predicting anything, especially in these uncertain times.

And the times surely are uncertain.

On the positive side, a world in which two billion new consumers formerly confined behind non-market systems are entering the global economy, portends massive new business possibilities. Also, new technologies which can improve our lives, and prolong them, are emerging everyday. It may be, as well, that we will not face a major war for generations -- certainly this is a real possibility.

But there is much to be sad about, too. A grinding recession has hit Western Europe. To the East, economic dislocations run much deeper. If a crisis of confidence isn't gripping the continent, this is at least a winter of great discontent.

In this setting, there is one thing about which I do feel confident, however. In charting the course for the future we never needed *active* government and *bold* leadership more. From day to day we all see opportunities and we all see problems. Each comes in kingsize dimensions, now. It is a temptation for governments to resign themselves to coping with the situation, precisely because life seems so uncontrollable. This would be a big mistake.

I am very proud to be in the Clinton administration because I believe our President is seizing the challenges for the times. We will make some mistakes, of course. But we will be out there and we will not stand on the sidelines as this tumultuous century comes to an end -- when so much of the next several decades could depend on the groundwork we lay these next few years. In all these endeavors we need Germany and we need Europe as our closest partners.

Thank you.

COMPETING IN THE GLOBAL ECONOMY: THE CLINTON ADMINISTRATION'S NATIONAL EXPORT STRATEGY

Remarks by
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August 1994

SUMMARY

The Administration's international economic policy has three components: vigorous action at home to strengthen our economy and improve our competitiveness; an aggressive approach to opening markets abroad; and a new strategy for working with U.S. companies to expand into foreign markets.

When it comes to export promotion in particular, the Administration has given priority to closer cooperation among Federal agencies, to more effective links to state and local efforts, and to more extensive consultations with the private sector. It has made considerable progress in reducing and streamlining export controls which are not essential to national security; in helping American firms win orders abroad; in providing better trade financing opportunities for U.S. firms; in establishing Export Assistance Centers around the country; in coordinating domestic and foreign export promotion programs; and in putting forward a unified export promotion budget.

For the future, the focus will be on the ten Big Emerging Markets, and on regional programs for the ASEAN and Latin America. Special efforts will also be made in Russia and the Middle East, where commercial and foreign policy interests are so closely connected.

These strategies notwithstanding, the challenges are enormous. They include balancing trade and considerations of human rights and workers rights; distinguishing between public and private interests; reaching out not only to the Fortune 500 but also to small and medium sized firms; and developing a broad "international commercial policy" to open foreign markets.

Today I'd like to talk to you about the Administration's international economic policy, with particular emphasis on our National Export Strategy. As many of you know, last September President Clinton unveiled this strategy after an exhaustive government-wide study chaired by Secretary of Commerce Ron Brown. At the time, over 65 export-promoting actions were proposed. Since then, most of these recommendations have been carried out by Secretary Brown's interagency group, and the Administration has further sharpened its focus on several priorities at home and abroad. I'd like to lay out for you what we have done up to this point and what we are thinking about for the future. I'd also like to put all this in the context of the global setting we face, and consider some of the broader and more complex situations that we will undoubtedly encounter.

My other purpose in speaking here today is to solicit feedback from you on our National Export Strategy, initiatives we have launched this year, and on directions for the coming year. We are currently working on our annual report to Congress -- following up on recommendations developed last year. Meetings such as this provide an important forum for consulting with the private sector and our state and local trade partners. Our process is intended to reflect the interests and concerns of U.S. exporters.

I. COMPETING IN THE WORLD ECONOMY

Commercial Interests Rising

The starting point for thinking about the United States in the global economy, it seems to me, is to remind ourselves how different things are since the Cold War ended. Commercial negotiations, opening markets and promoting trade and investment around the globe, are the hot issues these days. Former antagonists are now large potential export markets. Formerly closed economies are now opening, liberalizing and privatizing markets everywhere. Expanding trade is driving U.S. economic growth. Wherever we look, whether in Russia, South Africa, Latin America, the Pacific Rim, or Europe; we see the rising importance of strong commercial ties.

The global economy is becoming increasingly competitive. The Administration recognizes that in this environment, we must be more aggressive -- opening markets, ensuring fair trade, and leveling the international playing field for U.S. companies. That is why the Administration has fought so hard in the Uruguay Round of the GATT negotiations for improvements in the world-wide trading system.

We are strongly pursuing bilateral and regional commercial agreements around the globe. The North American Free Trade Agreement is already yielding a dramatic expansion in trade with Mexico and Canada. The Alliance for Mutual Growth, launched at last year's Asia-Pacific Economic Cooperation meeting in Seattle, is designed to promote stronger commercial links with the booming markets of Southeast Asia. Business Development Committees established with the Russians, and just recently with South Africa, are opening these markets to U.S. trade and investment. We continue to hold high-level trade talks with the Japanese to pry open this market for U.S. goods and services.

U.S. in Good Shape to Compete

In my view, the United States is in good shape to compete in the 1990s. Right now, our economy is the strongest in the industrialized world. Our companies are far ahead of their foreign rivals in restructuring for the new competition. Our workforce is top notch. Our system of higher education is unequalled. And, of crucial importance, the nation's spirit is much better than only a few years ago when there was so much talk about the United States being in "decline."

But there is an enormous amount to do if we are to fulfill our potential. We all know that wages have been stagnant for too many families; that productivity is not what it could be; that our secondary school system is not up to the standards we require; that we need much better programs for training the workforce; and that our ability to commercialize our inventions must be improved. We would be foolish, indeed, if we let down our guard. In my view, Japan will surely rebound from its recession. Germany will reemerge as a fierce competitor with its eastern states featuring an ultramodern technological infrastructure. The Big Emerging Markets such as China, South Korea, Brazil, and Argentina are already challenging us in their respective parts of the world.

Put it this way: the commercial battle has just begun.

II. THE CLINTON ADMINISTRATION'S TRADE AGENDA

Domestic Underpinnings

There should be little doubt that the Clinton administration has recognized these challenges and has made a herculean effort to deal with them. The

federal budget is finally under control and the deficit is on a downward trajectory. Interest rates -- in large part due to the new fiscal restraint -- are down to their lowest levels in twenty years, prompting a dramatic surge in business investment. For the first time in many generations, we have a national non-military technology policy spurred by an increasing number of government-industry partnerships. The Administration has begun the difficult job of helping the defense industry to convert to non-military business. It is devoting increasing attention to secondary education and to training the workforce. Other initiatives -- health care reform, welfare reform, crime prevention -- will also affect our competitiveness, either by reducing cost burdens on the budget or on business, or by making our communities stronger, more productive, and more secure.

Trade Liberalization

These so-called "domestic" policies are the essential underpinnings of a society that could be super-competitive in the world economy. At the same time, the Administration has pursued an aggressive strategy of opening foreign markets. You are familiar with the achievements. The NAFTA created a vibrant and integrated North American market, with some 370 million consumers and $6.5 trillion in annual output, and opened great possibilities for an even larger free trade area in the future. The new attention to the Asian-Pacific region, made so graphic when President Clinton called together the region's heads of state to Seattle last November, focused the U.S. government on Asian business in a way that had never been done before. The successful conclusion of the Uruguay Round after seven long years of effort should now lead to a significant expansion of global trade. In fact, when fully implemented, we expect that the Round will add $100 to $200 billion annually to the U.S. GDP and create hundreds of thousands of new jobs.

III. FOCUSING ON EXPORTS

If the first challenge of our international economic policy is improving our competitiveness at home, and if the second challenge is breaking down trade barriers abroad, the third is promoting exports. It's not enough to open markets around the world; we must expand into them. This, of course, is the responsibility of private business. But, as I am about to explain, government has the responsibility to help, either by getting out of the way, or by assisting where the playing field is clearly not level because of the involvement of other governments.

Historically, the United States has not had to rely on exports for economic prosperity because our own market was so large. It was much easier for a firm in New York to sell its products in Kansas or California, than to venture to Japan or Brazil. Of course, some of our companies have spread their wings globally. From Coke to Caterpillar, their brand names have become well-known in the most remote corners of the world for many decades. But as a proportion of Gross National Product, exports were not of primary importance.

Export Growth

Much of this has been changing in recent years. Exports of goods and services as a percent of our nominal GDP have been inching up from 7.5 percent in 1986 to 10.4 percent in 1993. In this period they have increased by nearly 82 percent in value (in real terms.) More startling, exports have become a critical engine of economic progress. Between 1986 to 1993, for example, exports of goods and services were responsible for nearly 37 percent of U.S. economic growth. Today, one of every five American manufacturing jobs is linked to exports. Some seven million people are engaged in jobs supported by exports of goods; when you include services, the numbers top 10.5 million jobs. Exports, moreover, generally lead to better paying jobs. We estimate that workers engaged in producing exported goods earn almost 13 percent more than the average wage.

Assumptions Behind National Export Strategy

In putting together the National Export Strategy, the Administration had several assumptions in mind.

First, in looking ahead at the American economy, it became clear that no national priority, with the exception of military security, would rank higher than the creation of more and better jobs. However, even the resumption of solid economic growth, such as we are now seeing, would not be enough, since technology was allowing us to produce more with fewer people. One imperative was therefore to expand the size of our market, not just for our large firms but for our very dynamic middle and smaller sized companies. This led to only one conclusion: Go global. Sell more into the marketplace beyond our shores. Sell *much* more. In fact, we concluded that exports might become the number one program of high wage job creation.

Second, we were conscious that the competition for markets abroad was increasingly brutal. We needed to be aggressive and strategic. Our traditional competitors such as Japan, France, Germany, as well as newcomers such as South Korea and Taiwan, have actively and skillfully been seeking new markets and cementing their role as the main supplier of goods and services to countries around the globe.

Japan, to take one example, is embarked on a far-reaching program to penetrate its Asian backyard with rising levels of investments. It has organized massive aid programs, with a focus on infrastructure development that will tie in Japanese firms for the next decade at least. Germany's Chancellor Kohl recently announced an "Asian Offensive," while leading a trade mission to the region. France just reoriented its foreign policy from Taiwan to China for the most obvious commercial reasons. The Chinese trade minister has announced that she intends to increase Chinese exports by $20 billion in the next year alone. South Korea has made a far reaching effort to bolster its exports, and it has now managed to turn a chronic trade deficit into a healthy surplus. Suffice it to say, these and other governments are devoting enormous resources to exporting. Tied-aid. Concessionary financing. Visits by heads of state. Expansion of commercial representatives in the embassies. Occasionally, under-the-table business practices.

Third, we saw many dramatic new opportunities in the world marketplace. In Asia and Latin America, economic growth was healthy and everywhere governments were turning to more open markets. The collapse of the Iron Curtain was bringing hundreds of millions of new consumers into the mainstream of the world economy. Spanning all this, some ten Big Emerging Markets -- which I shall discuss shortly -- were becoming particularly significant for U.S. sales. In other words, competing was not merely a question of fighting it out for existing markets, but of capturing brand new markets which could be expanding very rapidly in the next several years.

Fourth, we felt that as a nation we were performing far below our potential. We were underexporting. The United States' share of the global merchandise export market is only slightly larger than Germany's, for example, even though we have an economy three times as large. Some fifty firms in the United States account for nearly half of all our exports of goods. Ten states account for 64 percent of our merchandise exports. There seemed to be

tremendous room for us to improve our exports merely if more firms began to think globally. This potential is in stark contrast to most other nations where export consciousness had become a national obsession long ago.

IV. THE NATIONAL EXPORT STRATEGY

For all these reasons President Clinton announced a National Export Strategy, the most significant effort of any Administration to think strategically about trade promotion. In March 1993 he asked Secretary Ron Brown, as Chairman of the Trade Promotion Coordinating Committee (TPCC), to launch an exhaustive review of our government's export promotion and export finance programs. Federal officials from 19 agencies took a hard look at the effectiveness of these programs, consulting with more than 1500 representatives from the private sector, state and local governments, and academia. This six-month review produced 65 action recommendations that form the basis of our strategy to massively upgrade our trade promotion effort and to set out distinct priorities for our efforts.

We began with a set of principles.

Principle #1: *Clear Commercial Priorities*

We had to have clear commercial priorities and an allocation of resources based on them. This was not an easy task -- with a limited export promotion budget and a myriad of competing demands -- but we were committed to matching our resources to our best targets of opportunities.

Principle #2: *Cooperation Between Federal Agencies*

Our export assistance programs, operated by over a dozen agencies, have been compared to a tangled ball of yarn, and federal agencies have been rightly criticized for duplicating efforts. As part of our National Export Strategy, we wanted to improve cooperation among federal agencies involved in export promotion. We needed to harness the commercial and economic expertise of the Departments of Commerce, State, Treasury and the United States Trade Representative. We needed to coordinate the export finance capabilities of the Export-Import Bank, the United States Trade Development Agency, and the Overseas Private Investment Corporation. We needed to rope into the overall effort the technical assistance offered by agencies like the Departments of Energy and Transportation, and the Environmental Protection

Agency. Put another way, if these agencies were working at cross-purposes, as they so often did, we couldn't have a viable export strategy. If they were in sync, we could do wonders.

Principle #3: *The Government and the Private Sector Must Cooperate More Closely*

The success of the National Export Strategy rests in large part upon our efforts to develop closer, more responsive, and more collaborative relationships with the private sector. We envisioned a partnership with the business community in which ideas were exchanged freely and channels of communications were truly two-way.

We viewed American business and workers as our clients and we were committed to upgrading the services that we provided. We solicited views of the business community to develop our strategy and we will continue to seek feedback on how we are doing. As part of this commitment to serve the customer better, we decided to subject ourselves to more rigorous performance measurements -- just as America's most successful companies do. Past export promotion efforts had generally been assessed according to activities and inputs, not results. This led to inefficient, ineffective, and redundant programs. Now we will be looking at how the U.S. Government can better measure performance. Already we have instituted pilot programs to evaluate domestic and overseas operations.

Principle #4: *Cooperation with States and Localities*

Another key element of the National Export Strategy was the partnership that we envisioned with our state and local officials. We were determined to do a better job in working with these men and women who were oftentimes much closer to exporters than was Washington. Moreover, it was clear to us that much of the innovation in export promotion, like so much public policy innovation, occurred far outside the Beltway.

These guiding principles of the National Export Strategy must, however, be accompanied by concrete strategies or else they will come to nothing. Let me summarize what specifically we have done to date.

Removing Obstacles To Exports

We are committed to removing obstacles to exports imposed by the Government that impede the ability of American firms to compete, provided that our national security is not compromised. Combating nuclear proliferation is of fundamental importance to the Clinton administration, of course. But, as President Clinton has often said, national security includes economic security, and obsolete and inefficient export controls that do not slow proliferation but burden U.S. business and result in lost exports are surely not the way to go.

In our initial review, hundreds of exporters cited export control reform as the single most important step that the federal government could take to boost exports over the short term. These concerns were reinforced by outside studies, as well.

Since September, we have significantly liberalized controls of computer and telecommunications exports and are working to streamline the export-licensing process. The Administration has tried to bring government controls in line with the rapid technological advances in computer and telecommunications equipment. Last fall, the computer control level of 12.5 MTOPs (millions of theoretical operations per sound) mandated licensing for almost every computer more powerful than a desktop PC. With the latest controls threshold, presently 1000 MTOPs for most civilian destinations world-wide, the majority of computer exports are now completely liberalized. When the recommendations contained in our National Export Strategy are fully implemented, some $30 billion of computer products will be freed from licensing constraints. Regarding telecommunications, the Administration has decontrolled the majority of equipment exports to most Western destinations -- substantially easing license constraints for U.S. firms. We are also streamlining the regulatory process to make it more transparent, efficient and responsive, while at the same time strengthening enforcement procedures.

Government Advocacy

We have launched a major interagency effort to coordinate federal government support on behalf of U.S. companies bidding for major contracts overseas. For starters, we have established an interagency advocacy network in order to better coordinate our activities. We have also created an Advocacy Center at the Department of Commerce where business can come to get information, resources and support for nearly 100 *major* government

procurement projects abroad. The idea is to give a special focus to those mega-projects that will require not only the usual U.S. government representations by Ambassadors or visiting senior officials, but something more -- a full-court press involving everything from financing to foreign policy pressure. In setting up this Center we had the vision of a "war room" in which certain projects abroad would be subject to the same kind of intense intergovernmental strategy as political and security objectives.. I'd be exaggerating if I said we were there now, but this is the direction we would like to take.

No one pushes harder on our advocacy efforts than Secretary Brown, who has been tireless in leading trade missions all over the globe. In the past year, the Secretary has gone to the Middle East twice, to Europe twice, and to Latin America twice and Asia, visiting countries such as Saudi Arabia, Mexico, Brazil, Japan, Russia and South Africa -- always championing U.S. business. The announcements earlier this year concerning the sale to Saudi Arabia of $5-6 billion worth of U.S. aircraft and $4 billion of telecommunications equipment are directly attributable to a full court press by the Administration. While in Brazil last month, Secretary Brown personally advocated on behalf of U.S. firms competing for the $1 billion SIVAM environmental/aerospace project. This advocacy effort includes the combined efforts of the President, Commerce, Ex-Im Bank, State, EPA, TDA and others. This Administration believes in "standing shoulder to shoulder" with American industry.

Better Financing

A critical element of the National Export Strategy is a government-wide focus on trade finance issues. In many cases, U.S. exporters with superior quality products are placed at a competitive disadvantage in big-ticket global competitions by cheaper loans or the tied-aid practices of other governments. This is particularly evident in the telecommunications, power and transportation sectors of growing Asian markets. While the U.S. has had some success in reducing the use of other nations' tied-aid in recent years, some $6 billion in annual commitments have still been extended. In recent months, therefore, the Ex-Im Bank has moved to counter tied-aid offers from other foreign governments, including offers made in the competition for China's Nanjing airport project and in a major Indonesian telecommunications procurement. Also, in cases when foreign tied aid has been alleged but not yet confirmed, Ex-Im Bank has issued numerous "willingness to match" indications that assure U.S. exporters that the Bank is willing to consider countering foreign offers, if

they materialize. The President's FY 1995 budget allocates $150 million for a Tied Aid Capital Projects Fund to counter our competitors' tied aid offers.

Major capital projects -- especially infrastructure in developing countries -- represent some of the biggest markets for U.S. companies overseas. Last fall, OPIC substantially enhanced their support of U.S. participation in these projects by raising their per-project limit to $200 million. This 400 percent increase has enabled OPIC to support the participation of U.S. firms in larger projects -- projects involving hundreds of millions of dollars in U.S. goods and services.

Another way we have improved our ability to support U.S. exporters is through closer coordination of U.S. Government finance agencies. For instance, the Trade and Development Agency now works even more closely with their colleagues Ex-Im and OPIC. This allows a more integrated approach to helping American companies. TDA funded feasibility studies -- conducted by U.S. consultants -- are key to landing big ticket exports further down the project pipeline.

We have also been working to intensify our efforts to help U.S. firms gain a larger share of export opportunities financed by the World Bank, the Inter-American Development Bank, and other multilateral lending institutions. This spring, we opened a counseling center at the Commerce Department for firms seeking information on available projects. In addition, we are currently doubling the number of U.S. Government staff at the multilateral banks engaged in promoting U.S. business.

In addition, we have also taken steps to make our working capital programs more user-friendly, so it will be easier for small companies to finance their export sales. The Small Business Administration and Ex-Im Bank previously used different loan application forms. Sounds like a small thing, but the hassle of applying to both institutions was a major impediment for U.S.-firms. These applications have since been harmonized and we are now developing a single application form for all federal government working capital assistance.

Establishment of Export Assistance Centers

A key feature of our National Export Strategy are the Export Assistance Centers (EACs) we opened last January in Baltimore, Chicago, Miami, and Long Beach. These pilot offices provide comprehensive export marketing and trade finance counseling to all small- and medium-sized firms in a single location. At these centers, you can find export information from the Commerce Department, the Export-Import Bank and the Small Business Administration all under one roof, with a staff trained in the complexities of exporting abroad.

State and local trade partners are also key players in the Export Assistance Centers. Their active collaboration increases the scope of export assistance service and resources available to client firms. In some cases, state departments of commerce and trade, local government offices, and private partners such as chambers of commerce, trade associations, and export trading companies are located in the same buildings as the Centers.

These pilot sites show great promise. The interagency staffs are working effectively together to expand their pool of clients and quality of service. For instance, in Baltimore, Ex-Im Bank reports that co-location with Commerce has nearly doubled the pool of qualified applicants for its finance programs. In recognition of the success of the Export Assistance Centers project, Vice President Gore presented the EACs with his "Hammer Award" for Excellence in Reinventing Government this April.

We are now beginning the second phase of the EACs. Drawing upon lessons learned in establishing the pilot centers, the Commerce, Ex-Im Bank and SBA have worked diligently to identify the optimal sites for additional centers to open in 1995. We propose to establish regional EACs in the following cities: Atlanta, Boston, Cleveland, Dallas, Denver, Detroit, New Orleans, New York City, Philadelphia, Seattle and St. Louis. These sites for the new EACs meet the TPCC's ultimate goal of establishing a national network to provide combined export marketing and trade finance counseling to all U.S. exporters. Now that these sites have been announced, we will hold outreach meetings with the respective state and local partners to identify unique needs and resources in each of these cities.

Better Coordination of Domestic and Foreign Efforts

The Export Assistance Centers are a major element in our plan to coordinate our domestic and international efforts. Anyone who wants to export

and needs information or other help can go to one of these Centers and be immediately plugged in to all of our embassies. A good example is our program called "Export Mexico," where we mounted hundreds of seminars, trade fairs and counseling sessions around the country on how to take advantage of the NAFTA. These efforts were done hand in glove with our embassy in Mexico. Following this successful model, we recently launched "Destination ASEAN", a program of seminars, trade missions, and aggressive outreach designed to boost U.S. exports to the booming Southeast Asian markets of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

The links between our domestic and foreign efforts are managed, in large part, by the U.S. and Foreign Commercial Service (US&FCS). The US&FCS is comprised of over 1,000 men and women, stationed in 47 district offices around the United States and 70 countries abroad. They represent not just the Commerce Department, but also Exim-Bank, the Trade Development Agency, and the Overseas Private Investment Corporation. These people are the arteries of the system. They are the key conduits of information. They are on the front lines of working with U .S. firms abroad, and with foreign firms wishing to invest in the United States. We are devoting enormous effort into training these men and women to be effective in the rapidly changing marketplace. For example, they are now learning the intricacies of trade finance, an area where in-depth knowledge is increasingly critical. The U.S. component of the US&FCS and the foreign component are now separate in terms of career tracks. We are moving to integrate the entire service so that we have a truly unified U.S. commercial service with professionals that have cross assignments in the U.S. and overseas, and training and experience in both foreign markets and the U.S. market. There are many details to iron out, and this will not happen overnight but it is a major step forward. Today people refer to the "United States and Foreign Commercial Service." Tomorrow we want to see the "United States Commercial Service," period.

A Unified Export Promotion Budget

From the outset we wanted to create a unified export promotion budget which would present a complete picture of what we are spending across the government, and would allow us to reallocate funds to where they would have the most impact on exports. I don't need to tell this audience how difficult such a process is. But Congress has mandated a unified budget, and we are determined to have one.

We have made a start. The President's FY 1995 Budget submission has, for the first time, provided a snapshot of what we are spending on export promotion and where the money is going. It begins to categorize the myriad of federal export promotion programs by purpose and department. With this in hand we have the first steps to begin a serious debate not only of policy priorities, but the allocation of real resources to back them up.

This summer a TPCC Budget Committee, chaired by OMB, will develop cross-cutting budget analyses of the allocation of export assistance resources by region and by sector. Together with these analyses, the TPCC will submit general recommendations to Congress on policy priorities.

IV. THE FUTURE AGENDA

We have an ambitious agenda for the rest of 1994 and beyond. In addition to intensifying our efforts to implement all 65 recommendations included in our first National Export Strategy report, we have set out in new directions. Let me mention a few of them.

The Big Emerging Markets

Nearly three-fourths of world trade growth over the next two decades is likely to take place outside the industrialized world. We have organized regional export initiatives for Asia and Latin America that will build upon our successes with the APEC summit and the NAFTA. Within these regions, we will focus specifically on the Big Emerging Markets of the future.

The Department of Commerce has conducted a preliminary assessment of the commercial prospects for U.S. exporters in 10 such markets. These are Mexico, Brazil, Argentina, India, Indonesia, Turkey, Poland, South Korea South Africa and the Chinese Economic Area (including the PRC, Taiwan and Hong Kong), where large markets, large populations, and pent-up demand for virtually everything promise to change the world as we know it. The picture that emerges is one of high economic growth rates and sizeable increases in imports in the next two decades. Over the next twenty years, the "BEMs" are projected to offer roughly 44 percent of the total new trade opportunities around the world. Their projected share of global GDP in twenty years is expected to double and their projected potential as import markets is unparalleled.

Conservative projections estimate that by the year 2010, the BEMs will purchase 25.6 percent of the total world imports, more than the European Union and Japan *combined*.

No other group of countries shows such dramatic potential. Moreover, many of the BEMs' import requirements will increasingly coincide with U.S. competitive strengths. To capitalize on the opportunities these countries present, we will use both regional as well as country-specific strategies.

Focus on Asia-Pacific

One of these regional strategies concerns the Asian-Pacific region.

Since we now trade more across the Pacific Ocean than the Atlantic, we are bringing more effort to bear on U.S. export success around the Pacific Rim. At the APEC Summit last November, to cite one example, Secretary Brown and Ambassador Kantor launched the U.S.-ASEAN Alliance For Mutual Growth, a program linking our trade policy objectives with trade promotion and commercial interests in the ASEAN region. As a result, the Commerce Department, the U.S. Trade Representative and the U.S. government export finance agencies are together implementing a commercial promotion strategy. This includes the coordination of sectoral missions, advocacy, financing -- all is crucial to building our market share in the Pacific Rim. Our "Destination ASEAN" program, launched this spring, will complement these trade promotion efforts. Our approach to the ASEAN will serve as a model for how to proceed with other regional trade arrangements.

Focus on Latin America

Another example of a regional strategy is Latin America. As I mentioned earlier, we have launched the "Export Mexico" trade promotion campaign in the wake of the NAFTA to capture the unprecedented export opportunities presented by the agreement. For example, last December, Secretary Brown led a 38-member trade mission of minority firms to Mexico City, which resulted in a number of important sales for participating U.S. companies. We are also turning our attention further south to other Big Emerging Markets such as Argentina and Brazil. As part of our commercial strategy for this region we will be addressing ways to encourage continued privatization of state

enterprises, regulatory reform, import and investment liberalization, and environmental protection.

The big trade policy issue in the hemisphere is the follow up to the NAFTA. The questions are whether there will be more free trade agreements, when, with whom, and in what form? We are examining all of these issues now in the Administration, but whatever the outcome, we plan a vigorous push on exports.

Focus on Indonesia

In addition to regional trade promotion efforts, we are developing coordinated U.S. Government-wide trade promotion programs on a country-by-country basis, especially when it comes to the Big Emerging Markets. Indonesia is our first test case, and I'd like to take a little time to talk about how we are developing that strategy.

Indonesia is the fourth most populous country in the world, has the largest GDP in Southeast Asia, and is expected to continue growing at about 6 percent a year through the end of the decade. While our exports to Jakarta have increased markedly over the past five years, our trade deficit with Indonesia is growing and our market share is decreasing. We have been surpassed by both Japan and the European Union as Indonesia's major trading partners.

As we looked at Indonesia, we also discovered it was a textbook case of how the U.S. Government has failed to effectively coordinate its export promotion efforts. We found individual U.S. Government agencies literally tripping over one another in a haphazard, unfocused, way in an effort to penetrate Indonesia's vast market. We found agencies pursuing trade missions to Indonesia in an uncoordinated way that strained the resources of the Embassy as well as the host government.

Against this backdrop of great opportunity but ill-orchestrated approaches, we have set about developing a unified U.S. commercial strategy for Indonesia that will bring together not only traditional trade promotion efforts, but also include trade finance and enhanced outreach to key business. We established an Interagency Working Group on Indonesia which started with some very simple tasks but ones that have -- believe it or not -- never been

done before: developing a catalogue of all U.S. Government promotion efforts in the country, a calendar of all Indonesia-focused trade events, and lists of business contacts as well as major opinion leaders in Indonesia. We have built on these initial efforts by beginning to create a commercial strategy for the country that will guide us through the end of the century and focus on four key areas: major projects advocacy initiatives; specific improvements in trade finance; targeted initiatives for key growth sectors including aerospace and the energy sector; and strategies to build better relationships with key officials in the Indonesian government and private sector.

An interesting development occurred in the working group. It expanded with each meeting. Agencies have begun to pool their efforts and information, to the point where a recent meeting on Indonesia drew closely to forty participants from over a dozen agencies. The meeting included participation and ideas from some--such as the Department of the Interior--which have not participated at all in our trade promotion efforts in the past.

Our goal is to use this exercise to develop a promotional strategy for Indonesia which will provide a common plan for officials from all agencies in their commercial dealings with Indonesia. Once further along, we intend to discuss its main themes with the private sector, and refine it in the light of these talks. We just recently appointed a coordinator to make the Indonesian strategy operational. And as this case study proceeds, we will use it as a model for our efforts to develop country strategies for the other Big Emerging Markets.

Other Country Strategies

All of the Big Emerging Markets are on our list for new coordinated strategies, although we do not have to resources to proceed with all of them right now. We are therefore taking a step-by-step approach, while moving as fast as we can. It will come as no surprise that we would like to put priority on China, the world's fastest growing market which in 1992 imported $7.5 billion of goods, generating roughly 150,000 U.S. jobs, and whose potential is almost beyond calculation.

Another immediate priority is developing a strategy for Argentina, where economic reforms have progressed so swiftly and the potential for U.S. firms is enormous.

While the BEMs are paramount in our strategy, large industrialized markets also offer excellent prospects for increased U.S. exports. Among these, we have chosen to focus on Germany where we have launched a program called "Showcase Germany." There are several special features to this effort. Among these efforts, we have reopened the consulate in Dusseldorf which is headed by a Foreign Commercial Service officer; the training of consulate officers to handle commercial matters; the merging of heretofore separate library facilities of the Department of Commerce and the U.S. Information Agency to better serve the business community; the upgrading of our efforts to get American firms to Germany's major trade fairs; and special attention to developing closer ties to major German importers. We call this "Showcase Germany" because we are hoping that it can be a model for programs in other OECD nations.

The Sectoral Dimension

We are also developing a sectoral focus for our export promotion efforts. As we began to explore the key opportunities within the individual Big Emerging Markets, one consistent opportunity became clear: infrastructure. This includes not simply one particular sector, but rather a variety of sectors and groups of sectors, that are key to U.S. export growth in these markets.

These are clusters of industries that exhibit strong growth in exports and U.S. jobs, where we now enjoy competitive advantages, and where the Administration has already made major efforts. Based on these and other criteria, we have identified, as a start, six industry clusters for special consideration: environmental technologies, information technologies, health technologies, transportation, energy, and financial services.

In selecting these industry clusters we have no intention of creating what some call "industrial policy." We are not talking about special subsidies for any particular industry, nor of picking winners and losers. The fact is, in an era of scarce budget resources, as well as shortages of qualified professionals, we must have some way of prioritizing our efforts. We need to have some reference point for choosing which trade missions to organize, which trade fairs to support, where to point our advocacy efforts, where to focus our information-gathering. The idea of key industry sectors, and correlating them with the *indisputable* markets of the future are, is one part of this effort.

Trade in Services

Traditionally we have focused our export promotion efforts on manufactured goods and agricultural products. Yet trade in services is an area where American firms are particularly competitive and well-situated to capitalize on market opportunities. We are the top exporter of services in the world. Based on the potential market for trade in services -- particularly in the fast-growing developing countries of Asia and Latin America -- American firms stand to benefit from greater Government support. But market information on services is generally inadequate. Foreign regulations and trade barriers frequently impede U.S. firms. As part of our priority agenda for next year, we will be addressing ways to improve export assistance provided to American service companies.

Exports and Foreign Policy

We intend to use our commercial policy not only to benefit U.S. business but to strengthen and encourage political and economic stability all across the globe. Russia, South Africa, and the Middle East will be the target of special export initiatives. Increased trade and investment in these areas will not only pay us a commercial dividend but a broader benefits as well, rooting democracy deeply in countries with different political traditions.

In the case of Russia, we are doing our best to encourage not only economic reforms but also commercial reforms, without which U.S. firms will not be able to sell their products. We are putting particular focus on the all-important oil and gas sector, which could earn billions in foreign currency for the states of the former Soviet Union.

The Middle East is another highly changed political arena. As I mentioned, Secretary Brown recently led a Presidential Mission to the region to build commercial relationships and to push the interests of U.S. firms. Ex-Im Bank, OPIC and TDA are actively pursuing opportunities throughout the region. At the same time the United States is doing all in its power to give commercial support to the Middle East peace process, encouraging ventures in the Occupied Territories and making it possible for them to export to the West. This is a clear example of how our commercial and national security objectives overlap and complement each other.

In the case of South Africa, we are actively working with U.S. firms to gain market access. Last year Secretary Brown led a Presidential mission to this country, to lay the basis for follow up missions in various sectors. Ruth Harkin, President of OPIC, followed this visit with an investment mission in February. And in June, Secretary Brown and South African Minister of Trade and Industry Trevor Manual signed a bilateral agreement forming a Business Development Committee to promote trade and investment.

V. BROADER ISSUES

I have spent a good deal of time explaining what we are doing or trying to do to promote U.S. exports. I hope you will agree that there is a lot going on. However, I do not want to leave the impression that we in the Administration think that the task is easy, or that we are not fully aware of some of the broader complications that are difficult to resolve with any amount of effort. Let me discuss a few of the tougher issues we face.

Trade and Human Rights

First, there is the question of linking trade to other objectives that we as Americans hold dear, such as human rights, workers rights, environmental protection, and nuclear non-proliferation. Although such linkages may constitute added burdens on our firms as they compete with companies from other nations that are purely mercantilistic in their approach to commerce, it is my conviction that we are not -- and cannot be -- a trading nation that does not take into account the broader considerations of values, the environment, and nuclear security. So the real debate is not one of absolutes, but of finding the right balance, and the right tools to achieve our broader objectives.

Government-Business Cooperation

Next, I have talked about growing cooperation between the government and the private sector in export promotion. This surely is a worthy goal. But it is much more difficult than it sounds, something that this audience, in particular, understands. It is *relatively* easy for public-private relationships to go smoothly if Uncle Sam opens his pocketbook and new cooperative programs are established. It is important for the federal government to keep the private sector better informed of its policies and indeed to better take into account business views in formulating policies and we need to work much harder at this. But the expectations of what the government can achieve in areas like

export promotion should not be exaggerated. The main responsibility lies with business. The private sector is the engine of growth; it has the responsibility to take the risks and the right to reap the rewards; it knows more than Washington about the markets its in. Moreover, no matter how friendly the relationship between government and business seems to be, the tension between the public interest and special interest is clearly there - and the Administration often has to draw the line.

Focus on Small and Medium Size Businesses

Another complication we face in export promotion is the need to reach small and medium sized businesses -- which is clearly our goal -- and the great difficulty of doing so effectively. I mentioned before that some fifty U.S. firms account for half of all U.S. merchandise exports. The government needs to reach thousands more. We are not sure how best to do this. Part of the problem is lean budgets, but part is simply a lack of knowledge and experience on how to effectively reach and deal with so many businesses. We tell ourselves that the answer is for the federal government to be the "wholesaler" of export promotion services. That's probably the right concept. But translating the words into real, effective action will take a lot of time, and a lot of experimentation. It will take a professional cadre of men and women who are well trained, highly motivated, and dedicated to export promotion for a long time.

Exports and International Commercial Policy

Finally, let me say a word about the relationship between export promotion and what I call "international commercial policy".

When people talk about the Administration's approach to the world economy, it is not uncommon to hear terms like "international trade policy." What you rarely hear is "international commercial policy," because this usually connotes something of a lesser order, something which will never be discussed at a Summit or find its way into an editorial in The New York Times. However, it is precisely this less sexy arena -- policies regarding trade finance, intellectual property rights, product standards, customs procedures, regulatory systems, and other such issues -- that has become so crucial to the expansion of trade these days, and so critical to the ability of our firms to break into new

markets. It is in the arena of international commercial policy, moreover, where American businesses can work most closely with their counterparts to build the relationships and networks which truly constitute the infrastructure of global commerce. I mention all this because, in the end, export promotion is not just a question of expanding the supply of goods and services from the U.S. to the world, but of working with other nations to develop markets which are free of the impediments that are so frustrating to our firms. It is my feeling that, in the end, effective export promotion strategy must be embedded in a broader international commercial strategy, especially when it comes to the Big Emerging Markets on which we will focus so much of our energies.

VI. CONCLUSION

Measures to strengthen our economy and our competitiveness at home; relentless pursuit of open markets abroad; and a vigorous National Export Strategy -- this is the triad of Administration efforts to make the changing global economy work for us. In the months ahead, I look forward to working with you on all of it.

Thank you, and I'd be happy to answer any questions you may have. I'd also like to invite any feedback you may have regarding the National Export Strategy and our new initiatives.

THE FUTURE OF COMMERCIAL ENGAGEMENT: AMERICA AND CHINA IN A TIME OF CHANGE

Remarks by
Jeffrey E. Garten
Under Secretary of Commerce for International Trade

Before the
International Herald Tribune
Economic Summit on China

Beijing

April 10, 1995

It is a pleasure to be back in Beijing -- my fourth visit in the last year -- and an honor to have the opportunity to address such a distinguished audience. The presence here of so many leaders from all over the world is yet another sign of the growing importance that modern China has for Asia and for the world. Clearly, for the United States of America, few relationships are as significant.

That said, there are few relationships we have that are more complex. The United States and China have a history of friendship and conflict, of achievement and frustration. We are two great nations, but we are also starkly different. China's history stretches back to the dawn of civilization. Indeed, China has been one of the great wellsprings of modern civilization. We, on the other hand are, by almost any measure, a new nation.

For virtually all of recorded history, China has been the world's largest and most important economy. Indeed, some estimates suggest she only relinquished this role at the dawn of the industrial revolution just 150 years ago. We have been the world's most important economy for only a few decades during this century.

Now, China is growing at a breathtaking place and may soon retake her position atop the league tables of the world's largest economies. But the United States is the world's only true superpower and home to an economy that is, through innovation and productivity, almost certain to remain the world's most important developed economy for as far as anyone can see.

One country is the root of Asian civilization. The other is a melting pot drawing strength from diverse roots traced to every region. One country is steeped in a culture that stresses community, the other has been built on the promise of individual opportunity and freedom. One is still primarily an agrarian society hurtling into the industrial age. The other is the birthplace of the post-industrial world, of the information society that will bind us all together more closely than ever before.

We are bound together. That is the crux of our dilemma and our inevitable destiny. For five thousand years of her history, there was no America with which China had to contend. For all her rich culture, she can find no easy model

for this new relationship. Throughout our 200 years of American history, China was a living symbol of the distant and exotic, often cited as "the other side of the world." Clearly that model is no longer relevant.

Yet, in the century to come, if there is to be prosperity in either of our countries, growth across the Pacific, peace and promise as all our peoples hope, then these two great and different nations must engineer a bridge that spans the political, economic and cultural gaps that may be even more vast.

The Roots of Engagement

Think of it. Virtually no one in this room would dispute today that the U.S.-China relationship is among the world's most important. Yet, it was not that long ago, just two decades, when the world was stunned by the first visit by an American President to China.

It was Henry Kissinger -- for whom I once had the privilege to work -- who flew secretly from Pakistan to Beijing to open not just U.S.-China relations, but what might well be the starting point in modern U.S. foreign policy. For it was at that point that the old trans-Atlantic formulas for peace-keeping and growth began to fade imperceptibly and new, then unknowable, power relationships emerged as more important as well as more complex. President Nixon and Henry Kissinger knew then what they were doing was important. But I wonder if they knew just how important. Asia's economic miracle was not yet a reality. Japan was still recovering, half a decade away from her assault on America's corporate consciousness as a new and worthy competitor. There were no dragons or tigers prowling the world markets. The region was known mostly as a place of frustrating and costly battles -- from the Pacific campaign of the Second World War to Korea to Vietnam.

Now, just a generation later, with many of the same people still in place in the Administrations of our two governments, we are confronted with several new and stark realities. America is China's number one trading partner. China is the biggest emerging market for U.S. products and services. After Hong Kong and Taiwan, America is the number one investor in China. More trade now travels across the Pacific than across the Atlantic. No region of the world is growing more rapidly than Asia, and no nation in Asia is potentially more influential from either an economic or a security perspective than China.

We in the Clinton Administration recognize that one of the baseline realities of the post-Cold War era is that America and China are central to each other's futures. We are inspired by the promise of what we might offer to one another. And we must confront daily the discomfort that comes when two such nations have fundamental disagreements -- as we certainly do -- on issues of great importance to both.

We have grappled with this reality and come to the unshakable conviction that, given the importance of our relationship to both countries and to the world, we are better served by communication than by disconnection, by accepting the complexity of the relationship between our countries rather than by seeking to define that relationship by only one or two of its dimensions. We call this approach comprehensive engagement. At its core, it is driven by a fundamental law of human interaction: that we are better served when we seek motivation from our mutual interests than from our differences. It is our great challenge to make those great, binding, enduring mutual interests help us to overcome the several significant impediments to better relations we face -- impediments that we may well face for some time to come.

This last point should not be overlooked. While we live in a time of stunning change, we should also recognize the scope of the issues before us and the depth of resistance that exists to many of the changes we are trying to promote.

The purpose of my remarks this afternoon will be to outline our sense of the mutual interests that drive us and the principle challenges that face us in shaping a relationship that is crucial not only to each and everyone of us in this room but to American and Chinese workers, to our neighbors, to our partners, and to our competitors. My main objective will be to outline the current state of our policy of engagement, what we have learned, what we have achieved and some of the areas on which we will focus our efforts in the months ahead.

CHINA: THE BIGGEST EMERGING MARKET

As we contemplate the U.S.-China relationship, it is worth noting how we view it. Of course, it is a bilateral relationship between the world's most populous nation and the world's most powerful nation, between the world's

fastest growing major economy and the world's leading economy, between a giant of Asia and a giant of the Americas.

But we also view the U.S.-China relationship in another way. As many of you know, we in the Clinton Administration have placed a special focus on the world's "Big Emerging Markets" (BEMs), having identified them as vital to our economic future and to the geopolitical dynamics of the coming century.

We have selected 10 such markets that all share similar traits: large size, rapid growth, strong economic prospects, important regional roles, importance to American exporters, considerable and growing political influence, and so forth. Four of these markets are in Asia: China[1], Indonesia, India and South Korea. We have devoted unprecedented attention to our relationships with these countries, because we think it is essential to our economic growth at home, and because, in case after case, these countries are playing a more important role in our international affairs -- from currency markets, to security issues, to multilateral institutions

The rise of China during the past two decades is only the most prominent sign of the rise of this new class of economies in terms of global importance. Because China is the biggest of the BEMs and perhaps the most important of those markets, we view it not only as central to our BEMs strategy, but as a linchpin of that strategy. Many of the complications we face in our relationship with China -- from questions of human rights to nonproliferation, from intellectual property rights protection to environmental protection -- are typical of the complications we face in our relations with these other vital markets. Therefore, as we devote special attention to China because of its size we also see our developing relationship with China as offering a new model for an increasingly important set of relationships that will drive our policies not only in Asia but in the Americas, Africa, and Central and Eastern Europe. In addition, the way we relate to these BEMs, the way we compete in these markets, the way we work with our traditional allies to integrate them into existing and new international relationships -- all this will be vital to our success or failure in the

[1] We often use the term Chinese Economic Area, to include Hong Kong and Taiwan, as this regional market is becoming so highly integrated via trade and investment.

world of tomorrow. Thus, you can see our relationship with China as a prism through which to view the evolution of American international objectives and policies in the post-Cold War world.

As of now, the picture of our efforts to forge new approaches to BEMs is not one of clear cut successes or failures. It is far too early to make such judgements. Rather, the picture suggests an approach that is quite different from past U.S. models of foreign policy: It is marked by more emphasis on economic issues, commercial diplomacy, a search for positive accomplishments, more coordination between multilateral and bilateral approaches to problem solving, and a greater willingness to unbundle issues and take them one at a time, moving at the greatest possible speed within each set of discussions rather than being limited to the black and white oversimplifications of the Cold War era.

It is worth noting that even as our system of free markets and open societies influences a reforming China, we are trying to learn from China about patience and consensus. Just as in all our relations with the BEMs, large cultural and institutional gaps exist alongside gaps in our relative levels of economic development. And, just as in all those relationships, we find the differences enrich us when both sides respect and are open to the merits of their counterparts values and beliefs. So while we continue to advance our beliefs vigorously, we do it in a way that is much more likely to be successful and mutually beneficial.

MUTUAL INTERESTS: THE FOUNDATIONS OF FUTURE COOPERATION

Mutual interests are the underpinning of the entire strategy of comprehensive engagement that has guided this Administration's China policy since 1993. They drive us forward and provide both sides with a strong impetus to resolve problems. They maintain a positive element to the relationship even when differences place a considerable strain on several of its key aspects. They take many forms as well. In any relationship between two such large, complex nations there are many levels at which interaction takes place.

Trade and Investment: Between 1984 and 1994, U.S. exports to China rose from $3 billion to $8.8 billion. In the same period, China's exports to the

United States rose from $3.1 billion to almost $38 billion, accounting for some 28 percent of China's total exports. While our deficit with China has, therefore, grown rapidly, there has recently been some goods news according to Chinese statistical information. Earlier this year, China reported that the U.S. has shown markedly more prowess in its export success, achieving a rate of growth in China that exceeds that of our major competitors, including Japan and the European Union.

The trade imbalance between our countries remains a point of tension and I will return to it in a moment. Suffice it to say, though, that to trade means a great deal to both sides and will mean more in the future. This was illustrated clearly on last summer's trip by Secretary Brown to China during which we witnessed the signing of transactions worth over $6 billion. It was illustrated even more clearly by a less well-known aspect of that trip. During that one week visit, Secretary Brown worked with the business leaders with which we were traveling to advocate actively on behalf of over $25 billion in deals in which U.S. companies had a significant interest. Since then, Secretary O'Leary has been here to continue pressing on behalf of U.S. firms. That, too, is my mission on this trip. This kind of advocacy is laying the groundwork for the trade growth of tomorrow. It is a start toward ensuring that U.S. companies gain our fair share of the over $500 billion in major infrastructure deals we anticipate will be concluded in China during the decade ahead. And winning our fair share of those deals is an important step toward reducing our trade imbalance and driving the message home to average Americans and Chinese workers that trade between our countries is central to their future well-being and that of their children.

U.S. investor interest in China also remains vibrant with actual U.S. investment totaling $2.1 billion in 1993. Judging from mid year 1994 estimates, investor interest for the past year remained at roughly the same levels.

Clearly, China needs U.S. technology, capital and management expertise. And we want to encourage China to consider western models for its economic, and political development. The strongest reason we have to hope that both sides will win what they seek is the powerful self-interests that drive us.

Sustainable Development: To accelerate the deployment of energy efficient technologies to China, we are cooperating in matters involving energy

efficiency, renewable energy, climate change, and nuclear safety, among others. China, as the world's fastest growing nation, is now coming to grips with the environmental burdens of rapid development. From the air over Beijing to the water quality in the Pearl River Delta, environmental issues are rising in China's consciousness. At the same time, China must build two major power plants a month to meet burgeoning power generation demands and is forced to consider carefully the choices it makes concerning available technologies. And a United States that is a world leader in providing those technologies must also play a role in ensuring that international standards are met. China is perilously close to the point at which further environmental degradation will have an enormous economic and human cost. The same is true in many of the sectors on which China will build her future -- chemicals, manufacturing, transportation infrastructure development to name a few -- and we have seen a clear recognition of this in the actions of China's leadership. While this is a new area for cooperation between our countries, it is a natural one to which this Administration is particularly committed.

Rule of Law: The Clinton Administration seeks to promote stronger relations on the basis of reciprocal responsibility and rule of law. Very clearly, advances in this area also are of great benefit to China, as investment dollars are sure to follow a more hospitable climate. Through a variety of means, we are working together on the development of commercial laws, regulatory structures, intellectual property laws, and other such programs which create an environment for business that is more transparent, dependable and consistent with international standards. It is our hope and belief that such cooperation will increase.

Security Cooperation: We are making important inroads with cooperation in the security field as well. We have launched a careful program of military exchanges and defense conversion cooperation designed to promote greater transparency of China's intentions and strategies, establish ties with an important sector in China, and contribute to progress on the nonproliferation front. Clearly, as important as economic growth is to both countries, it would be foolish to relegate security interests to second class status in the absence of clearly defined hot or cold war. Neither the Clinton Administration nor the Chinese Government is doing any such thing. Rather, we recognize that both countries play a very important stabilizing and balancing role in Asia and on the broader world stage. On issues such as responding to uncertainty and threat in North

Korea, tacit and explicit cooperation between our two countries has benefited both of us and our neighbors and allies well. We recognize that any future relationship between our countries will demand recognition that unless security issues are satisfactorily handled, we will be unable to indulge in the luxury of as intensive a focus on economic concerns as we -- and China -- would like and from which we would benefit.

Other Issues: Of course, there are a number of other issues demanding our mutual attention, including population control, monitoring labor standards and flows, integration of China into the international trading system, harmonizing our approaches to statistics and monitoring of our trade and investment flows. In each of these cases, mutual interests have carried us forward into a process of communication, cooperation and program development that is laying the groundwork for future successes. In each of these cases, as well, our efforts in China mirror efforts in other BEMs to help us to bridge the gaps between developed and developing world and to help provide or restore equilibrium in areas in which its absence is a threat.

THE CHALLENGES: INEVITABLE DILEMMAS AND AVOIDABLE CONFLICTS

Of course, when one nation is capitalist and another has adopted market socialism, when one is a democracy and the other a highly centralized one-party society, when one is at the vanguard of developed nations and the other is at the vanguard of those aspiring to modern standards of development, when one traces its roots to Confucian beliefs and the other was founded on Judeo-Christian values, when one is Asian and the other American -- when all this is the case, conflict is to be expected.

A commitment to engagement should not be read to be an avoidance of such conflicts. Our economic interests are not so strong that they have led us to mortgage the values we hold most dear. Rather, we are seeking the most productive means of resolving our problems and to find the approach that is likely to be best for the people of the United States and, ultimately, for the people of China. In some cases, this means fierce debate and looming tensions. In others this means quiet, almost invisible diplomacy. But we must strive to make the challenges we face impediments on the path forward rather than possible

detours toward the strained relations of the past.

It is in this more positive light that we view the many, often daunting problems.

MFN and Human Rights: The President's decision to delink human rights from the annual extension of most-favored-nation (MFN) status was a direct extension of our commitment to winning advances in the area of human rights reform. We concluded that breaking off or straining the relationship between American and Chinese businesses was not the way to increase our influence in China. We concluded that unilateral action was no longer effective in this area and that a revocation of MFN status, or even the threat of such revocation, would put us at a disadvantage competitively and thus effectively reduce the number of points of contact between our countries at a time when we wanted to increase them.

De-linking normalized trade status from progress on human rights did not mean that human rights concerns would be any less significant to the U.S. De-linkage instead represents a shift in the approach we will employ to achieve progress on China human rights issues. Last September, for example, on his commercial mission to China, Secretary Brown asked for a resumption of the U.S.-China human rights dialogue, a request that was granted. In recent months Secretary Perry, Secretary Christopher, Vice President Gore and President Clinton have all raised human rights concerns with top Chinese officials, too. These discussions have covered enduring issues and specific prisoner cases. Recently in Geneva at the U.S. Human Rights Commission, we were joined with the European Union and Japan to spotlight China's continuing human rights abuses and to seek progress on these issues. Our actions in Geneva reflect a sense that, in addition to direct approaches to Beijing, multilateral initiatives are important in making progress in this regard, underscoring the fact that the values we are promoting are simply those that have been adopted by the international community -- including China -- in the form of the International Declaration of Human Rights.

Thus, we are using the tools of both bilateral and multilateral diplomacy to keep human rights issues in the forefront of our relationship with China. We will continue to pursue our human rights objectives, despite their being irritants to our

bilateral relationship. We will maintain our commitment to promoting human rights in China, because we believe that a strong, open, stable and prosperous China which respects the human rights of its citizens will be a better partner for us in other areas.

I wish to emphasize that it is here that the power of engagement is clearest. We cannot make progress toward solving a problem by walking away from it. All the loud public rhetoric in the world is no substitute for expanding dialogue and relations between our two countries -- to bring more Chinese people into contact with Americans, their ideas and their ideals. Here in China, letting more Chinese people earn their living by working in American joint-ventures will lift living standards. Installing a million new telephone lines, bringing power to a rural schoolhouse or a FAX machine to an entrepreneur will do more to encourage the reforms we support than being disengaged and standing back and shouting from the sidelines.

This approach, naturally, may not always be the path of least resistance. It is, however, the path of greatest effectiveness. We expect it to produce greater results sooner than an approach emphasizing confrontation and alienation.

IPR: The recently completed intellectual property rights (IPR) agreement between the United States and China, when fully implemented, will protect U.S. exporters and investors from the flagrant piracy of their products and will provide new markets for the products of U.S. workers in these industries. The agreement is mutually beneficial, as it provides China access to high quality goods and services from the United States and assistance in the implementation of this agreement. Furthermore, the fact is that today's global investors seek certain minimum protections from the international markets in which they operate. Without accepting these international standards in areas such as intellectual property rights, countries will have a harder time to attracting capital. Furthermore, this IPR agreement has been acknowledged by the Administration and by the world community as a concrete sign that China is beginning to accept the rule of law and is establishing the necessary mechanisms for enforcement and the rights of individuals to challenge infringers. This is vitally important as China seeks entry into the new World Trade Organization (WTO) and other institutions of the global economy.

I understand from Ambassador Kantor that China is committed to devoting over one million people from the courts, prosecutors, police, and other IPR and law enforcement agencies to stamping out piracy of intellectual property. The Department of Commerce will contribute to this effort in the form of training and assistance programs for Chinese IPR enforcement agencies. Enforcement is, of course, the key. Agreements of this sort are promising, but it is a commercially safe and secure environment for modern corporations operating in China that we will be looking for in the months and years ahead. Our vigilance on this issue is demanded of us by our companies and the realities of the marketplace. We hope this agreement signals a sea-change not just in the attitudes of the Chinese Government but also in the minds of Chinese entrepreneurs who must come to recognize that all the trading partners of China will band together to eradicate the sort of theft that had been practiced in China's pirate factories.

The U.S. Trade Deficit with China: The U.S. trade relationship with China in recent years has been dominated by our burgeoning trade imbalance, which reached $29.5 billion in 1994, second only to the U.S. trade deficit with Japan. (China contests U.S. figures and instead attributes the imbalance to discrepancies in trade statistics caused partly by the increasing presence of Hong Kong- and Taiwan-invested operations on the mainland producing for export. Under the umbrella of the U.S.-China Joint Commission on Commerce and Trade (JCCT), we are involved in an effort to examine the differences in our trade statistics, due September of this year.) For the United States, this situation clearly reflects China's many barriers to market access. I doubt that a commercial relationship in which American markets remain open to Chinese companies, while access for American companies to China's markets remains restricted and subject to administrative control, is not politically sustainable in the U.S. American companies must have access to China's markets comparable to that afforded China's exports to the United States. Only through genuine and sweeping market opening will this irritant be eliminated. The recent 8-point agreement signed by Ambassador Kantor and Minister Wu Yi also resolves a serious problem with respect to China's implementation of the 1992 U.S.-China Market Access Agreement. China's agreement to lift quotas and licensing requirements on a wide range of agricultural products, textile machinery, textile and apparel products, computers, and heavy machinery should have a favorable impact on U.S. exports as well as the pace of China's own development efforts. But make no mistake: the changes that must take place are so deep and so

sweeping that it is likely to be many years before we see a meaningful reduction in the bilateral trade imbalance. As a consequence, we must plan for the near-term development of the relationship between our countries in the context of enduring trade tensions. Relieving those tensions must, therefore, be a top priority of both countries, and we must use every means available at our disposal.

China's Entry into the WTO: One such instrument is the World Trade Organization. We support China's entry into the WTO. But before that happens, it is important that China accepts the rule of internationally accepted standards of law as they apply to trade. China has much to gain from expanded access to world markets and from the efficiencies gained from opening its protected markets to foreign goods and services. Indeed, its accession to the WTO on commercially viable terms would work to our mutual benefit.

Importantly, WTO membership would guide the structure of China's reforms, while cementing reforms that currently are in place. Clearly, an accession protocol package based on viable commercial terms, along with expanded market access commitments in industrial goods, agriculture and services, will lead to substantial additional market opening and a much improved trade and investment regime in China.

Both the IPR and WTO negotiations should be viewed as part of our broader strategy of comprehensive engagement: to integrate China fully into the global, market-based economic and trading system and expand U.S. exporters' and investors' access to the China market. Both sides would benefit from increased two-way trade and investment flows, reduced tensions, greater transparency in commercial relations, and more effective, less contentious dispute resolution.

Security: For all that is positive that I noted earlier, there remains considerable unfinished business on the security front -- with respect to China's adherence to the Missile Control Technology Regime, China's military exports in certain other areas, and China's commitment to a comprehensive Test Ban Treaty. The Clinton Administration will work on these issues as relentlessly as on the others I've just discussed, because, through resolving our differences we also can achieve the kind of balance and reliable institutional structure that are essential to normalized, friendly relations between countries.

Other Regional Issues: The United States has a significant commercial stake in Hong Kong and has an interest in the continued vitality, prosperity, and stability of Hong Kong. We will be keen observers of the transition process and will depend on the parties to the transition agreement to uphold their commitments under international law. Faltering here would pose an extremely difficult and untenable challenge to the future development of the U.S.-Chinese relationship.

The U.S. will also continue to support resolution of China/Taiwan political differences by the parties themselves. The pace of reconciliation will be affected by evolving economic ties between Taiwan and China, PRC succession, the nature of Hong Kong's reversion to mainland sovereignty and domestic political dynamics in Taiwan. The United States will continue to work with China within the framework of the three communiques. Meanwhile, we congratulate China's senior leadership, particularly President Jiang, for calls for continued talks with Taiwan on a more friendly future. Taiwan is an important U.S. trading partner, and we of welcome this development.

THE FUTURE OF ENGAGEMENT

In the context of the above mutual interests and challenges, it is clear that the concept of engagement has evolved out of a practical sense of how to best serve the interests of the American people. "Engagement" is not an academic expression, but a major decision by the Clinton Administration to abandon single-issue policy for frequent dialogue on issues of bilateral and multilateral importance. The logic is clear: a strategy of broad engagement between the United States and China is more likely to influence a wide range of Chinese people and encourage positive change in China.

Since launching the policy in the fall of 1993, seven U.S. cabinet leaders have traveled to China to explore avenues of cooperation in agriculture, political relations, commerce, sustainable energy, defense, and trade policy. Equally important, we have welcomed China's top leadership to the United States for dialogue, including meetings between our respective Presidents and a series of bilateral meetings between China's Vice Premiers (Zou Jiahua, Qian Qichen, Li Lanqing) and ministers. At this point, I wish to particularly thank several of our counterparts with responsibility for commercial policy in the Chinese

Government, including Vice Premier Li Lanqing, Vice Premier Zou Jiahua and Minister Wu Yi. They have played a pivotal role in maintaining and advancing our dialogue on the commercial and trade policy fronts. They have been gracious hosts, fair and honorable negotiating counterparts and I believe share our commitment to strengthened ties between our countries. As Secretary Brown has often noted, they have also become friends. Our conversations are no longer formal and rigid. They have the true openness and energy of dialogue between those who know one another well. We are moving from set speeches to candor and the results have benefited the peoples of both countries.

Engagement is not so easy; there are, and will be, many frustrations in achieving our objectives. In general, the two countries have much to learn about each other and our respective views of the world.

We in the United States have learned that we would do well to view China not only as a BEM and vibrant economy in transition, but also as a nation whose history and culture can teach us much. We need also to appreciate the difficulties that China is experiencing as it adjusts to international standards and recognize that China has its own rhythms and many of its actions to which we object are not necessarily aimed directly at us. China is a country with its own particular situation and social structure. China is a country in the process of integrating into the international community, but at its own pace. Neither country is the "Middle Kingdom" at the center of the earth's activities. Both are part of increasingly complex international networks of contacts and connections. Both must be viewed in that complex, multi-polar context.

As for China, it might keep in mind the actual and varied players in the U.S. decision-making process. The United States is a society of strong interest groups, prone to demand that government policies be subordinated to their particular special interests. There are old traditions in Chinese views of America that suggest a country that is controlled by a central, harmonious elite. One hopes that the proliferation of satellite television and news services such as CNN, as well as the easy availability of air connections between our countries have gone a long way to shatter this inaccurate stereotype. We don't apologize for the process. Indeed, it is for the most part a source of great national pride. But for China to understand America, it must also understand the dynamics of American politics, which are much different than any other major nation.

Even as we learn about one another and even as we are buffeted by internal and external changes, we must find a way to continue forward, and continue strengthening one of the world's most important relationships. Engagement -- comprehensive, multi-speed, multi-faceted, energetic, engagement -- is still the best way to do that.

INSTITUTIONS OF ENGAGEMENT

As an official with a commercial portfolio, I would like to take a moment to focus on three economic institutions that can be expected to continue to play an increasingly important role in advancing our relationship on several levels. These are the U.S.-Chinese Joint Commission on Commerce and Trade (JCCT), an increasingly strong bilateral connection between our countries; the Asia Pacific Economic Cooperation forum (APEC), which offers great promise as an effective regional forum; and ultimately, the World Trade Organization, which will be a very important stage on which many future trading questions will be resolved.

The JCCT: The commercial interests of the U.S. and Chinese Governments and our respective business enterprises are now addressed on an on-going basis via the JCCT. Under this forum, which is chaired by Commerce Secretary Ron Brown and Minister of Foreign Trade and Economic Cooperation Wu Yi, the United States and China are pursuing a wide range of initiatives designed to enhance bilateral commercial cooperation.

Reflecting the increased complexity in US-China commercial relations, Secretary Brown and Minister Wu Yi strengthened the Commission's institutional infrastructure during last year's JCCT meeting. The revitalized Commission consists of three working groups covering trade and investment issues, business development and industrial cooperation, and commercial law. A training initiative also is underway under the JCCT umbrella.

Each of these groups has an ambitious agenda. The trade and investment working group examines issues relating to market access; trade data, trade finance, export controls, standards, business facilitation and services. Among the objectives on our 1995 agenda are: achieving greater transparency and uniformity in China's project selection, development, and procurement process;

the establishment of a review or appeals process for handling foreign investment related disputes; frequent exchanges and seminars on evolving U.S. Government trade finance programs; and a more open operating environment for foreign firms in China. In view of the United States' growing trade deficit with China, we are encouraging all measures that bolster the U.S. competitive position.

Success on our business development working group agenda will be pivotal in reversing this burgeoning trade deficit with China. This group focuses on cooperation in sectors that are of critical economic interest to the United States and China, including but not limited to electric power, information technologies, aviation and airport infrastructure, motor vehicles and auto parts, medical technologies, and chemicals.

Our initial engagements are encouraging. In chemicals, for example, signing our cooperation protocol, we have mounted three technical seminar missions, plus an American Pavilion at China's Chemical Industry Fair, positioning scores of U.S. chemicals executives to promote their business interests in China. We welcome the visit to Washington May 1-2 by Chemicals Minister Madam Gu and her delegation. In electric power, we again are mounting a concerted effort, led by the U.S. Department of Energy. Activities-to-date include missions in nuclear safety and waste management and several reverse trade missions. This group's agenda, of course, was greatly advanced by Energy Secretary O'Leary's February Presidential Mission on Sustainable Energy and Trade to China. Our other groups similarly are forging important contacts with Chinese officials and enterprise managers.

Equally important is the activity of the Working Group on Commercial Law and Economic Reform. Already underway it is a legal seminar program, which provides an opportunity for each side to discuss areas of particular importance. During the December 1994 seminar, U.S. legal exports covered intellectual property law, corporations and partnerships, privatization and pension systems, export controls and the WTO, while their Chinese counterparts reviewed China's company law, income tax law and securities regulation. On the books for future activities are expanded training in intellectual property rights, the establishment of a commercial law library, and a review of proposals for other specialized legal training.

Most recently, the United States and China agreed to add a working group focused on management education and training. A primary objective of this group would be to train managers to meet the needs of China's transition to a market economy and to support the management needs of Sino-American joint-ventures. The United States, of course, has considerable expertise and information in the area of management training, in our corporations, academic institutions, and government agencies. We want to use this expertise to our mutual benefit. I hope we can reach agreement on overall program themes prior to the next JCCT session which will take place in Beijing in July. At that time we would like to introduce a new business-to-business component of the JCCT, announcing a standing Business Development Committee which would include permanent representatives of leading U.S. and Chinese enterprises. We also hope to add new programs in the areas of defense conversion and environmental technical assistance and training.

APEC: It is a fact, and a healthy one, that the balance of our relationship with Asia has tilted more and more toward trade. One third of U.S. exports already go to Asia, supporting more than two million jobs. Over the next decade, we estimate that if we are vigorous and effective, Asia could add more than 1.8 million jobs to the U.S. economy, jobs that pay on average 13 percent above non-export related jobs. These facts compel us to remain ever more committed to ever-deeper economic, political and security engagement in Asia.

APEC members have a combined GDP of $12 trillion. In the 1980's, the APEC economies accounted for 48 percent of total U.S. exports by value; today, they account for some 60 percent -- or almost $300 billion. Direct investment by American companies in APEC member economies has grown from $119 billion to $145 billion the last five years alone.

The importance of Asia to our future is what has animated the intense interest of the United States in APEC meetings. In Seattle and in Jakarta, we made the message clear: that the United States intends to remain engaged, that we want the Pacific to unite us -- this incredibly diverse Asian Pacific region -- in a common purpose free trade and investment, leading to higher standards of living and more individual freedom.

From an informal dialogue group in 1989 comprising 12 Asia-Pacific economies, APEC has grown to a more formalized institution that involves all major economies of the region: China, Hong Kong and Taiwan joined APEC in 1991; Mexico and Papua New Guinea joined in November 1993; and Chile in November 1994. The Eminent Persons Group, established in 1993, has the task of further developing a vision for APEC. To our good fortune, many of our bilateral objectives with China are being advanced via the APEC agenda. Indeed, the rise of APEC is well-timed from our perspective, coming as it does at a time when we are looking for new and effective multilateral fora in which to advance our views. Given that APEC's purpose is fostering economic cooperation in the region, it has systematically begun to address many of the central issues in the U.S.-China economic relationship. Freer trade is one such issue, but cooperation on standards harmonization, telecom, transportation, energy, environmental and countless other sectoral issues are also vitally important. Through APEC, we can take our discussion out of the adversarial dynamic of bilateral negotiations and raise it to another level. Furthermore, through APEC, many areas in which the United States and China agree are addressed and have the effect of strengthening our relationship.

The major outcome of the Leaders Summit in Bogor last November was the "Declaration of Common Resolve," which calls for free and open trade and investment with "industrialized" members of APEC by 2010 and "developing" members no later than 2020, all in a GATT/WTO consistent manner. This goal -- ambitious by any measure -- will force all the nations of the region to open our borders together in a coordinated way. This process eliminates the sense that any one is getting a special deal or that any one country is being taken advantage of. A common standard of market opening in the Asia Pacific region will provide an impetus to reluctant governments and will be helpful for those concerned with the protectionist pressures of special interests. Given the burden of the U.S.-China trade imbalance, movement toward true opening such as is being suggested within APEC is a very important step and could result in a significant lessening of the tension between our two countries.

The Declaration also includes agreement to accelerate implementation of Uruguay Round commitments, agreement to "endeavor to refrain from using measures which would have the effect of increasing levels of protection;" and a commitment to expand and accelerate trade facilitation programs and investment

efforts. Clearly, this will be helpful in the context of the U.S.-China trade relationship.

For America, the promise of APEC is easier and more assured access to the world's fastest-growing economies for U.S. goods, services and investment.

APEC can help solidify the economic and political security business needs in order to grow. Stability is clearly one of the highest concerns when operating abroad. It is in our commercial interest, therefore, to ensure that in the post-Cold War era, the U.S. has a forum in which to cement ties with our Asia/Pacific partners and encourage the development of stable market economies.

WTO: Thanks to the success of the Uruguay Round, an institution has emerged that provides a single, coordinated mechanism to ensure full, effective implementation of the trading system. This new World Trade Organization facilitates the implementation of trade agreements in the diverse areas of trade in goods, trade in agriculture, trade in services, and the protection of trade-related intellectual property rights. It allows no free riders, requiring for the first time the full participation of all members in all aspects of the Uruguay Round agreements. Through the enhanced stature and scope of the WTO, we have the permanent, comprehensive forum to address the new and evolving issues of the twenty-first century global economic environment.

The successful conclusion of China's accession to the WTO is among the critical issues for this new body. The U.S. commitment to support China's accession on viable economic grounds and remains firm. I've already discussed the importance of this accession to both of our nations -- and to the world.

The next step is for China to complete its internal review of its WTO accession situation and make the decisions regarding economic and trade commitments necessary to allow the accession negotiations to go forward.

CONCLUSION: AN OPPORTUNITY THAT OBLIGATES US

Engagement is the right policy for now and for the future. It does not seek to impose our vision of the world on others. It recognizes that China is special, as the largest of the Big Emerging Markets, with exceptional human, economic and political resources. It recognizes that two complex nations deal with each

other on many levels and that problems on one level should not forestall progress on another. Indeed, it is based on the fundamental realization that our relationship with China is too important to be flipped on and off like a light switch as a consequence of trouble -- even deeply disturbing differences -- in one aspect of the relationship.

Engagement therefore sounds like a rational approach, common-sensical at its roots. Thankfully, it is that. But we should not be deceived into believing that because engagement is rooted in common sense that it will somehow be easy to sustain. It is a policy that demands a lot of maturity from both the United States and China. We must keep the long-term in mind. We must be driven by the broader interests of our people. And we must work to do so. Because special interests will always argue that their case is special and that it should have a special place among our priorities. And giving in to special interests in either country, forsaking the totality of our relationship for a single aspect of it, would be a mistake. It is a fine line we must walk. We cannot let a single issue push us apart, and we must not let even very important issues compromise our core beliefs or national interests. Balance is the key.

Both sides are vulnerable to failure. We in the United States may see our best intentions threatened because we have such an open society, because of the volatility and opportunity for demagoguery in electronic democracy, because the camera loves a grandstand play. In China, the threat comes for diametrically different reasons. Because in a single party system in which rulers do not draw their power from regular popular election, it is easy to grow distant from the people and unresponsive to the greater good -- or too responsive to influential groups within.

Engagement is not necessarily a policy that will be easy to sustain over time. Yet what we are talking about here is not a policy for one year or two but for generations. For the future of the century to come and of our children and of their children, we must work to strengthen the links between our countries one at a time, as fast as we can, knowing full well that those gaps that remain will be that much easier to bridge once the more easily achieved connections are made or the desired institutions built or entered into.

For the United States and for China, the ideal is a world into which we are both fully integrated. No country and no regional trading block can operate as a self-sufficient entity anymore. Not the United States, regardless of the size of its economy and expanse of geographical space. Not Europe, nor the Americas, nor ASEAN, nor Japan -- and not China. Indeed, in the global information economy of the coming century, we will all have to connect to prosper. Engagement on as many levels as possible will be a *sine qua non* of prosperity, of stability and of strength. We are entering an era of networks and international information superhighways of satellite and air transport links, of vanishing borders and seamless infrastructure networks. In all this, markets and enterprises and innovators and entrepreneurs are leading governments and creating a reality to which all must adjust and adapt.

Surely the job of integrating the world's Big Emerging Markets into that global economy is among the greatest and worthiest tasks of our age. It is one that shall rise and fall with the ability of the United States of America and the People's Republic of China to move past their differences and to form a new sort of partnership among nations, a model of engagement between developed and developing worlds. With conferences such as this one, we take important steps forward on the long path to realizing that goal.

Thank you very much.

INTERNATIONAL COMMERCIAL POLICY FOR THE TWENTY-FIRST CENTURY:

DEEPENING OUR TIES WITH THE BIG EMERGING MARKETS

Remarks by
JEFFREY E. GARTEN
Under Secretary of Commerce for International Trade

Before
The Greater Houston Partnership
Houston, Texas

October 24, 1994

This speech builds on several others which explain in more detail how we have been thinking about Big Emerging Markets. These include:

- *The Big Emerging Markets: Changing American Interests in the Global Economy*
  (January 20, 1994)

- *The Journey of a Thousand Miles: America's First Steps on the Road to the Pacific Century*
  (March 3, 1994)

- *A Defining Moment for the Western Hemisphere: Reform, Integration, and the Social Agenda*
  (March 25, 1994)

- *Rethinking U.S.-Indian Relations*
  (March 22, 1994)

- *The United States and Brazil: Partners in Change*
  (March 29, 1994

- *The U.S. and China at a Crossroads*
  (April 11, 1994)

- *Forging a Deeper Commercial Relationship between the United States and Argentina*
  (September 13, 1994)

- *Trade and Foreign Policy: Reflections on Economic Diplomacy*
  (September 13, 1994)

In addition, the Administration has issued a report on the National Export Strategy, October 5, 1994, which discusses Big Emerging Markets in some detail.

All are available from the Office of Public Affairs, International Trade Administration, Department of Commerce, telephone (202) 482-3809, fax (202) 482-5819.

Summary

Since its early days the Clinton Administration has been analyzing America's longer-term interests in the world economy. One major conclusion: over the next two decades, the markets that hold the greatest potential for dramatic increases in U.S. exports are not our traditional trading partners in Europe and Japan, which now account for the overwhelming bulk of our trade. Rather, the greatest commercial opportunities are to be found in ten Big Emerging Markets (BEMs): the Chinese Economic Area (including China, Taiwan, and Hong Kong), India, Indonesia, South Korea, South Africa, Poland, Turkey, Mexico, Brazil and Argentina.

These ten could account for the same value of exports as either Japan or Europe by the end of this decade. By 2010, they are likely to exceed our exports to both Japan and Europe combined.

The Big Emerging Markets ("BEMs") strategy was first announced last January. This speech discusses what has been accomplished since that time. It focuses on changing attitudes in Washington toward export promotion; activities of key departments and cabinet officers; the growing links between government and business strategies; the development of country strategies for each Big Emerging Market; the focus on Big Emerging Sectors; the creation of bilateral forums to promote long-term commercial cooperation; the establishment of commercial centers within the BEMs to promote U.S. exports; the effort to win projects for American firms in the BEMs; the development of a global marketing network to help U.S. firms in the BEMs; the establishment of a strategy center in Washington; and the relationship between global initiatives and the BEMs.

The point is underscored that pursuit of U.S. commercial interests in the BEMs is only one part of a broader foreign policy strategy that must also take into account such critical issues as human rights and non-proliferation. But as the twentieth century ends, we will need to integrate our commercial interests into our foreign policy as never before. The Big Emerging Markets will be a critical testing ground.

Suppose it were the year 2000 and you were looking back on the past decade. What would you identify as the most startling development in the world economy? Not the reemergence of Japan or Germany from recession. Not the consolidation of the European Union or the deepening integration of the North American market. Not the emergence of new global economic institutions like the World Trade Organization. True, all of these might be very significant events, but there will be something even more pivotal: the rise of ten Big Emerging Markets as new powers on the global scene.

In the next half hour I'd like to explain who the Big Emerging Markets are, how we came to identify them, and why they are important. Then I will focus on the major elements of our Big Emerging Market Strategy. Finally, I'd like to point out some of the foreign policy challenges that we will be facing in implementing this strategy.

THE BIG EMERGING MARKETS

During the first year of the Clinton Administration, a good deal of analysis was conducted to answer the question, "If you look toward the next century, where do our commercial interests lay?" It seems like a rational enough question, I suppose. But I know from my experience in three previous administrations that such strategic issues are rarely posed in the international economic arena, let alone answered. Well, in this instance we broke with tradition. We put our enormous amount of effort into looking over the immediate horizon, and we came up with some interesting conclusions.

We found, for example, that the markets in Europe and Japan will be growing much more slowly over the next two decades than a good deal of the rest of the world. Moreover, we discovered that, despite optimism about future prospects in East Asia and Latin America, the countries that will account for the overwhelming incremental growth in world imports can be narrowed down to less than a dozen, which we called "The Big Emerging Markets," or "BEMs."

Who Are The BEMs?

These are the BEMs: In Asia -- the Chinese Economic Area (which includes China, Hong Kong, and Taiwan), South Korea, Indonesia, and India; in Africa -- South Africa; in Central Europe -- Poland and Turkey; and in Latin America -- Mexico, Brazil, and Argentina. **(See Chart #1)**

Our calculations indicate that by the turn of this century -- less than six years away -- the ten BEMs as a group will be importing more than either Japan or the European Union import from us. By the year 2010, their imports could well exceed those from both Japan and Europe combined. In fact, during the period 1990 - 2010, the BEMs could account for $1 trillion in incremental U.S. exports.

Our exports to the BEMs totaled $106 billion in 1992, approximately a quarter of our exports. But while the ratio of Big Emerging Market GDP to the Industrialized World's GDP is 1 to 4 today, it will be 1 to 2 in less than 20 years. We expect that BEMs will more than double their share of world imports, as well, rising to nearly 27 percent by 2010. No other category of market shows such dramatic growth potential. **(See Chart #2 and #3)**

We certainly understand the limitations of long-term economic projections, and also the possibility that economic policies in certain BEMs could fail. Our outlook, in fact, is based on some critical assumptions such as the belief that world trade will remain open and be increasing, and that policy reforms initiated in the BEMs will be continued. The BEMs list was, therefore, always seen as one which could evolve depending on trends. If economic reforms stall badly in countries like Turkey, Ankara may not remain as good a prospect. If the Russian economy really turns the corner, Moscow could be added to the list, too.

At the risk of overkill, let me describe the BEMs another way: In Latin America, two BEMs -- Mexico and Brazil account for 61.36 percent of the Southern hemisphere's GDP and 53.49 percent of its population. Two Asian BEMs -- China and India -- account for 40 percent of the world's population. In Africa, one BEM -- South Africa -- accounts for 45 percent of the entire continent's GDP.

And look at where so much high priority Administration has been aimed these past 18 months: Mexico and NAFTA; China and MFN; South Korea and the nuclear threat to the North; Poland, and the President's visit there; and soon, Indonesia and the summit of Asian Heads of State.

In this sense, the BEM category is illustrative of a certain kind of market. They have large territories. They have big populations with massive future

demands for infrastructure, like auto parts and telecommunications, and for consumer goods, like computers and washing machines. They are countries which have undertaken significant economic policies that have already contributed to faster growth and expanding trade and investment with the rest of the world. They all aspire to be technological leaders. They are countries whose economic growth would have enormous spillover in their respective, geographical regions. They all have significant political influence in their backyards and beyond.

Washington didn't discover the BEMs, of course. They have been emerging on the world scene for years, and quite a few big U.S. companies have been active in them for a long time. In fact, we noticed the BEMs precisely because some of the more farsighted American firms were moving in to these markets already. But the American Government has only recently begun to focus on them with the attention they deserve -- not as foreign policy problems, which they have often been perceived as being, but also as major and essential opportunities to work together in the future.

Role for U.S. Government

Because of the changing nature of these markets, there is an important role for our Government to play in helping to stimulate our trade with each of them. The BEMs are unlike our more traditional trading partners, such as Great Britain or Germany. There are frequently severe barriers to entering these markets, including high tariffs, quotas, and protectionist regulatory barriers. Commercial systems, including full respect for intellectual property rights, smoothly functioning capital markets, and open government procurement procedures are either still developing or lacking. In some of the BEMs, impartial legal systems are missing, too.

In these markets, therefore, we can and should help American businesses in a variety of ways -- from securing market access, to providing financing, and to supporting U.S. companies seeking to win major projects on deals in which foreign governments play an important decision-making role. In addition, good information on the BEMs is often in short supply, and through our embassies and our Foreign Commercial Service, we can marshal and analyze much of what is available and provide it to our firms. Finally, we need to work with the governments and private sectors of the BEMs in order to assist them in developing the skills and the institutions to build open, modern capitalist

systems. The approach must not be patronizing, but based on common goals of expanding trade in their markets and our own.

It is, of course, much easier to proclaim a new policy than it is to implement it. In the several months that the Administration has focused on the BEMs, however, a good deal has already been accomplished.

ELEVATING THE IMPORTANCE OF EXPORTS

Perhaps the most important achievement so far has been the evolution in the Executive Branch of an intense export consciousness. Export promotion has moved out of the shadows of trade policy and into the center, as the Administration fully described on October 5 with the release of the second annual report on our "National Export Strategy." The evidence can be seen in the significant deregulation of export controls in areas such as telecommunications and computers; in the expansion of trade financing facilities to meet fierce foreign competition; in the aggressive support the Administration has given to U.S. firms bidding on big projects in countries such as China, Brazil, and Saudi Arabia; and in the establishment of several major export assistance centers around the United States where trade promotion and trade financing services are considered for the first time. Indeed, with these policies in place, and with more to come, we anticipate a major expansion of U.S. sales abroad, with exports alone reaching over $1 trillion by the year 2000, supporting some 6 million additional jobs. **(Chart #4)**

A focus on the Big Emerging Markets is a crucial and pervasive part of this export push. It is not a substitute for continued efforts to open markets and promote American sales in Europe, Japan, or Canada. Nor does it mean we will let up on commercial efforts to draw closer to Russia, the other newly independent states, or entire regions like Latin America or Southeast Asia.

But a Big Emerging Market strategy deserves special emphasis and requires an extraordinary effort, because it represents a radical departure from traditional policies and because it is oriented way beyond the usual government policy time horizons. The focus of this strategy is more intense, and its implementation is more aggressive, than any export strategy the American government has mounted.

CABINET-LEVEL ATTENTION

The Big Emerging Markets concept has been discussed with President Clinton and in several cabinet-level gatherings. It has been endorsed by 19 agencies, the National Economic Council and the National Security Council in the cabinet-level Trade Promotion Coordinating Committee. It is driving the future orientation of not only the Department of Commerce's trade apparatus, but also many of its international technology programs. The Export-Import Bank is orienting many of its programs towards the BEMs. So is the Overseas Private Investment Corporation (OPIC), which insures U.S. investors against political risk.

In addition, the foreign itineraries of the Clinton cabinet and subcabinet show increasing emphasis on the BEMs. Secretary of State Christopher could have been expected to visit most of these countries anyway. But Secretary Brown will have visited nine of the ten in this year alone. Secretary Bentsen has already spent time in Mexico, China, and Indonesia. Secretary of Energy Hazel O'Leary will have travelled to India and China by the end of this year. Poland, Indonesia, India, and South Korea will have been on the well-worn path by December, too. Ken Brody, Chairman of Ex-Im, likes to say that his itineraries follow the BEMs. Ruth Harkin, President of OPIC, has travelled widely to them, too.

LINKING STRATEGY TO BUSINESS AND THE BROADER PUBLIC

Dialogue with Business

Beyond high-level discussions and travel, the Administration has instituted extensive dialogue with groups outside the government. Since last winter, Secretary Brown has asked groups of CEOs from a wide range of businesses to attend seven separate conferences with him and other top Administration officials to discuss issues related to the BEMs. On these occasions, American officials are listening more than talking. We are hearing about how U.S. firms have been approaching the new markets, the problems and the opportunities they see, the help they want from the U.S. Government, and the help they don't want, too.

Public Discussions

This summer we began a series of meetings with business groups around the country. New Export Assistance Centers from Long Beach, California, to Baltimore are now gearing up to disseminate information and engage in consultations on Big Emerging Markets with firms of all kinds. Beginning next month, the Department of Commerce will be leading discussions in thirteen additional cities, from Los Angeles to Atlanta, and from Minneapolis to San Antonio, concerning our BEM strategy. Requests have poured in from communities from Silicon Valley to Tampa for briefings and information. Companies and universities are offering ideas for technical assistance programs in the BEMs.

The Administration's efforts to reach beyond the Beltway is just beginning. There is, however, a need to do much more with small- and medium-sized businesses, and with Labor. It will take years to build up a mindset that we, as a country, need an export strategy that looks beyond the next year or the next election cycle.

Pilot Projects

Time, adequately trained people, and severe budgetary limitations make it impossible to do everything at once. We have, therefore, instituted several pilot projects. The idea is to experiment in individual BEMs with new policies and programs, with the ultimate intention of transferring what works from one country to another, with appropriate modifications for individual circumstances.

COUNTRY STRATEGIES AND COUNTRY TEAMS

For decades, agencies of the Executive Branch have been notorious for pursuing many different commercial approaches to a particular country with little or no coordination. Every Administration has tried to fix the problem, without much luck. In our case, however, we are making significant progress. Indeed, a successful BEM strategy requires fully coordinated export strategies toward the ten countries.

Example: Mexico

Mexico is our fastest growing major export market.

Our approach towards Mexico predates the establishment of the BEMs strategy, but it is nevertheless highly significant in the overall BEMs context. Much of what we do is driven by one effort to implement NAFTA and to make it a success -- which it has assuredly become, as recent statistics show.

Our links with Mexico are becoming so broad and so deep that its hard to know where to begin in describing them. From cooperation on trade to cooperation on finance, from deeper integration in the corporate sector to integration of transportation systems, from the growth of joint secretariats to manage problems to continuous meetings of our top officials -- the ties between our two countries are moving in the right direction, for sure.

Regarding exports, the Administration began a program on the heels of the NAFTA agreement called "Export Mexico." This has become a highly successful effort to reach small- and medium-sized businesses around the United States, to make them aware of new opportunities south of the border, and to provide technical assistance for the act of exporting itself. We have reached tens of thousands of firms, and will reach many more this year.

We have also mounted a major effort to assist with infrastructure development at the border. Projects have been identified, and financing is being mobilized. There is much more to do, but efforts are intensifying now. In fact, we have recently revitalized a task force composed of agencies throughout the government to look afresh at a broad range of new initiatives and programs to further deepen our ties with our southern neighbor.

Example: Indonesia

Indonesia is the fourth-largest nation in the world.

Indonesia is our first test case since the BEM strategy was put forward. We selected it because it holds enormous importance to us in the most dynamic region of the world, and since virtually every one of our export promotion programs are operating in this country already.

We began with a far-reaching interagency study of U.S. commercial interests in Indonesia through the year 2000. The analysis examined how American firms had been doing over the last decade; it evaluated the efforts of U.S. agencies in working with them; and it took stock of how foreign

competition had been performing. We noticed, for example, that although we had large Ex-Im, OPIC, and other programs in Indonesia, they were not well-coordinated. Moreover, despite the amount of resources we were pouring into Indonesia, we were still losing market share to Japan, Europe, and several other Asian countries.

The study zeroed in on those sectors and projects that held the most promise for U.S. firms, relating them as best as possible to the potential benefits to the American economy. On the basis of this examination, a subcabinet trip was made to discuss the findings with the American Embassy and the U.S. business community in Indonesia. Consultations were held with Indonesian Government officials and local business leaders to see how they perceived the U.S. effort. An interagency task force was then reconvened to formulate a strategic plan.

A Senior Deputy Assistant Secretary in the Department of Commerce -- a significant upgrade from the usual country desk officer -- was appointed to be the day-to-day point person for the Administration's export efforts. He will have a team composed of people with both country- and industry-specific backgrounds. The team itself will have special training on many cross-cutting issues such as intellectual property rights or human rights.

The strategy is now unfolding. It will take time to evaluate. But we are going to roll out similar efforts for Argentina, China, India, and other countries in the months ahead.

Big questions remain, of course. It will be important to measure the success of what we do, but concrete results stemming directly from Government action will not be easy to separate from the efforts of the competing firms themselves. At a time when the effectiveness of all U.S. Government programs is rightfully under intense budgetary scrutiny, however, we will have to find a credible way to assess performance.

BIG EMERGING SECTORS

Part of every country strategy is a focus on selected industries where U.S. exports have particularly good prospects. In our in-depth studies on

Indonesia, China, Argentina, and Brazil, and from additional research, we have formulated a vision of the areas where the BEMs imports are likely to be greatest.

Several clusters of industries are high on the list. They include:

- *Information technology*, including telecommunications, computers, and software;
- *Environmental technology*, including pollution control equipment and consulting services;
- The *transportation* industry, including aviation, automotive trade, and the services and equipment needed to build modern rail systems and airports;
- *Energy technology*, especially for the soaring demand for electric power;
- *Health care technology*, including advanced medical equipment, pharmaceuticals, biotechnology, and hospital management services;
- *Financial services*, including banking, insurance, and the securities business.

As in the BEM category itself, these Big Emerging Sectors are illustrative. We also have a great interest in advanced materials, in the chemical industry, and in industrial machinery, for example, all of which could be added to the initial list. But it is crucially important to have a starting point and a focus to our efforts - and I'm happy to say that we do. **(Chart #5)**

A sectoral strategy is not an "industrial policy." It does not involve subsidies. It does not rest on a notion of picking winners and losers, but rather it supports those industries where we know markets abroad are expanding, where the U.S. is already doing well, and where it could do much better with additional U.S. Government help. (For a more complete analysis of these sectors, please see "The National Export Strategy," second Annual Report to the U.S. Congress, October 5, 1994.)

Example: Environmental Technology

Take, for example, the case of environmental technology in Mexico.

Having identified the sales of environmental technology and services as a high priority, the Administration sent a mission to meet with federal, state, and municipal officials in Mexico, as well as with trade associations and companies in the Mexican market. A U.S. Department of Commerce-Mexican Ministry of Trade and Industrial Development Committee was established to help Mexico meet environmental standards and to promote sales of U.S. environmental projects. The U.S. Government added an environmental specialist to the Embassy staff in Mexico City. The Environmental Protection Agency committed funds to train environmental inspectors in Mexico. The Export-Import Bank began to provide financing for U.S. firms participating in environmental projects, including municipal waste-water treatment. The Overseas Private Investment Corporation issued loan guarantees to capitalize on a Global Environmental Emerging Markets Fund.

We would like to pursue such a full-court press for other Big Emerging Sectors. This would, of course, stretch U.S. Government budgets and human resources. The clusters of industries on which we are focusing are all changing rapidly, and the Government will be sorely tested to keep up in terms of basic knowledge. But if we succeed, we will be doing little more than our French, German, British, and Japanese competitors, all of whom have had such focused strategies for years.

BILATERAL COMMERCIAL DIALOGUES

It is important to remember that the BEMs are up-and-coming markets that are trying to modernize their commercial infrastructures very rapidly. No two are in an identical situation, but many need to strengthen their systems for protecting intellectual property rights; many need to make progress in opening their markets to foreign goods and services, both for imports and for foreign investment; and many need to build up a better regulatory framework for such industries as telecommunications and finance.

While the IMF, the World Bank and other international institutions can provide assistance in these areas, stronger bilateral links between Washington and each of the BEMs are critical. America has a wealth of technical expertise

and policy experience to impart. Moreover, we have a strong interest in the commercial links that can be developed through this kind of interaction.

In the Cold War, ties between the United States and many of our friends in the world were developed through military exchanges and training programs. Now, and in the future, the most important links will not be men in uniform carrying weapons, but men and women in blue suits carrying laptops.

We have, therefore, set up special commercial forums with several of the BEMs under which a broad range of common concerns can be addressed. To date, these have been established in South Africa, Argentina, India, and China. All have a significant role in helping to build solid commercial institutions, but they are all structured in various ways, with somewhat different agendas. All have a sectoral industrial component -- a focus on telecommunications, energy, financial services, etc. -- so that commercial matters relating to the promotion of trade and investment have a particular "real world" focus. Some have heavy involvement of the U.S. and foreign private sectors.

Example: The U.S. - China Joint Commission

A good example of such a forum is the U.S.-China Joint Commission on Commerce and Trade (JCCT).

Last April, China Trade Minister Wu Yi brought a government-wide delegation to Washington to hold high-level talks on U.S.-Chinese commercial interests under the JCCT. During the two-day meeting, three working groups were established to operate in parallel. One discussed generic commercial issues, such as intellectual property rights and market access. Another focused on tariffs, trade, and investment in particular sectors like telecommunications and energy. A third looked at the development of commercial law in China. The activity consists of defining problems, ways to resolve them, preparation of reports and recommendations for senior officials within the two Governments.

The JCCT gives Washington and Beijing an important venue outside the glare of heated trade negotiations to identify problems, and to seek long-term remedies. It serves as a mechanism to build stronger relationships between the two Governments. It provides an opportunity for the United States to offer technical assistance -- in such areas as building a framework for intellectual

property rights, upgrading environmental standards, or instituting a system of export controls on sensitive technology -- in a way that is mutually agreeable by both sides.

In August, Secretary Brown travelled to Beijing to further the dialogue. He brought with him 24 CEO's and a senior intergovernmental delegation. During his visit a wide range of agreements were signed specifying formal work programs, upcoming events, and goals for the JCCT.

Similar forums with other countries, such as South Africa, Argentina, and India will have a much larger private sector component. The South African BDC met last month in Washington. We hope to have meetings with Argentina before the end of the year, and with India by January.

Importance of Technological Cooperation

As we think about the evolution of our commercial relationships with the BEMs, it becomes clear that the technological component looms increasingly large. Almost all of the BEMs see themselves as becoming technological leaders in their regions, and all have that potential. In Indonesia, the Government is preoccupied with gaining twenty-first century telecommunications facilities. In China, India, Brazil, South Africa, and South Korea -- to take a few examples -- the technological infrastructure is already highly developed. A host of important issues are raised for the United States. How to integrate technology into the trade discussions? How to foster the kind of economic development in the BEMs that comes with the availability of advanced technology while not giving away our commercial advantages -- all against the backdrop of fierce commercial competition on the part of France, Germany, Japan and others who will be supplying similar technology? And, of course, how to control the transfer and sale of civilian high-technology that also has military applications? We are planning to integrate technological communications into all of our commercial discussions, but the approach will vary by country, of course.

Need to Consider Training Programs

In all of our commercial efforts, we have become aware that commercial policy means much more than trade or exports or financing. One of the major constraints faced many of the BEMs is the lack of trained people to manage

modern enterprises, public or private. We believe that the United States has a lot to offer in this regard, both through our government and our private sector.

In September in Shanghai, Secretary Brown announced some pilot efforts that we will be making to provide training in China. We have been in intensive dialogue with Shanghai officials about how this is best done -- through universities, through more corporate exchanges, and through the encouragement of efforts that the U.S. private sector is already making.

We also want to take advantage of the phenomenal technology that the United States now possesses for imparting information -- technology that is nowhere so advanced as it is here. Our corporate sector has all manner of training programs that can be beamed around the world via satellite, for example. We are in a position to have a global classroom for a global market. Why shouldn't we try?

I might add that the concept of expanded training, while providing many benefits to China, is not a purely altruistic venture by any means. Managers and technicians trained by Americans are surely apt to be inclined to buy American goods and services. In addition, one of the major problems for U.S. firms in China is lack of Chinese personnel who have the requisite skills for modern-day work.

It would be misleading to say that we have all the answers -- or even many of them -- to this complicated issue. But this much we do know: in the 1950s, '60s, and '70s, a good deal of our ties with key developing nations revolved around military training and exchanges. Now, and in the twenty-first century, the rules will be different. And just as our armed services brought more than military training, so will the links brought about by people-to-people contact in the commercial areas carry with them much broader benefits to both sides.

Other Issues

There are other difficult issues, too. In our bilateral commercial dialogues with the BEMs, we are combining a focus on immediate and longer-term trade issues -- on market access today, and on building the commercial infrastructure for tomorrow. At times, therefore, we have to manage the delicate balance of the threat that we may have to impose trade sanctions, for

lack of market access or inadequate enforcement of intellectual property rights, with more cooperative discussions of, say, promoting investment in the automotive or computer industries. The tensions require governments on all sides to balance immediate problems and long-range opportunities. It's not easy to do.

COMMERCIAL CENTERS

In all the BEMs, we hope to create special commercial centers outside the American Embassies. The idea is to elevate the commercial objectives of our foreign policy by enhancing U.S. trade promotion facilities and by making them more accessible to American and foreign business people.

Example: Sao Paulo, Brazil

The prototype is the new facility in Sao Paulo, Brazil, which was opened this summer. Located in the central commercial district, this four-story building makes available to business people from America and Brazil a comprehensive commercial library with the latest computerized databases on the two countries. It houses the U.S. & Foreign Commercial Service, and provides one-stop export advising services. One floor is reserved for the exhibition of American products. There is an auditorium with simultaneous translation capability for company presentations. It is our hope that the center will become a magnet for more American trade fairs and missions, and for U.S. business people needing help in penetrating the Brazilian market. In the few months since its opened, all this is already happening.

Jakarta, Shanghai

It's a long way from having to enter an embassy or consulate and pass by Marine Corps guards in order to get business help. This Fall we plan to open another commercial center in Jakarta. We just announced plans for a center in Shanghai. We are considering similar facilities for India.

FINANCING AND GOVERNMENT SUPPORT FOR U.S. FIRMS

A major reason why the BEMs constitute such important markets for us is that some of the world's largest infrastructure projects will be mounted in these nations, with billions of dollars of potential sales for U.S. companies. Truth is, however, that in most instances the projects are awarded by

governments, or are under heavy government influence. This means that the bidding process is highly political and that companies vying for contracts often receive help from their own governments, particularly in the area of long-term financing. Before 1993, Washington's support for American business has been episodic at best. President Clinton, Secretary Christopher, Secretary Bentsen, Secretary Brown, Secretary O'Leary and others have instituted a radical change in this policy, mounting the most consistently aggressive effort on behalf of U.S. firms in memory.

The Commerce Department has set up a special advocacy "war room" to track the largest projects around the world and to work closely with the other agencies -- State, Treasury, the Export-Import Bank, OPIC, and the Trade and Development Agency, to name a few -- to marshal all the muscle in the Administration when it comes to winning large contracts. The new policy is what Ex-Im Chairman Ken Brody calls "aggressive defense." That is, we will never be the first to provide below-market-rate finance in violation of the OECD rules, but if we find other governments breaking those rules, we are willing to match the financing. In addition, we are mobilizing high-level Administration support for individual projects -- via trips, phone calls, and other contacts between Administration officials and their counterparts in the governments awarding the contracts. Suffice it to say, we are turning up the heat as never before.

Example: Brazil

In one recent Latin American case, which involved a $1.5 billion environmental technology project in which Raytheon was leading an American consortium, Interior Secretary Babbitt, EPA Director Browner, and NASA Director Golden all weighed in with their Brazilian counterparts. Secretary Brown went to Brazil with the chairman of Raytheon and with high-level representation of U.S. agencies. The Export-Import Bank stepped up to the plate with one of the most far-reaching financial packages in memory. And, in the clearest signal of all that we meant business, President Clinton contacted the President of Brazil on this project.

Needless to say, the rival European consortium received at least as much backing from its government. Such is the nature of the ferocious competition our firms face. The big change for Washington is that we are finally learning to play this game after years of sitting on the sidelines.

In the end, we won the project in a highly dramatic contest.

Example: China

A much broader advocacy effort was recently mounted in China when, last month, Secretary Brown led a Presidential Business Development Mission comprised of twenty-four CEO's to Beijing, Shanghai, and Guangzhou. Brown met with the President of China, the Premier, two Vice Premiers, and several ministers. He pressed hard for contracts for American firms in specific projects. The ground had been well prepared by previous trips of Secretary Bentsen and others, by several subcabinet trips, by around-the-clock efforts on the part of the Advocacy Center, and by close coordination between the entire Administration and the U.S. firms involved. Over $6 billion worth of transactions were announced while he was in China, and we are hopeful that a good deal more will come to fruition in the months ahead. We certainly will be continuing to push.

Incidentally, no discussion about commercial ties with China should ignore the top priority we accord to human rights, too. Let me address this issue in a second.

Advocacy is a tough game the way we are playing it, and the stakes are high. Millions of American jobs will hang on our successful advocacy in the future. During the past year alone, we estimate, for example, that the Administration has helped American firms win over 70 major projects accounting for well over $17 billion in U.S. sales and 275,000 jobs. We, therefore, must continue to press, and press hard. But, while we want the contracts -- and the U.S. jobs they bring -- we do not want to see a trade finance war in which governments are fighting to see who can deplete their treasuries the fastest. That's why we only respond to below-market financing from others. And our hope is to show that it doesn't pay to cheat on the OECD rules, because everyone will pay dearly. But we will not stand by and watch others capture markets by subsidizing.

The BEMs will be -- indeed, they are already -- the battleground on which these tensions will be played out.

GLOBAL MARKETING NETWORK

The implementation of a BEMs strategy is conducted not just by the Washington agencies but also by 250 American men and women, plus 700 foreign employees of the U.S. & Foreign Commercial Service (US & FCS) stationed in 70 offices around the United States and sixty-nine embassies abroad. This entire trade promotion network is now emphasizing the importance of BEMs to interested American firms. They are being armed with important data on the key countries, visits, and trade missions.

The US & FCS is a crucial link for the BEMs strategy but, as in other areas, budgets are badly stretched. In China, for example, less than 10 U.S. professionals, working with 29 local men and women, are responsible for the entire country. So few people could hardly cover adequately the booming southern region alone. Some 60 positions around the world are now unfilled due to budgetary constraints, and the requirements for people is only escalating, particularly in the biggest and fastest-growing markets. Training for our men and women abroad is also crucial. We are focusing now on upgrading the knowledge of trade financing, but more specialized skills regarding the Big Emerging Sectors, where technology is changing so rapidly, is also badly needed.

The domestic part of the network is undergoing major reorganization as we build a new system around some 15 Export Assistance Centers, which bring together, under one roof, <u>all</u> the Federal services and, where possible, state and local export facilities, too. It is an awesome undertaking. Providing export promotion services is often more difficult than many other governmental programs, because the global economic environment is changing so rapidly.

NEW INSTITUTIONS AT HOME

There is also the need to rethink how we are organized in Washington to deal with the BEMs. We have taken a major step in this regard with the recent decision, announced by Secretary Brown in Beijing last month, to establish a special center in the Department of Commerce devoted to developing our commercial strategies with China. The rationale was that, given the huge stakes, we need to marshal a critical mass of knowledge and experience in order to develop the broader and deeper commercial engagement we seek. We

need to know more about the Chinese economy than we do now; we need to have a better idea of how joint ventures and strategic alliances work; we need to be in a position to help on everything from Chinese regulatory policies to good employment practices. Our idea is to bring into this Center people from business, academia, and other walks of life to develop new ideas and new approaches to commercial engagement with China.

We have great hopes for this new facility, which could well become the prototype for similar facilities for other BEMs.

GLOBAL INITIATIVES

A final element of the BEMs strategy is to add a BEM component to many of the Administration's more global initiatives. A good example is Vice President Gore's proposal for a global counterpart to the National Information Infrastructure (the "Information Super Highway"). Called the Global Information Infrastructure, the proposal calls for far-reaching telecommunications links among nations in the interests of expanded trade, investment, and social development. Several of the BEMs could be prototype "off ramps" of the Global Highway. We are looking seriously at some possibilities in East Asia and in Latin America.

MORE RESOURCES FOR BEMs

In an era of intense budgetary pressure, I am not going to stand here and say that there is a lot of new money for the BEMs -- important as they are. However, over time I believe that we will see a significant shift of resources in their direction.

In the Administration's National Export Strategy report, issued earlier this month, for example, a framework for future Administration budgets when it comes to exports was outlined. The top priority was Big Emerging Markets.

In addition we are likely to see some reprogramming in individual departments. At Commerce, for example, we are moving to expand our Foreign Commercial staff in the BEMs, even if it means reducing them elsewhere. We also plan to put industry specialists in the field in key BEMs, to respond to the need to enhance our exports in very competitive situations.

Beyond money and people, there is the question of how we in this Administration and those after us use our time. For example, we are organizing BEMs teams throughout Commerce's domestic field network to better provide information and assistance to Americans on these markets. I predict that the BEMs will become an increasing preoccupation for all of us engaged in international affairs.

BIG EMERGING COMPLICATIONS

In every one of the Big Emerging Markets, the Administration's priority of expanding exports -- and creating jobs in the process -- is complicated by a host of other issues.

For one thing, we have many problems getting into many of these markets, and protecting our copyrights, patents and trademarks. I don't want to minimize these issues, because they will be major irritants. In China, we are also concerned with human rights, intellectual property rights, and military sales. In South Korea, we have to think about our commercial strategies in the broader context of developments on the peninsula concerning nuclear weapons. In Indonesia, there are problems regarding labor standards. In Turkey, Poland, Mexico, India, Brazil and South Africa, we also have many broader foreign policy concerns.

In thinking about the BEMs, moreover, we need to be conscious of the fact that they will not only be markets for us, but also competitors -- increasingly fierce competitiors. In our recent report on American competitiveness entitled "Competing To Win In A Global Economy," released a month ago, we cited the increasing need not just to "benchmark" ourselves against Japan and Germany, but also to keep a very close eye on South Korea, Brazil, China, India and Mexico -- for starters.

A Big Emerging Markets commercial strategy must be imbedded in a foreign policy that seeks to balance commercial interests with other American objectives. This is no easy task. We are not a purely mercantilistic nation, nor will we ever be. Our global leadership responsibilities prevent us from being just a salesman, no matter what priority we assign to exports.

Human Rights

Let me say a special word about human rights, because they do loom so large in our values as a nation and in our foreign policy. Perhaps the best example of the dilemmas we face are to be found in China, where our human rights goals and are commercial goals are both so important and receive equal priority.

Last May, President Clinton announced that we were no longer going to tie normalized trade status with China to the human rights situation. Instead, he said, we would pursue both simultaneously and vigorously. The two were not at odds; to the contrary, commercial engagement furthered our human rights goals.

On his trip to China last month, Secretary Brown showed exactly how such a strategy can succeed. In meetings with the top Chinese leadership, all scheduled to discuss commercial issues, Brown brought up human rights questions in a nonconfrontational way. There proceeded in each case a full discussion of our concerns and theirs. Brown asked for a resumption of the very important human rights dialogue between China and the United States, something which had been stalled for some time and that we felt was very necessary. During his visit, the Chinese agreed.

Now, this dialogue is not the entire human rights policy, of course. But it does show that commercial engagement has much broader ramifications.

Commercial engagement, moreover, leads to more economic growth in China, which lifts the lives of millions of Chinese. That's human rights, too. When AT&T or Sprint brings phones and faxes to China, millions of people lead freer lives, because they are, for the first time, connected to everyone else. When Bechtel or GE bring electricity to millions of homes, affording light to read by and power to pump purified water, that helps human rights, too.

I want to make these points to underscore the fact that a commercially focused foreign policy is not one that downgrades other goals. To the contrary.

Other Features

There are some other special features of our policy toward the BEMs,

The world order is changing and we are trying to get ahead of the curve. Our traditional allies are as important as ever, of course, but we have to make room for a new category of country that is moving up in importance and influence. To say that this is a revolution in our approach to international affairs is probably too strong -- but maybe not. In any event, it is a sharp departure from the last 50 years, when we looked at many of the BEMs primarily through the lens of the Cold War and as "problem countries" to deal with.

A New Philosophy

Today and tomorrow, a new philosophy must take hold. Our starting point must be that the BEMs are central to our foreign policy and that we should do our best to find a convergence of interests and values with them. How we do this cannot be separated from the objective. Style is substance.

Some realities loom. We need these markets as never before. We are in a ferocious competition with other nations for them. And we should not forget that, while we must carefully balance our interests, the agendas of the BEMs themselves are overwhelmingly centered on economic growth and jobs for their citizens. Unless we are able to relate to them on that terrain, we will lose influence across the board.

The Importance of An Open Economy

While the future of the BEMs hinges on the tough decisions each is willing to make regarding internal reforms, the international environment for trade and investment is crucial to their continuing to open their economies. The BEMs will need access to the markets of the United States, Europe, and Japan in order to develop modern, open economies. They must feel that the new World Trade Organization is sensitive to their interests. They will need access to capital on reasonable terms. One significant feature of the Big Emerging Markets -- as opposed to all emerging markets -- is that, because they have such large internal markets, they have more of an option of slowing their integration into the world economy with protectionist measures than do smaller nations. This would undercut their growth, to be sure, and it would also set back world trade and American exports. But it could happen. The imperative is for continued American leadership toward the most open, liberal, and multilateral economic system possible.

Among other reasons, this is why the passage of the Uruguay Round legislation, now before Congress, is so critical.

As I mentioned, the BEMs will also be the battlefield of the new competition among the OECD countries for markets. It promises to be a bloody fight. The contracts are big, the process of awarding them highly intertwined with local and international politics. The requirement for the industrialized nations to devise sensible rules of competition should be very high on their list of priorities. But creating a truly level playing field will be an awesome task.

CONCLUSION

In terms of U.S. foreign policy, each of the Big Emerging Markets will be requiring the kind of high-level attention that we once reserved for France or Germany or Japan. This is already happening, thanks to the President's direction of both the National Security Council and the National Economic Council. There is much more to do -- but we have made a good start.

The Administration has been clear about the centrality of the economy to its foreign policy. Exports are now central to job creation and hence to what national economic policy should be all about. The Big Emerging Markets are central to exports. **(Chart #6)**

But at stake is even more than American jobs. The overwhelming political issues in all the BEMs is moving up the economic ladder and spreading the benefits of that success among populations with rapidly rising expectations. American products, services, and technological know-how can help enormously. Whether or not the BEMs can grow and prosper will determine whether they can continue the momentum toward more open and pluralistic political systems -- which, in turn, will determine what kind of world we will live in as this tumultuous century comes to a close.

Thank you very much.

Chart #1

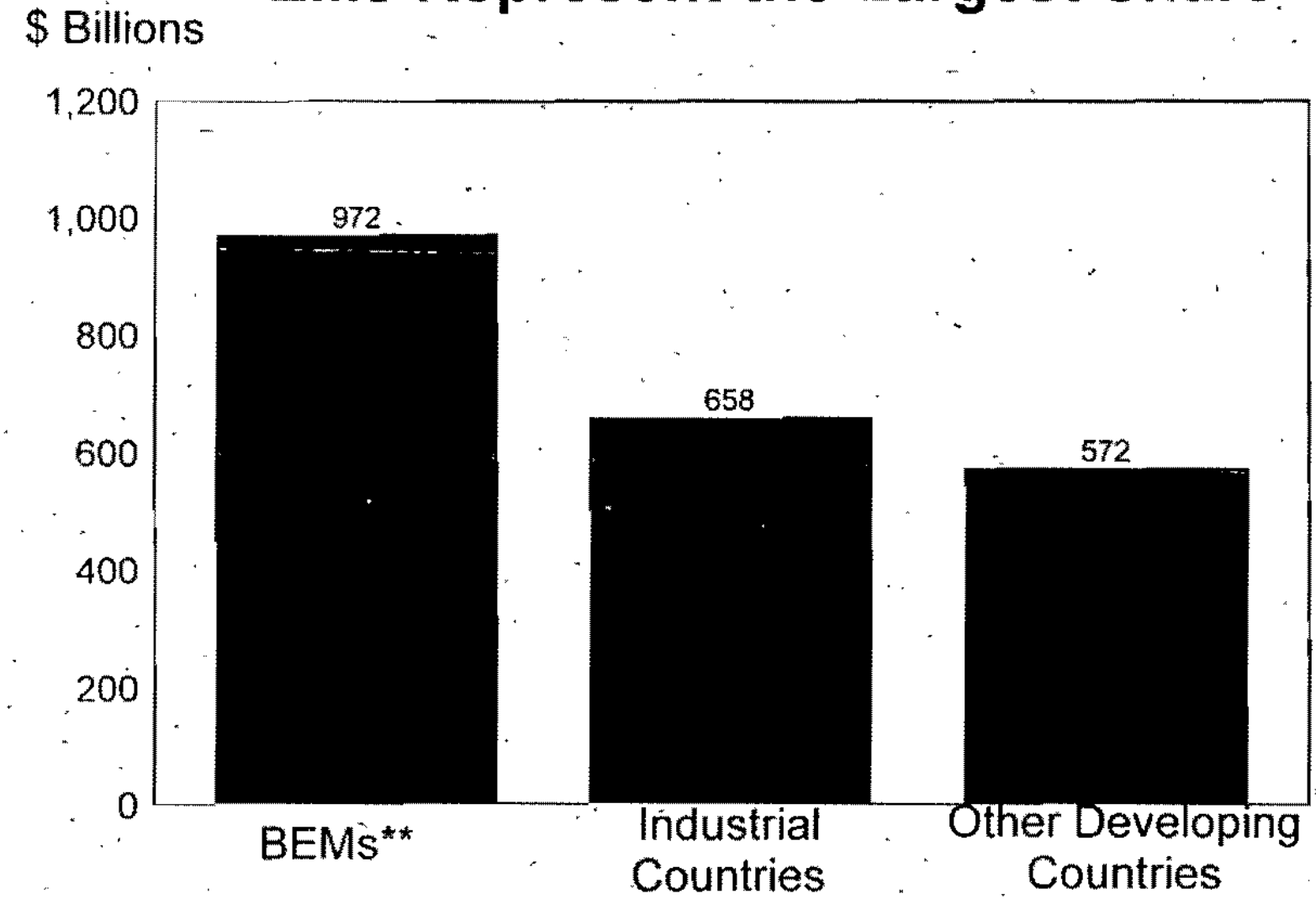
BEMS AT A GLANCE

Country	Population (millions)	Total Area (square km)	GDP	Average GDP growth (1993)
Argentina	33,533,256m	2,766,890	$185 billion	6%
Brazil	162m	8,511,965	$785 billion	5%
Chinese Economic Area	1.2 billion	9,636,980	GNP: $809 billion	8.3%
India	920m	3,287,590	$1.17 trillion	3.8%
Indonesia	190-200m	1,919,449	$571 billion	6.5%
Korea	45m	98,480	$424 billion	6.3%
Mexico	92m	1,972,550	$740 billion	0.4%
Poland	38m	312,680	$180.4 billion	4.1%
South Africa	44m	1,219,912	$171 billion	1.1%
Turkey	62m	780,580	$312.4 billion	7.3%

Chart #2

PROJECTED INCREASES IN WORLD IMPORTS*
1990-2010

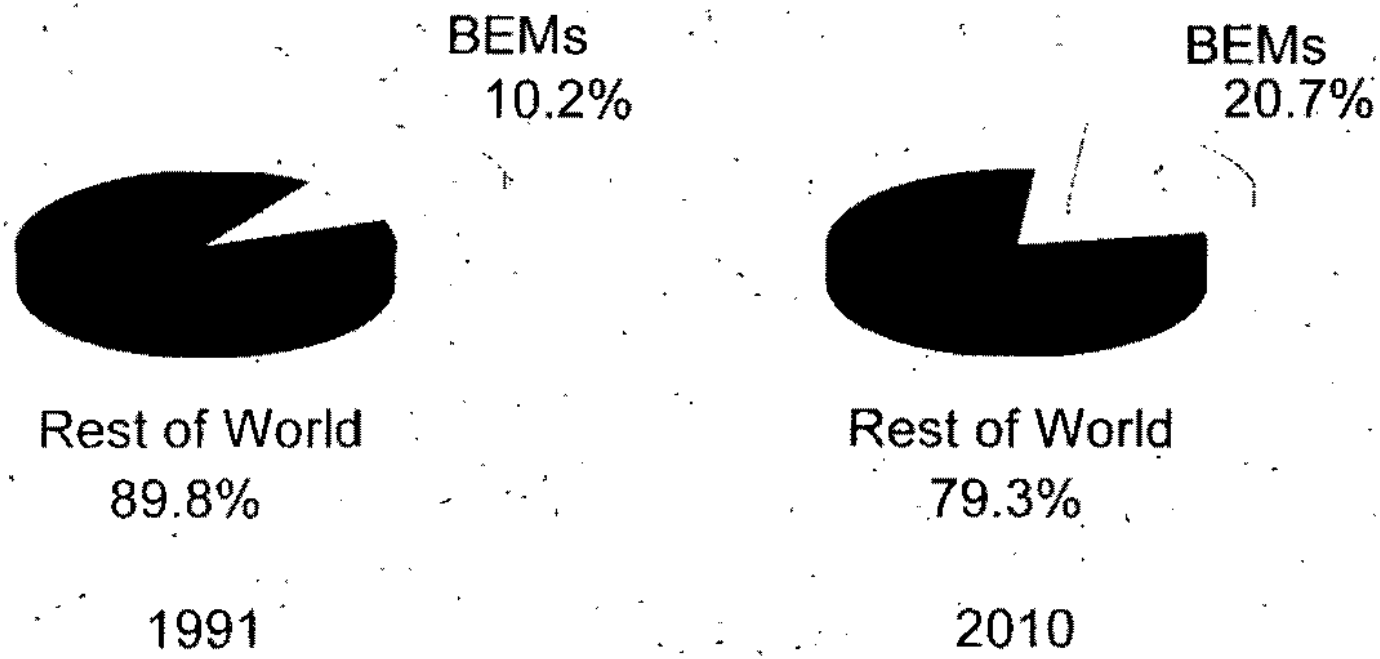
BEMs Represent the Largest Share



* Excludes United States
* Big Emerging Markets

BEMs' Share of Global GDP

Will Double in Next 20 Years

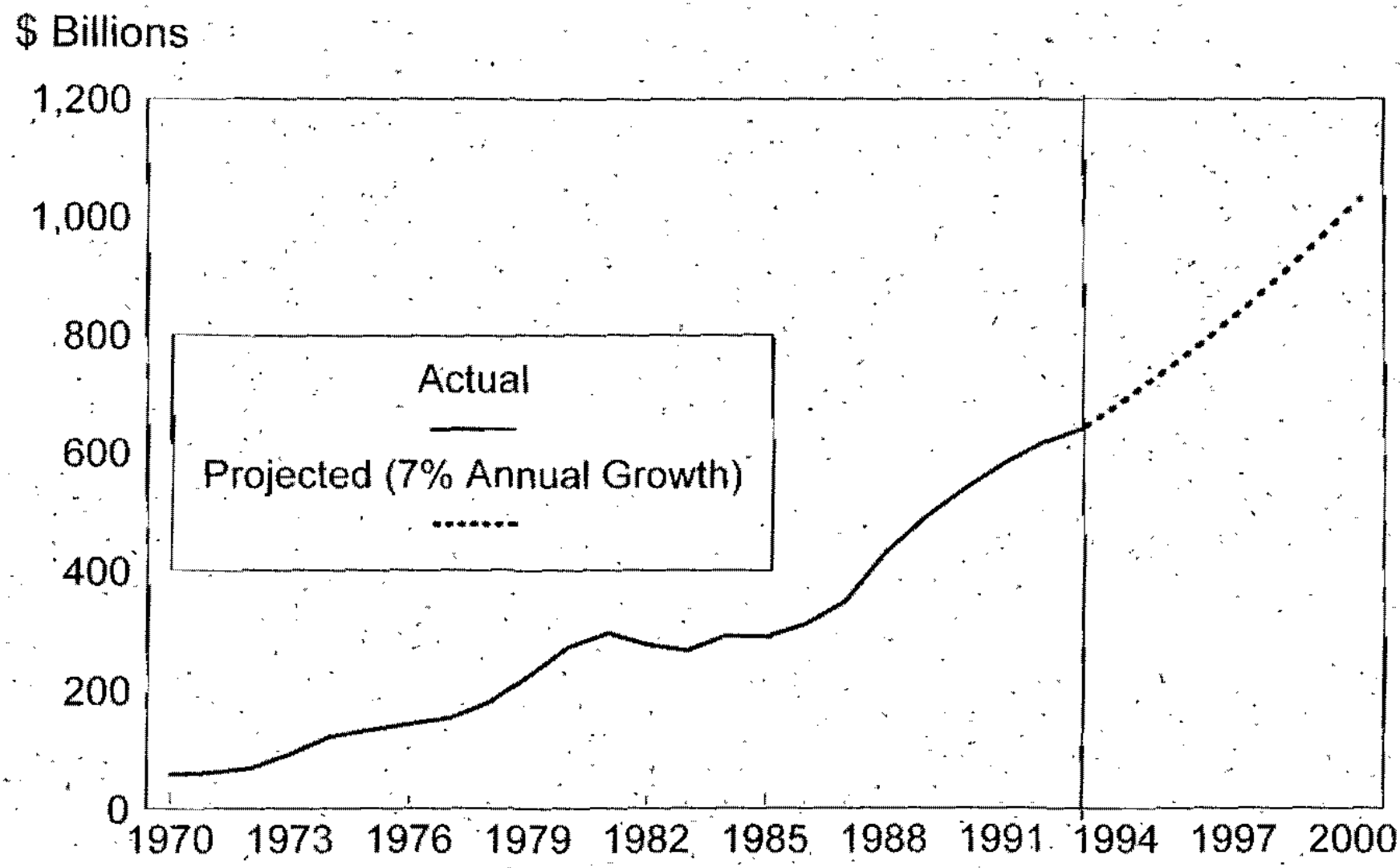


Source: Multiple Government Sources

Chart #4

U.S. Exports of Goods and Services, 1970-2000

National Export Strategy Goal: U.S. Exports Over $1 Trillion by Year 2000



OTEA/TD/ITA

Chart #5

GROWTH OF BIG EMERGING SECTORS 1993-2000

Expected Growth in Nearly All BESs Greater Than Non-BESs

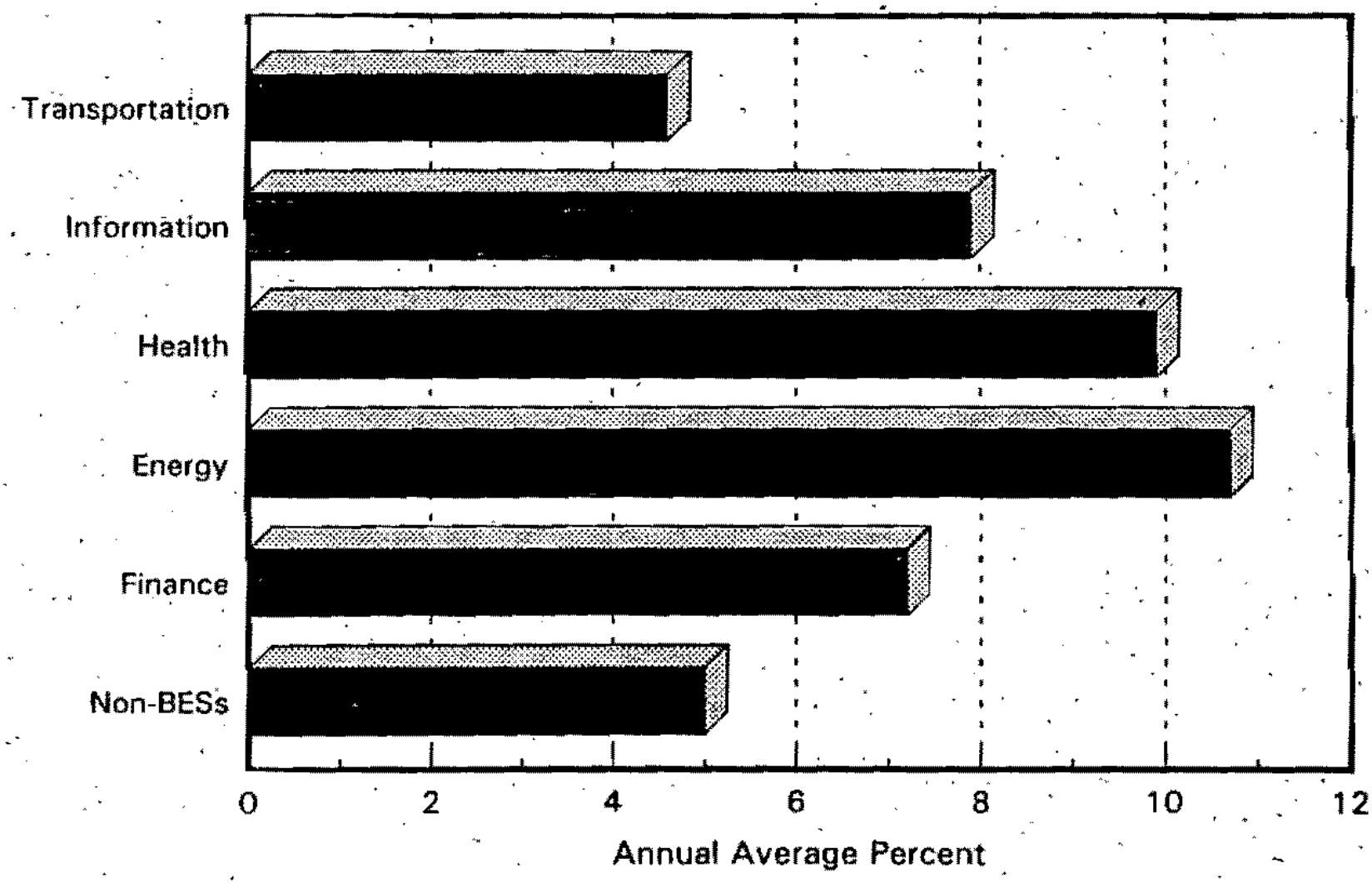
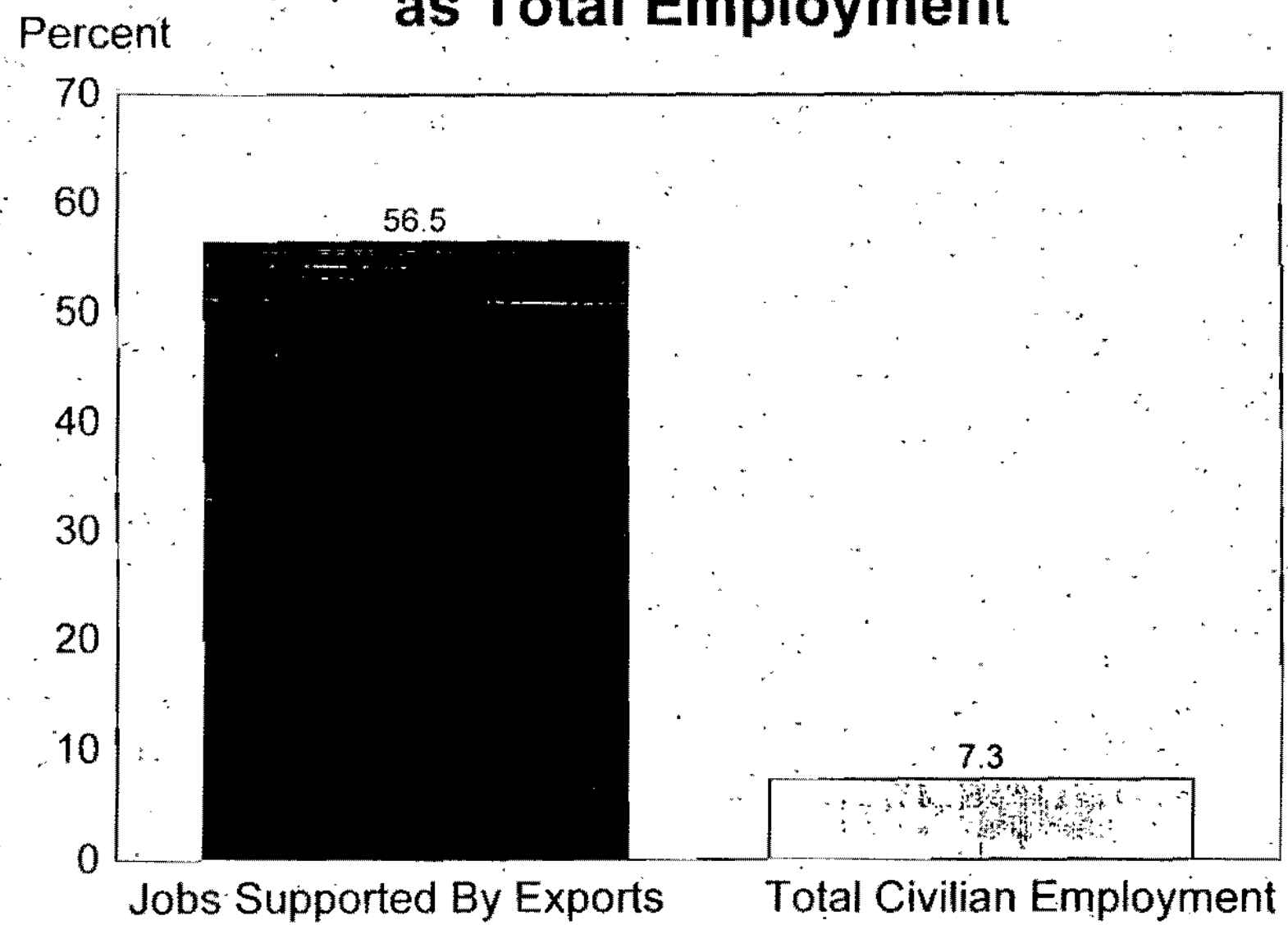


Chart #6

GROWTH IN U.S. JOBS 1986-1992

Export Related Jobs Grew 8 Times as as Total Employment

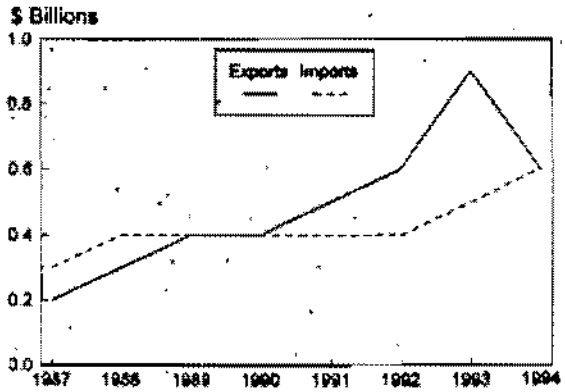


OTEA/TD/ITA

ADDITIONAL CHARTS

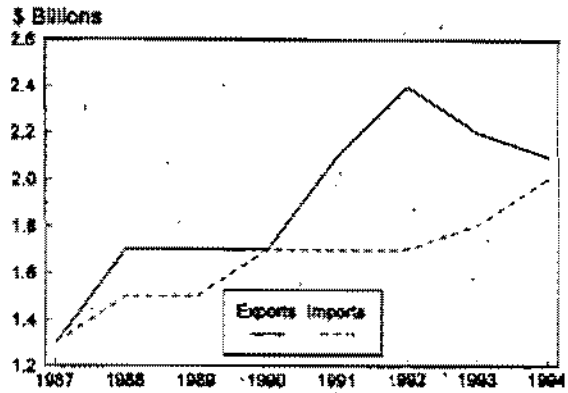
IMPORT AND EXPORT GROWTH WITH EUROPE AND S. AFRICA

U.S. Goods Trade With Poland, 1987-94



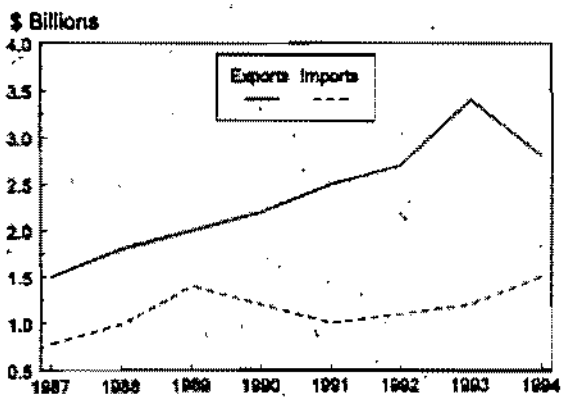
Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

U.S. Goods Trade With S. Africa, 1987-94



Note: 1994 is January-August at annual rat
Source: U.S. Bureau of the Census

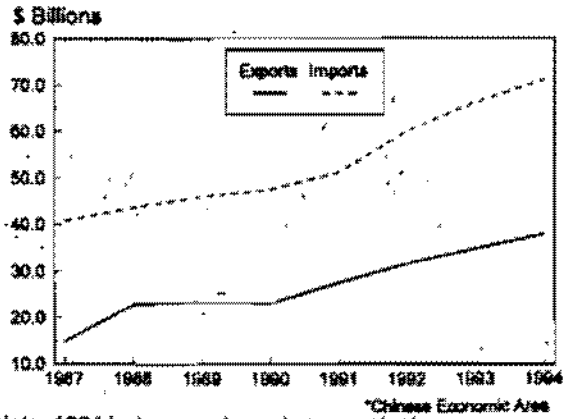
U.S. Goods Trade With Turkey, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

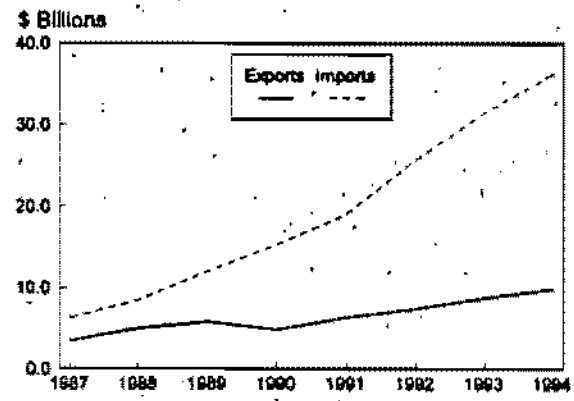
IMPORT AND EXPORT GROWTH WITH THE CEA

U.S. Goods Trade With the CEA*, 1987-94



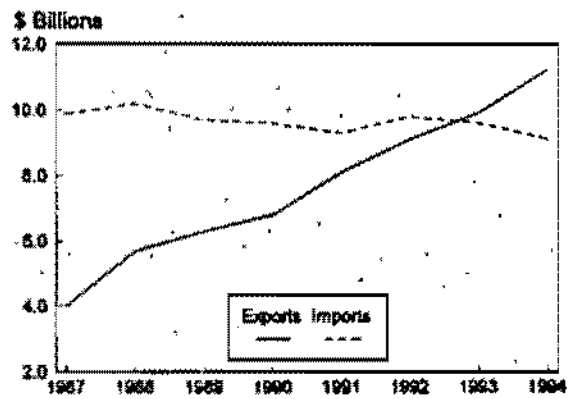
Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

U.S. Goods Trade With China, 1987-94



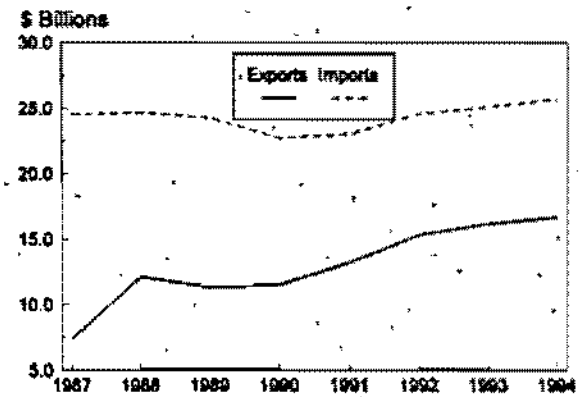
Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

U.S. Goods Trade With Hong Kong, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

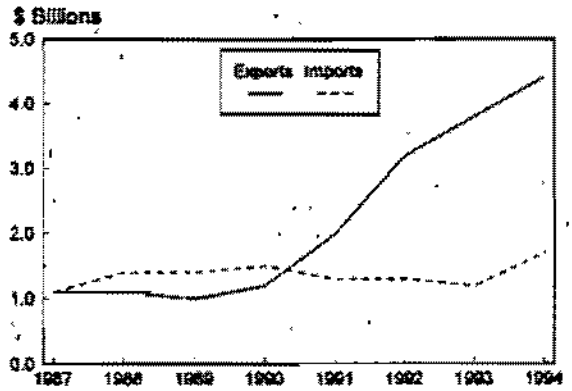
U.S. Goods Trade With Taiwan, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

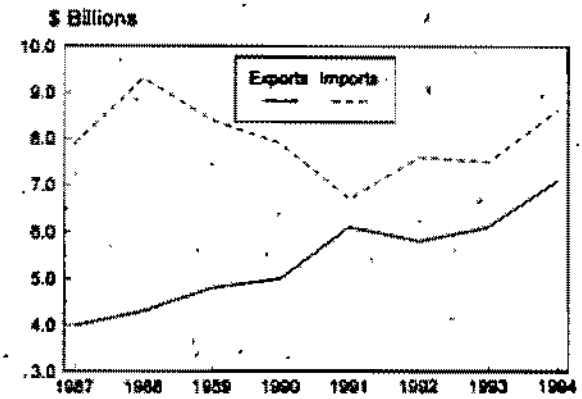
IMPORT AND EXPORT GROWTH WITH LATIN AMERICA

U.S. Goods Trade With Argentina, 1987-94



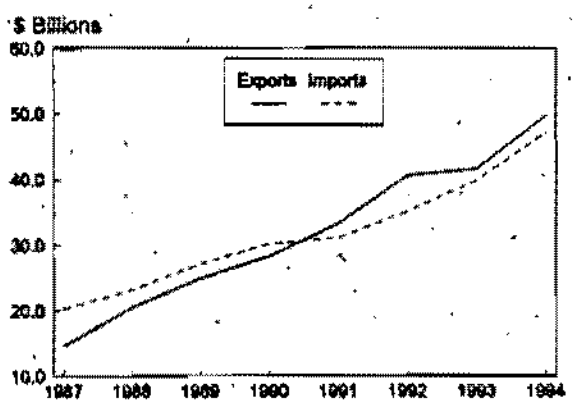
Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

U.S. Goods Trade With Brazil, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Censu

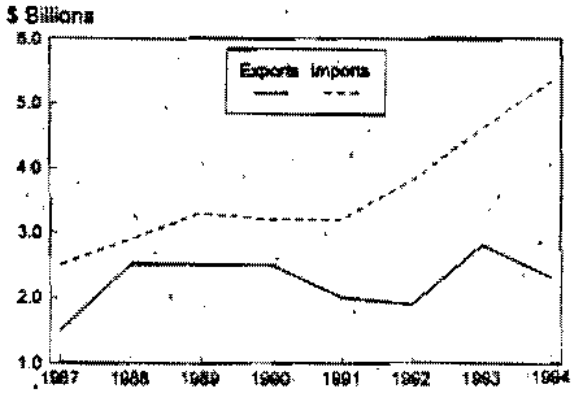
U.S. Goods Trade With Mexico, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

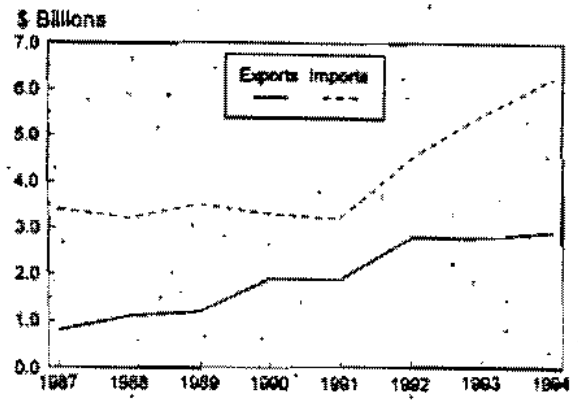
IMPORT AND EXPORT GROWTH WITH ASIA

U.S. Goods Trade With India, 1987-94



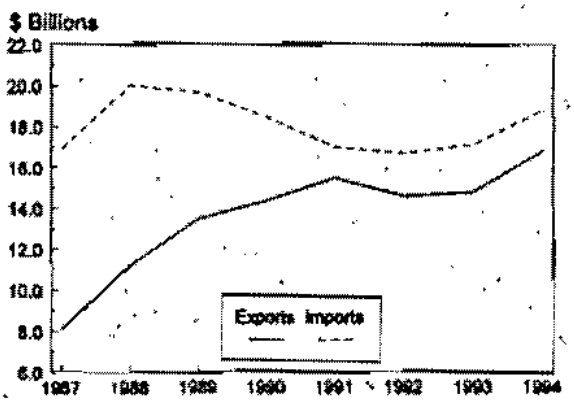
Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

U.S. Goods Trade With Indonesia, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

U.S. Goods Trade With South Korea, 1987-94



Note: 1994 is January-August at annual rate
Source: U.S. Bureau of the Census

REMARKS BY

JEFFREY E. GARTEN

UNDER SECRETARY OF COMMERCE

FOR INTERNATIONAL TRADE

THE NATIONAL PRESS CLUB

DECEMBER 28, 1993

Introduction

Good morning and thank you.

On behalf of the Secretary of Commerce, Ron Brown, it is my pleasure today to release the 1994 Industrial Outlook, the thirty-fifth in our annual series of reports forecasting growth in our economy's key industrial sectors.

At the outset I want to express my appreciation to the many people who labored for well over six months preparing this report. Over 100 analysts worked on this project. Although the bulk of the work was done at the Department of Commerce, many other agencies participated, including the Department of Energy, the Federal Aviation Administration, and the Securities and Exchange Commission. I would particularly like to thank Jay Bistay of the Commerce Department, who served as project coordinator, Sally Carson, editorial coordinator, and Jon Menes, head of the unit of the Commerce Department which was responsible for the project.

As you will soon see, this year's Industrial Outlook contains an absolute wealth of information.

On the one hand, you will get an overview of the U.S. economy in 1994 like no other - industry by industry, from autos to movies, from satellites to aluminum.

On the other hand, you can find not just how America spent its money on health care, but how this pattern compared to other countries. You can see how U.S. programs to educate and train workers compare to similar efforts in Europe. You can see what the end market is for computer boards, what the price trends are for construction materials, and what the relative efficiency is of our telecom carriers.

The Outlook is a set of forecasts for individual industries. It is not a macroeconomic forecast. We take as given a set of assumptions regarding the overall economy based on a consensus of over 50 blue chip economists taken in late July. Additional information through early fall of 1993 was taken into account whenever possible.

My Role

My role this morning is to act as moderator for many of the industry-specific questions that you may have. I say "moderator" because we have with us today industry experts who follow these things day in and day out, and I would not presume to know their business as well as they do.

I would, however, like to make some remarks by way of introduction. First, let me point out a few of the more fundamental themes and issues that emerge from the report. Then, I would like to make a few comments about this particular report in comparison to its predecessors.

SOME GENERAL THEMES

In general the industrial outlook is quite encouraging. For 1994, we expect broad based growth for nearly 90 percent of the manufacturing sectors covered in the report.

For all manufacturing industries covered, the median growth rate of shipments is 2.8 percent, up from 2 percent in 1993. And we expect those industries will export more too--with the rate of export growth rising from 4.2 percent in 1993 to 5 percent in the year ahead.

Growth is coming from two sources. The first is business investment in capital equipment such as computers, medical equipment and machinery. The second source of growth is from consumer purchases of durable goods such as automobiles, appliances and furnishings.

In fact, we anticipate the fastest expansion in manufacturer's shipments since 1988.

If you take a broad look at the industrial outlook for next year, you will see that three sectors in particular are particularly strong. The changes over 1993 do not seem dramatic, but then 1993 ended with very strong growth.

(1) Look at the "consumer economy" including autos, auto parts, household appliances, and residential construction. To take household appliances -- refrigerators, washing machines, etc. -- as an example, shipments in real terms are set to grow by 3.6 percent in 1994 compared to 3.1 percent in 1993.

(2) A second case is information technology including computer software and computer management services. This $600 billion industry is forecast to grow by 7.7 percent next year, compared to 7.6 percent in 1993.

(3) A third example is environmental technology, including pollution control equipment. Air pollution control is the highest growth sector here. Shipments are forecast to double from their 1992 level to about $45 billion in 1995.

(4) Another case is health industries, including medical instruments. In 1994, health care spending is forecast to rise 12.5 percent, exceeding $1 trillion for the first time. One bright spot is sales of medical equipment, where shipments are expected to increase by 6.6 percent compared to 6.3 percent in 1993.

You will also see some serious problems, such as aerospace, where industry shipments are projected to decline by 11 percent in 1994. In fact, most of the defense-related industries are facing contraction. Seven of the 10 most sluggish industries analyzed in the report are defense related.

These and other industry trends are clearly detailed in the report, and I know you will want more information about them.

The Global Economy, Stupid

There is, however, a more subtle message and that is this: the American economy is becoming increasingly internationalized, and virtually all of our prospects must be assessed in the context of the global economy. The analysis of virtually every sector examined in this report depends on the

level of its global competitiveness. In some cases, such as medical equipment, bright domestic prospects are bolstered by the international opportunities. In other cases, like aerospace, it is the foreign market alone that holds out significant promise. Despite the problems at home, for example, aerospace will still generate our largest trade surplus, and with the prospect of huge orders from Asia in the coming years, the future looks much better than it otherwise would. Autos is another case. Detroit is reclaiming market share in the United States from Japan. American manufacturers of auto parts are exporting more than ever. Our telecommunications industry now reaches every part of the globe. Our entertainment business has become one of the major issues in international trade policy. Our construction industries look forward to hundreds of billions of dollars of potential infrastructure projects in China, Taiwan, Indonesia and Japan. I could go down the list.

Indeed, when you look at the survey data, look closely at the fastest growing sectors and then look at exports as a percentage of those shipments. In many cases--machine tools, electronic components, auto parts, surgical and medical instruments, analytical instruments, plastics, materials and

resins, screw machine products, computers and peripherals, powertools, leather products, x-ray apparatus and tubes and process control instruments--you see exports representing over 20 percent of all shipments. In analytical instruments and plastics, materials and resins, exports are expected to be over 30 percent of all shipments. In computers and in leather products, exports are expected to be over 40 percent of all shipments.

The Clinton Administration recognized the imperatives of the global economy from the start. It was not just a cliche -- "we live in a global economy"-- because everyone knew that. But what President Clinton clearly understood was how to address this reality.

The Administration began, for example, by addressing head on, the budget deficit that had spun out of control, economically and politically. The result: a five-year, $500 billion deficit reduction package which helped to foster dramatic declines in long-term interest rates. Lower rates, in turn, translated into new investments in interest sensitive sectors such as autos and construction, which had a positive ripple effect throughout the economy.

The Administration turned its attention to the development of a far reaching national technology policy. This included incentives for private sector research and development, shifting Federal R&D priorities towards civilian technology, developing an action plan for a National Information Infrastructure, developing federal-industry partnerships in such sectors as electronics, autos, energy, environment and advance transportation, and expanding Federal investments in basic research. And this is just the beginning.

The Administration focused on improvements in education and training, so essential to our ability to compete in the world. For the first time ever, an Administration talked about a National Workforce Strategy, and began to implement a comprehensive plan. To take but one example, look at the Administration's proposed legislation, passed by the House, to establish school-to-work programs designed to assist students in making the transition from school to a well paying first job. The Bill would authorize $300 million in 1995, with as much as $30 million set aside for high poverty areas. The Senate is due to take up this legislation shortly. This, too, is just the beginning.

The Administration mounted an aggressive trade policy. Last July, it created a tough new framework for dealing with Japan. By November it concluded the NAFTA with an historic effort to expand trade in this hemisphere. Days later, it brought together the leaders of the Asian Pacific region, where our annual bilateral trade exceeds that of Europe or any other region of the world. In December, it pushed to bring the 6-year old Uruguay Round to a finish, the most far reaching trade agreement ever concluded.

But President Clinton did not stop with trade liberalization. He put together a National Export Strategy, the most significant effort of any Administration to think strategically about trade promotion. Just a few months ago, Secretary Brown led an interagency effort which proposed a wide-range of policy changes to help insure that U.S. firms could better compete around the globe.

Now I mention all this not just to sight impressive accomplishments -- although they are impressive -- but to make another point which you will also find in this report.

Yes, we are living in a global economy. Yes, there are fantastic opportunities out there, now that the Cold War is over; now that virtually all countries subscribe to a version of free market capitalism; and now that Asia is booming, and Latin America has turned the corner.

But all this notwithstanding, in 1994, the conditions abroad will demand a redoubled focus on American competitiveness and on an aggressive trade strategy.

If you look at our traditional trade partners -- Western Europe and Japan -- you see very slow growth at best. Rising unemployment in the European Community -- averaging over 11 percent -- will surely heighten protectionist pressures there. The hoped for recovery in Japan is nowhere in sight, with industry after industry in deepening trouble. Exporting to these areas will be very tough.

If you look at the fastest growing regions, such as East Asia, trade prospects are much better. But the competition will be fierce. Precisely because of their troubles, other industrial countries will be sparing no efforts to capture these markets. And now we face new competitors in the region itself

from local companies. If you doubt what we are up against, just consider this: Four newly industrialized economies in Asia -- Hong Kong, Singapore, South Korea, and Taiwan -- have more than tripled their global export share since the 1970's, and together now exceed that of Japan.

Moreover, since we are sure to be growing faster than Europe and Japan, the prospects are for an increasing merchandise trade deficit in 1994 as we take in imports faster than we can export. This will only add to the pressure on us to sell more to the rest of the world.

Actually, the projected deficits do not look so bad if you include trade in services, where we have been running a surplus of some $60 billion/year. Here, too, it's the global economy that is so critical to us. Our banking, construction and consulting industries, to name but a few, have become world class industries hungry for new markets.

What does all this say about 1994? If 1993 were the "year of trade liberalization," and I think it was, then 1994 will be that and more.

We can take some comfort from the 1994 Industrial Outlook, but it would be terribly dangerous to be complacent. We need to be sure that today's rebound becomes a sustained recovery. We need to think about the long-term engines of growth, and how to keep them fired up. The government, of course, is only one player in this drama. But working with our businesses and our workers, as President Clinton, Secretary Brown, and others in the Administration are striving to do, a lot can be done.

-- 1994 will be, in my view, the year when America turned the corner on serious trade promotion. It will be the year when we followed up vigorously on the dismantling and streamlining of export controls -- consistent with legitimate national security concerns, of course -- adding to the substantial progress we made in the last few months. Here alone, the Nation could gain over $30 billion per year in exports.

1994 will be the year when government support for firms trying to win orders abroad became highly focussed and efficient. The National Export Strategy, for example, calls for a massive upgrading of these efforts, and we have begun to make it.

1994 will be the year when the Federal Government learned to coordinate its many export programs, and when Washington joined forces with state and local governments on behalf of American companies which want help selling their products in foreign markets.

1994 will be the year when America devoted more and more attention to the Big Emerging Markets of the future -- countries such as Mexico, Brazil, Argentina, India, Indonesia, China, where large markets, large populations, pent up demand for virtually everything promises to change the world market as we know it.

It will be the year when we think globally about our most competitive industries -- what we at Commerce are calling the Big Emerging Sectors, such as environmental technology, medical technology or information technology, all incidentally, projected to be among the highest growth sectors in the report we are discussing today.

There may have been a time when effective export promotion may have been a luxury. No more. Between 1988 and 1992, export growth in goods and services accounted for about 58 percent of U.S. economic growth. Jobs in export generating industries tend to demand higher skills and pay more. Over 7 million jobs are tied to exports, and, given that the economy is not creating enough good jobs, we need to boost that figure substantially.

It is my view that America has barely scratched the surface when it comes to our export potential. If you look at Germany, France or Canada, for example, you see that they export between 18 and 25 percent of their G.D.P. America's share hovers around 11 percent. Only 10 percent of our firms are regular exporters; in fact some 50 firms account for nearly half of all our exports. Just 10 states account for over 60 percent of our merchandise exports.

We can do much better. We have to.

The Report Itself

Let me now make a few comments on the report itself. For those of you who have seen previous versions, I think you will notice some far reaching changes.

First, and not surprising in light of what I just said, the coverage of trade and world markets is vastly expanded. Almost every industry analysis contains an evaluation of its international competitive position.

Second, there is a new emphasis on technological considerations for key industries. As in the trade arena, this parallels where the world is headed, and also where the Clinton Administration has placed its priorities.

Third, wherever possible, environmental considerations have been highlighted. There is no need to belabor how much importance the Administration attaches to ensuring that economic growth and protection of the environment go hand in hand.

I commend this report to you for the efforts made to look to the future. The coverage of tomorrow's industries such as information services or biotechnology was not easy. Official data are often weak, and the industries are changing almost too fast to document what is happening. But we are really trying to get ahead of the curve, and what you will get today shows it.

* * *

If you have some general questions, I would be happy to answer them. I have just returned from nearly three weeks abroad. I started in Moscow, where I was working with my Russian counterparts to smooth the way for U.S. investors. From there, I went on to Geneva for the Uruguay Round final negotiations. And from there to Tokyo to push forward the U.S.-Japan framework talks. I am a bit groggy, so pardon me if I direct many of your questions to the experts around me. I would ask you to hold detailed questions on specific industries, since, in a few minutes, you will have the chance to visit with the analysts who prepared the report.

Thank you.