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The Summit of the Americas: Towards Hemispheric Prosperity

Remarks By

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"We've arrived at a moment of very great promise and great hope for the Western Hemisphere. Democratic values are ascendant. Our economies are growing and becoming more intertwined every day through trade and investment. Now we have a unique opportunity to build a community of free nations, diverse in culture, but bound together by a commitment to responsive and free government, vibrant civil societies, open economies and rising living standards for all our people."

President Bill Clinton

"At its most basic, this Summit is about partnership. Partnership among the 34 democracies of this hemisphere. Partnership between the public and private sectors. Partnerships driven by dynamic emerging markets, supporting structural reform and energizing the public and private sectors in the ongoing pursuit of free trade."

Secretary of Commerce Ronald H. Brown

It is a great pleasure to have an opportunity to discuss the upcoming Summit of the Americas, to be held this December in Miami. This event, which will bring together 34 democratic governments in our Hemisphere -- all of the nations except Cuba -- will be the first meeting of the heads of state in the Americas since 1967, and I wanted to outline our thinking as we approach this historic gathering.

In talking about the Summit of the Americas, there is no better place to begin than in Canada, given our history of close political and commercial cooperation, and the fact that the genesis of our initiative in the Hemisphere really began with the U.S.-Canada Free Trade Agreement. We see the Summit and our agenda in the Hemisphere as a natural extension of our already close economic relationship in North America and look to Canada as a full partner as we go forward.

Today, I would like to give you some perspectives of the Clinton Administration on the Summit and its agenda. Before I go into the details, however, let me give you the bottom line.

First, it is important to understand where the Summit fits in to the Clinton Administration's overall world view. In this regard it should be seen as a continuation of efforts to build a global economy where trade expansion creates more and better jobs at home and abroad. It began with the U.S.-Canada Free Trade Agreement, followed by the NAFTA. It continued with the emphasis given to trade with Asia when President Clinton invited the heads of state of the Asia-Pacific region to Seattle last year. There was the conclusion, after six long years, of the Uruguay Round global trade negotiations in Geneva -- the most far-reaching trade expansion agreement in history. In May, the President moved toward normalized trading ties with China, the biggest of the Big Emerging Markets. In the past year, agreements were reached with Japan on construction, rice, telecom, medical equipment, and insurance. In addition, efforts have been made by the Administration to help U.S. firms expand in the former Soviet Union and the Middle East. Finally, there is our National Export Strategy, in which the Administration has worked to promote U.S. products and services abroad with an intensity never before seen in the United States. In the last year alone, the Administration has played a role in assisting U.S. firms to win some 70 major projects overseas accounting for well over $17 billion in U.S. exports and 275,000 jobs.

Canada has also been aggressive in capitalizing on its international opportunities. To a much greater degree than in the U.S., Canada is heavily reliant on exports, and those exports have accounted for increasing shares of Canada's GDP. At the same time, the Government of Canada has rethought its export promotion programs, convening a task force to try to streamline those efforts, and redirect resources to those markets where export growth potential is greatest.

The Summit of the Americas fits squarely into our joint interest in expanding trade and jobs by opening new markets and new opportunities for North American businesses and North American workers. It is part of a strategy which places the highest priority on competing to win in a brutally competitive global economy, and which remains true to what President Clinton has said from the outset -- that creating a strong economy at home is the best foundation for a strong position in the post-Cold War era.

Second, aside from fitting into our global framework, this historic Summit will give the United States a highly unusual chance to work with our Canadian, Latin American, and Caribbean partners in this Hemisphere to expand trade and create more and better jobs. Every country should benefit, but we in the U.S. are especially well positioned. Growth rates in our exports to Latin America are surpassing our growth to the E.U., Japan, and East Asia. U.S. exports to Latin America have more than doubled since 1985, creating 900,000 U.S. jobs. For the first six months of this year, moreover, while total U.S. exports to the world grew by 5.7 percent over the comparable period in 1993, they grew by 12.6 percent in Latin America. Our exports to Mexico and Canada account for nearly half of our global increase in exports. But we have done well in the rest of the region, also. For instance, during the past eight months, exports to Argentina and Brazil have increased by over 28 and 25 percent, respectively, a growth rate over two times that of the Chinese Economic Area. As early as next year, the Hemisphere is likely to account for $200 billion in U.S. exports -- more than we sell to Western Europe, Eastern Europe, and Russia combined.

Starting from a smaller base, Canadian exports to Latin America are also on the rise. Canada's exports to the region grew by 30 percent between 1991 and 1993. Moreover, the data on Canadian exports to Mexico and elsewhere in Latin America masks the true trade volumes because so much of Canada's exports to the region begin as exports to the U.S., later to be processed and incorporated into products shipped from U.S. factories and ports. So Canada has a direct economic stake in the U.S.'s success in penetrating export markets in the region.

Looking to the future, the prospects are particularly bright. Growth has been picking up. Economic reforms have been dramatic. Now the Summit and its follow up give us the chance to press our trading partners to further lower their barriers to our products and services -- barriers which are much higher than the U.S. or Canadian impediments to their sales here. In this respect, a major U.S. goal is to further level the playing field. Indeed, a recent study by the highly respected Institute for International Economics in Washington indicated that if there were to be free trade in the Hemisphere, Latin American countries could lower their tariffs by about 24 percent on average from 1990 levels, far exceeding U.S. reductions which averaged 3.3 percent in that same year. The same analysis predicted that U.S. exports could increase five-fold by the year 2002 -- from a 1990 base -- if we had free trade in the region. I am told that dramatic estimates have been made for potential growth in Canadian exports to the region, too.

<u>Third</u>, in talking about trade expansion we should take a broad view of what it is all about. Negotiating traditional trade agreements is crucial, of course. But there is much more than that. The driving force for economic progress in the Hemisphere is the private sector. The push toward more commerce, and the jobs that will be created by it, will come deal by deal, firm to firm. This puts a top priority on linking up telecom services all across the Americas; on creating common standards for products and services; and on simplifying customs procedures -- to take but a few examples. These "nuts and bolts" are not a substitute for bold moves to lower other trade barriers, but they are critical ingredients in the real world of business.

In addition, we will have an opportunity to discuss with our Latin American partners ways to encourage and assist with their economic reforms. The logic is simple. Continued reforms in such areas as budget reduction, privatization of state enterprises, and reorganization of regulatory regimes will boost Latin growth. Over the last few years, U.S. exports have expanded by about 15 percent for every 1 percent of increase in Latin American GDP. Pent-up demand from the "lost decade" of the 1980s explains some of this, but not most, and over the medium-term we can expect that U.S. exports will grow 5 to 10 percent for every 1 percent increase in Latin GDP.

Fourth, the Summit is a unique chance to work with our hemispheric partners to build more linkages between democracy, free trade, and environmentally sound growth. There is no question that the three go together. And there is no question that we have a unique moment in history where freely elected governments acknowledge this truth: open trade or economic reform is not an end in itself. Raising the living standards of men, women, and children is the end. So is giving them more choices about the way they live. As a thoughtful, now former, Venezuelan minister once said, "People don't want reform because it is good economics. They want it because it gives them a chance to have a telephone that works or because it makes hot water run from their showers."

Fifth, we should be under no illusion to what is happening in our backyard, and why this moment is so precious. The number one priority of every nation in our Hemisphere is jobs. I'm reluctant to make it sound so simple, but when all is said and done, economic progress and economic security is what the post-Cold War world is all about -- and that means more jobs, and better paying jobs. I mention this to point out that the economic dimension of the Summit is what matters most to the 34 democratic Governments in the region, and the nearly 800 million people in this hemisphere. And the economic agenda is dealing with the central issue in these waning years of the twentieth century, and what will surely be the central preoccupation of all the nations in the Americas as the next century arrives.

Sixth, the Summit should not be viewed as only one event, but as the kick-off of an era leading to sustained follow up on a broad range of issues from more trade agreements to the linking of telecommunications systems. It is, in other words, a beginning and not an end. It is a process, not just a one-time photo op.

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Let me try to provide a bit of historical perspective as to where we are today with our hemispheric partners. I would then like to focus on our commercial strike in the region, the opportunity before us, the possibilities for extending free trade, the broader areas for economic cooperation, and the Summit process itself.

AN HISTORICAL PERSPECTIVE

It is important to appreciate how far Latin America and the Caribbean have come along the path of democracy and market-oriented reform.

The European influence, particularly that of the Spanish, played a very prominent role in the development of the region. Authoritarian institutions provided direction, order, and stability, and made it difficult to establish democratic institutions. Authority figures had presence, enforced discipline, and provided favors to those who were part of the establishment. Even Simon Bolivar was unable to implant the democracy which he found so admirable in the developing United States.

Paradoxically, however, the region also felt weak, and sought protection, whether early on from colonial masters, or from the United States which, in the view of some people, was obligated to take care of the region given its position as a great power. In a real sense, the United States would be the provider, but the region would remain distant. The Cold War heightened this problem as the United States gave priority to ensuring political stability in the region at the expense of building institutions which would foster democracy and market-oriented approaches to economic development.

Politically, the region has paid lip service to hemispheric integration for a long time. It is only recently, however, that it has been able to rid itself of the dated economic notions of the 1960s, including heavy state intervention in the economy. It took the debt crisis and the end of the Cold War for the region to realize the need for a new notion of government responsibility, both in the political and economic sphere. Also, at the same time a new generation, many of whom were educated in the United States, came to prominent positions of leadership both in the public and private sectors. They saw the rapid economic development in East Asia that was based on export-led growth and trade liberalization. The advances in telecommunications also played a significant role in making citizens aware of opportunities beyond their current grasp.

These forces converged to launch the most significant decade of political and economic reform we have seen in modern times. Whether dictators were peacefully removed in Chile or Paraguay, or whether countries such as Argentina or Bolivia embarked on fundamentally radical economic reforms, the region was changing dramatically. The leadership throughout the hemisphere also realized that the new economics would require their countries to become increasingly competitive on a global basis, not just on a subregional one. The debt crisis had demonstrated once and for all how these countries were inextricably linked to global markets, and how they no longer could expect to live in the shadows of economic powers.

We also came to recognize the importance of the region to our own self-interests. The debt crisis created a severe trade contraction throughout the hemisphere. It caused a sharp drop in U.S. exports, and a loss of many American jobs in our country. Although we retained and indeed expanded our share of the region's import market, in absolute terms it declined by billions of dollars. The region was laying the groundwork for a stronger long-term recovery, however, and as that recovery began, for the first time in years, there was a reversal of capital flight. Not only did productive foreign direct investment increase, but so did the rate at which the region's own citizens brought their own money home. The region finally had convinced its own citizens that it was a good, safe place to invest. This was the most important test of true confidence in the region's economic prospects.

At the same time, of course, we in North America were embarking on an aggressive strategy to link our economies through the U.S.-Canada FTA, in order to generate more and better jobs, and strengthen our competitive position at home and around the world.

The NAFTA Achievement

These historical developments -- economic reform and trade liberalization in Latin America, and the desire to expand the U.S.-Canada FTA to our third North American partner -- can be said to have reached their high point in the signing of the North American Free Trade Agreement. Mexico had undertaken hard reform, both political and economic, and come to the realization that the old path of confrontation with the United States would do nothing to advance its causes of economic and political liberty. Rather than fight the developing trends, Mexico would adapt to them and seek to prosper with the United States.

For our part, we recognized that these changes were occurring and that there would be great advantage in capturing a market of over 100 million people who only would become wealthier and have more disposable income over time. We also understand the importance of drawing closer to a nation of great energy, vitality, and promise -- to which our fate is linked by dint of geography.

Canada, for its part, was interested in both expanding its relationship with Mexico, securing its access to the U.S. market on at least as favorable terms as any other country; and insuring its participation in future expansion in the Hemisphere.

Building on the path-breaking U.S.-Canada Free Trade Agreement, NAFTA is the most far-reaching bilateral trade agreement we have ever put in place -- a state-of-the-art trade deal. Its breadth encompasses commercial issues -- tariffs and non-tariff barriers, intellectual property, services and investment -- as well as environmental issues and worker rights. Many of its features could constitute a baseline for future U.S. trade agreements.

We anticipate the majority of NAFTA's benefits to accrue over the long-term as the three countries phase-in efforts at market liberalization and further solidify our economic integration. Nevertheless, we have already begun to see the fruits of our labor.

The first eight months of 1994, for example, show that U.S. exports to Mexico were 20 percent higher than in the first eight months of 1993. Our exports to Canada were also up by about 10 percent for the same time period. In fact, our exports to Canada and Mexico were responsible for nearly half of our global export growth through August of this year. As expected, market liberalizations have also benefitted our NAFTA partners. U.S. imports from Mexico were up approximately 22 percent, and our Canadian imports grew by about 10 percent, creating what we like to call a "win-win-win" situation.

For Canada, exports to Mexico are also impressive. Under the first eight months of NAFTA implementation, Canadian exports to Mexico are up 33 percent and Canadian exports to the U.S. were up between 10 to 20 percent (depending on whose figures you use!)

As we all know, expanded exports mean increased employment. Six month estimates show that increased exports due to NAFTA have created up to 100,000 jobs in the U.S., compared to less than 5,000 employees who had been certified for assistance under the Labor Department's NAFTA Adjustment Assistance Program. That is the kind of net gain that justifies the President's commitment to moving ahead with expanding U.S. trade throughout the Americas.

The confluence of North American economic integration and reform and revival in Latin America have come together to provide the historic opportunity we now face.

OUR COMMERCIAL STAKE IN THE REGION

I have mentioned both the historical context of the recent developments in the hemisphere, as well as the NAFTA success, to demonstrate why what we are doing in the hemisphere is so important for our continued global success.

The region is on a solid economic foundation and seems to have turned the corner in terms of winning the battle against inflation. For example, we expect regional real economic expansion for this year to again surpass 3 percent, and the inflation rate to fall to around 16 percent (excluding Brazil). Moreover, there seems to be a gradual convergence of growth rates throughout the region. This move toward more stable, and predictable, growth augurs well for potential exporters.

To give you some sense of the possibilities, consider this rough estimate: Between 1983 and 1993, U.S. exports to Latin America increased from $25.6 billion to $78.2 billion. During that time the average annual GDP growth of Latin America and the Caribbean was 1.5 percent. Had the growth rate been one point higher -- say, 2.5 percent -- U.S. exports would have likely increased by $8.0 billion, supporting an additional 144,000 jobs.

According to the Institute of International Economics, moreover, the potential for expanding U.S. exports if we had a free trade arrangement in the hemisphere would be substantial -- some $36 billion more by the year 2002 than might otherwise be the case even assuming continued reforms in the region (bringing total U.S. exports to Latin America to some $106 billion.) Canada's relative stake may be even greater, given the low base upon which these increases would build, and the multiplier effects of exports to U.S. companies who further process goods bound for elsewhere in the Americas.

We also have seen a remarkable increase in our foreign direct investment in the region. Our position in Latin America has increased by nearly two-thirds over the past four years, and now stands at over $100 billion. This is on a par with the growth of U.S. investment in the Far East. This trend represents a tremendous vote of confidence not only in the region's economic reforms but also in the prospects for the future as well. I am reminded here of how the prospects of a NAFTA-spurred trade and investment long before the accord was actually implemented. So, too, it seems that business is voting for Latin America and the Caribbean with its dollars -- the surest sign of confidence there is. But it is also increasingly understood in Latin America that such confidence is only "rented," and requires constant payments in the form of a continuation of sound economic management.

There is another pattern worth noting, too. Because of protectionist import-substituting policies of the past in Latin America, U.S. companies have typically supplied the Latin American market from their foreign affiliates. However, as our neighbors' economies have opened up, the U.S.-based parents of our multinational corporations are exporting more to their affiliates. In 1982, for example, sales by affiliates were 16 times greater than parent-to-affiliate shipments. By 1992 the ratio had fallen 7 to 1. In short: investment is pulling exports. And exports are generating well-paying jobs.

The prospects for trade and investment come together in the enormous opportunities which exist for U.S. and Canadian firms in working with our Latin American partners to develop their physical infrastructure -- their roads, ports, airports, telecommunications systems, power generation capacities, and environmental technologies, for example. On the one hand, inadequate infrastructure will be a critical bottleneck to Latin American growth in the future. On the other, the pent-up demand from the deep recession of the 1980s is enormous, as is the size of the potential projects for the future -- many of which will span more than our country.

Recent reports by the Economist Intelligence Unit and the World Bank indicate that the demand for investment in infrastructure in Latin America could approach $500 billion over the next decade -- or $50 billion a year. U.S. and Canadian firms should get the lion's share of foreign business. This includes, incidentally, banking and other financial services, where more innovation will be required than ever before to mobilize funds without Latin sovereign guarantees.

OUR CURRENT OPPORTUNITY

Now that NAFTA is in place, we have a chance to build upon the Hemisphere's desire for a closer relationship and its desire to build sustainable economies rooted in democratic institutions and market-oriented convictions.

We need to do this now for several very important reasons.

The first reason is that I believe that we should do whatever we can to help improve the lives of the hundreds of millions of people who live in our "neighborhood."

The second reason is that Latin American economic reforms are entering a difficult phase, where many of the easier steps have been taken, and the more difficult measures are on the immediate agenda. This is the time when assistance and encouragement from the United States and Canada will be particularly important. Such help can come in many forms. Technical assistance may be needed. We must maintain open markets and growing economies. But help also means holding out a credible vision of a more prosperous Hemisphere for everyone in the future -- which gets us back to the Summit, and the Hemispheric vision it can impart. This vision, to the extent it is based on more open markets linked to economic reform is the best way to ensure continued capital flows to Latin America. In some ways, this assurance may be the single most important cooperative endeavor which we all can work on -- for all of our benefit.

The third reason is grounded in other realities. The world economy of the late 1990s and beyond will be characterized by brutal competition. American firms and workers have done well in Latin America over the year to secure market share and to earn profits. In 1993, for example, U.S. exports took 43 percent of the Latin American import market, compared to 16.8 percent accounted for by the European Union and 4.1 percent by Japan. We should aim to do even better in the future. This is not just rhetoric. As we look at other dynamic regions such as East Asia, it is clear that this Hemisphere represents one of our best bets to capitalize on all of our advantages. These include the historical preference in the Hemisphere for U.S. products and services, and the fact of our geographic and cultural ties. As a Hemispheric neighbor and home to almost 30 million Latins and a growing number of people of Caribbean descent, we in the U.S. feel that we have a special opportunity.

Fourth, improving access for North American products throughout the region also will enable us to remain an open economy -- to the benefit of the region as a whole. So many well paying jobs now rely upon exports, that we must give the highest priority to opening markets abroad. And this openness of our economies cannot be sustained if we lose those jobs because others want to export their unemployment and competitiveness problems to the United States while shielding their own economies. We no longer can afford, nor should our workers have to shoulder, that burden.

Our friends to the South know this. The autarkic, import substitution models of years ago are gone. Their liberalization efforts recognize the key fact that in order to fully participate in the international economy, one has to be competitive. And, to be competitive, one must be open to new ideas, new products, and new technologies, regardless from where they originate. Finally, the expansion of commercial ties and the jobs that will flow are the biggest issues in our hemisphere. In my view, there could be no more effective demonstration of our foreign policy leadership than to work with our trading partners to expand trade, investment, and jobs in our region.

Finally, there is the issue of timing. This is the right time for the Hemisphere to come together. Democracy has spread. Economic reforms are in full swing. And all over the continent free trade pacts are being discussed and concluded.

FREE TRADE IN THE HEMISPHERE

We expect the Summit of the Americas to provide the setting for defining a post-NAFTA strategy in Latin America and the Caribbean. We would like the leaders to endorse President Clinton's vision of extending free trade throughout the Americas and to adopt concrete measures that would move the Hemisphere toward that objective. A Summit that agreed on these objectives would represent an historic event. It would be the first time that the nations in our Hemisphere agreed to such a far-reaching goal, the first time that market-oriented principles would have received such a widespread formal endorsement, the first time that the nations in our backyard will have agreed on a common vision for the future.

The Clinton Administration is currently reviewing options for advancing hemispheric free trade. We have been consulting intensively with our trading partners on how this might be done. While many of the alternatives are still under consideration, it is fair to say that we are studying a wide range of possibilities -- bilateral trade treaties, multilateral arrangements, NAFTA-type links. The main point is this: we want to take advantage of any and all opportunities to open up markets for our firms and workers.

Whatever the ultimate game plan, it will have to be widely agreed by all the Governments in the Hemisphere, especially the three NAFTA partners. And, as far as the United States is concerned, it will, of course, need to reflect the views of Congress, the business community, and American workers.

The game plan should also be clear with regard to the follow up steps necessary to move toward expanded trade in the Hemisphere. We all recognize that our goals cannot be achieved in one year, or even five. But the momentum toward trade expansion should be bolstered and accelerated. And in this regard a clear roadmap will be a great advancement over vague pronouncements of intentions.

-- One thing is clear -- whatever approach the Clinton Administration develops, "fast track" authority is essential. Fast track means that our Congress would provide the Administration with authority to negotiate a complete deal, and one which would be approved without amendment. Without this authority, we would be unable to confidently assure our potential trading partners that the deal we reach at the table will be the agreement approved upon by Congress. Our partners would be reluctant to reveal their bottom line for fear that Congress would try to rewrite the deal. Agreements would be difficult, if not impossible, to close. Without this critical assurance, our potential trade partners might be reluctant to negotiate.

THINKING BEYOND TRADITIONAL TRADE AGREEMENTS

Much of what we are talking about here today revolves around trade, and the traditional notion of liberalizing trade agreements. But I want to take a moment and mention that trade should be construed to have a very broad meaning.

Let me mention a few of these broader issues.

- We should strive to assist in **capital market reforms**, not only to ensure greater and more equitable access to the market for a country's citizens, but also to assist in ensuring more active participation of foreign participants. As I have noted, the future development prospects of Latin America and the Caribbean are heavily dependent on increased private investment, and it will be essential to broaden and deepen more of the hemisphere's markets in order for these nations to have adequate access to capital on reasonable terms.

- More transparent and equitable **regulatory systems** would be a great advantage. Governments have come to recognize that they no longer can intervene in markets as they have in the past. They also recognize that there is a legitimate need for appropriate regulatory mechanisms to ensure, for example, an environment of free and open competition. There is a proper balance between stifling regulation and a total absence of government control, and all of us should work to find that balance. Canada, like the U.S., can set an example for other countries of the Hemisphere.

- Standards are another necessary and appropriate government function, but we should strive to develop standards which act to protect the public but do not act as barriers to commercial activity.

- Telecommunications policies should promote greater linkages and not stand in the way of their development. A policy of fighting technological progress will not be sustainable over the long-term -- the linkages are being established and governments understand the necessity of providing encouragement necessary to promote even greater efficiencies.

There is a social dimension to all of this which is important as well and which also highlights how important Latin America and the Caribbean are to us at this moment. The convergence of democratic institution building with a strong commitment to private sector-led growth creates an extraordinary opportunity to redress longstanding inequalities which traditionally have stifled both democracy and truly free enterprise in our Hemisphere. Democracy can reinforce people's opportunity for advancement, just as economic well-being can provide the catalyst for truly sustainable development of democratic ideas and institutions. Democracy can act to ensure that the benefits do not go to just a few. We must take advantage of the moment to lend support to those who see this social dimension to economic development and who are committed to achieving it.

This is more than altruism or "political correctness." Growth which does not spread to wide segments of the public means that the underlying economic reforms are unlikely to be sustained. A reversal of such reforms would put Latin America into reverse economic and political gear -- to no one's interest, certainly not ours.

THE SUMMIT PROCESS

The Summit itself will start an extensive process of more cooperation in the Hemisphere. The best means of follow up is now being intensively discussed among governments. It will certainly involve collaboration with the private sector -- the engine of trade expansion. It will certainly include additional meetings of ministers in the trade and commercial arena. We can expect an extensive process lasting well beyond the Miami meeting.

A PAN AMERICAN COMMUNITY

If we find the right vantage point and look out toward the horizon, we can see a clear goal. It is a Pan-American Community of democracies, of open markets, and of prospering societies. Many roads lead to that bright spot. More free trade agreements. More agreements to facilitate investment. Programs to encourage business-driven growth through cooperation on regulation, standards, infrastructure development, cooperation on telecom and energy linkages, environmental protection.

The Summit won't be the end of the process: it will be the beginning. But with no Cold War, with no major ideological divide, with solid prospects for global economic growth, with markets opening everywhere, with economic reforms gathering steam, with new technologies sprouting everyday, with the initial success of the NAFTA, with the Clinton Administration leading and listening and working with our trading partners without the patronizing attitudes of the past -- with all this, the possibility for hemispheric relations never looked better.

Thank you very much.

TRADE AND FOREIGN POLICY:
Reflections on Economic Diplomacy

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

at
The Paul H. Nitze School of Advanced
International Studies
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— This speech is one in a series entitled "America in a Changing World Economy." Previous speeches have dealt with Asia, Latin America, Europe, North America, Japan, Germany, the Big Emerging Markets, China, India, Brazil, Argentina, the National Export Strategy, Trade and Technology, Trade and the Information Age, U.S. Trade Law, and the Uruguay Round.

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

SUMMARY

We are entering an era when foreign policy and national security will increasingly revolve around our commercial interests, and when economic diplomacy will be essential to resolving the great issues of our age.

This is not the first time that America's foreign policy focused so heavily on its commercial goals. However, in the past we either tried to pursue our economic objectives while remaining aloof from political entanglements, or we subordinated economics to traditional foreign policy and national security concerns. We can no longer afford to do either.

In fact, whereas in the past we have often tried to use economic instruments to achieve traditional foreign policy goals, today, and in the future, we increasingly will be using traditional foreign policy instruments to achieve our economic objectives.

Change is upon us. Where once we measured national power in terms of throw weights, now we measure it in terms of savings rates. Where once we were concerned with missile gaps, now it is the gaps between revenues and expenditures, and between exports and imports that concern us. Where once we focused much of our diplomatic energy on international security institutions such as NATO, now we must do the same for international economic institutions like the World Trade Organization. Once peacekeepers could be identified by their blue helmets and side-arms. Today they are equally likely to be found in blue suits, carrying laptops.

This speech discusses the fusion of foreign policy and economic policy with reference to relationships with our traditional allies; the Big Emerging Markets; the economies in transition in the former Soviet Union, the Middle East, and South Africa, and the special case of China, including the relationship between trade and human rights. It also discusses the changing role of technology in our foreign policy.

It then reflects on some of the features of economic diplomacy that differentiate it from traditional diplomacy, and points to the efforts of the Clinton administration to adapt our foreign policy to these changing times.

It is a real treat for me to say a few words at my alma mater. As a student, I had a wonderful experience here. And I can not think of an education that prepared me so well for the career that ultimately followed as I moved from S.A.I.S. to the State Department to Wall Street and now to the Department of Commerce -- always with a focus on international finance and trade.

I was accepted at S.A.I.S. when I was a senior at Dartmouth, but because of military obligations I asked for a four year deferment. When I was shipped off to Southeast Asia, I carried with me a very old school catalogue -- I can't remember where I found it -- just so I could remember that a better future awaited me. Towards the end of my army tour, I dug out that catalogue and noticed that S.A.I.S. had a program in Rangoon. With some Asian experience under my belt, and with a high level of skill in speaking Thai (learned at the Defense Language Institute and on the scene), I decided that I would begin my studies in Burma and become a real Asian hand. At the time I was enamoured of the writing of Robert Shaplan, a great wartime correspondent who remained in Asia and who was now doing pieces for The New Yorker. That was my idea of fun, and I had in mind that one day I would be him -- reporting from Asia.

I wrote a letter to the Dean saying I'd decided to do my degree in Rangoon. About two months later I received an answer: the Burma branch had been closed several years ago. I was crushed. And so I spent two years in Washington, and today, I speak to you as a government official and not -- as might have been the case -- an Asian correspondent.

When I was at S.A.I.S., the Vietnam War was still on, Watergate was unfolding, OPEC was flexing it muscles for the first time, and good Japanese cars were just beginning to appear in America. Nixon had closed the gold window a few years before, and the trade and monetary system were in considerable disarray. The first arguments about interdependence and what it meant were beginning to be made. I did not really understand any of it at the time, but S.A.I.S. was a wonderful place to feel a part of what was happening in the world. Like so many memories, all this seems like only yesterday, but also a lifetime ago.

Indeed, in the twenty years, change has engulfed us in mindboggling ways.

It is, of course, a cliche that we live in an era of rapid change, change which seems to accelerate and build on itself. But it's true.

It is some of these changes and what they mean for foreign policy and national security, that I would like to talk to you about.

In my view, in fact, we live in a period that has no parallel in the history of U.S. international relations. The old paradigms don't work. New approaches are needed. Tonight I would like to raise some ideas about key components of this country's emerging new foreign policy. My thoughts will focus on the centrality of commercial issues in our foreign policy, and the changing nature of our economic diplomacy.

My concept of economic diplomacy will not be limited to traditional notions of how governments deal with each other to spur world growth, coordinate currencies or negotiate trade agreements -- although these are crucial elements. I want to go well beyond how our economic negotiators deal with their foreign counterparts, and reflect on economic policy as a central component of national security. I want to talk about how we are merging economic and foreign policy into a unified, forward-looking strategy for the country.

This is not a small shift. But it is one that global forces beyond our control dictate. We are at a watershed in history comparable to that which took place at the conclusion of the World War II. At that time we were compelled to rethink our role in the world and formulate policies that would carry us forward through the second half of the century. Confronted by an expansionist Soviet threat, we countered with a strategy of containing communism wherever we saw it. Faced with a military challenge, we focused on security issues.

I'd like to start tonight with some diplomatic history. Then I will turn to a description of our national security as the century ends. From there I will go to economic diplomacy in the Clinton administration -- with our allies, with the Big Emerging Markets, with the former communist nations, and I will touch on the significance of new technological issues. I will then turn to how international economic policy is made in Washington these days and, finally, I would like to reflect on the elements of effective economic diplomacy in the future.

FOLLOWING GEORGE WASHINGTON'S LEAD

Let's start at the beginning, with our first President.

Not only was George Washington a soldier, but he was a successful businessman who built Mount Vernon into a thriving enterprise. And like all colonial plantation owners, he was heavily dependent on international commerce for his well-being. England was the market for many of the crops he grew, and France as well as the European continent were where many of his imports came from.

As a soldier and as a President, in his mind America's foremost national interests were commercial. In addition, he felt that the objective of our foreign policy should be to keep us out of any other involvements that did not serve our commercial needs. In his farewell address, he initially defined his views on international relations in the following, generally positive light:

> **Harmony and liberal intercourse *(meaning commercial and social exchanges)* with all nations are recommended by policy, humanity and interest.**

He went on to identify as a principal objective of American foreign policy doing what is necessary "in order to give trade a stable course, to define the rights of our merchants, and to enable the government to support them." However, he qualified his position, stating:

> **The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little political connection as possible. So far as we have already formed engagements let them be fulfilled with perfect good faith. Here let us stop.**

Moments later, he strengthened this point of view, stating,

> **It is our true policy to steer clear of permanent alliances with any portion of the foreign world.**

Washington was not alone in these views, nor are they a vestige of bygone days at the birth of the republic when such simple perspectives could more easily prevail. Since Washington, president after president has reiterated this perspective.

The earliest conflicts of the young nation concerned violations of our commercial rights, particularly those at sea. When President James Monroe undertook to define the "Monroe Doctrine" which warned other nations to stay out of Latin America, it was in large part with our commercial interests in this hemisphere at heart. Throughout the 19th Century our international concerns were driven by our need for economic security at home, from the purchase of Louisiana to the acquisition of Alaska, from the War of 1812, to Admiral Perry's opening of Japan in the 1850s. Indeed, in all the 220 years of American history it was only during the twentieth century -- only during those relatively few years when we faced an immediate threat to our physical security -- that commercial interests took a back seat when foreign policy plans were drawn up.

It was a reluctant Woodrow Wilson, responding once again to threats to American commerce, who led the nation into the first of this century's major international conflicts, World War I, in which major commitments of U.S. troops were deployed and asked to fight overseas. But even with the memory of victory still fresh, an America uncomfortable with foreign entanglements -- and perfectly capable of deriving most of her prosperity from her internal markets -- elected Warren Harding to be President. Harding asserted the election was a resounding repudiation of "a suggested change of national policy, where internationality was to supersede nationality." Coolidge, and later Hoover -- who had made his reputation first helping to rebuild Europe to make it once again a viable trading partner for America -- reasserted this approach. Their credo was articulated by Harding: "We seek our participation in the world's exchanges, because therein lies our way to widened influence and the triumphs of peace."

Then came events that forced a fundamental change. Hitler's rise and that of a militaristic Japan came as nations developed the means to effectively project force oceans away. Now, threats from any major power were not merely threats to our commercial interests at sea or our citizens working in distant markets -- they were threats to our homes, to our way of life. We engaged in another world war and this time we came out of it forever changed.

THE SHIFT TOWARDS INTERNATIONALISM AND MILITARY INVOLVEMENT

A reluctant international player for our first 170 years, we emerged from World War II and then the Korean War destined to become "internationalist." Our armed forces were stationed around the world, and we were the peacekeeper against new, awesome international threats. Military force was not the only kind of power that could be projected around the globe -- so could political force via international institutions, alliances and other by-products of diplomacy. We came to the conclusion that it was in our national interest to develop a foreign policy that had as its principal objective the containment of communism, and we committed ourselves to the defeat of an ideology that threatened the most basic tenets of our commercial system. We sought to defend ourselves against physical aggression, but also wanted to be sure that the markets and partners on which we depended for trade remained free. We assumed the mantle of global leadership and shifted our focus to a new enemy. Said President Harry Truman in his 1949 inaugural:

> **The peoples of the earth face the future with grave uncertainty, composed almost equally of great hopes and great fears. In this time of doubt, they look to the United States as never before for good will, strength and wise leadership...The American people desire, and are determined to work for, a world in which all nations and all peoples are free to govern themselves as they see fit, and to achieve a decent and satisfying life.....Since the end of hostilities, the United States has invested its substance and energy in a great constructive effort to restore peace, stability, and freedom to the world.**

This is the language of wartime policy -- "making the world safe for democracy," "preserving the Union," "don't tread on me" -- turned for the first time to use in peacetime. And for almost 50 years thereafter, we have had a foreign policy that was conducted along these lines. Facing down the threat was our objective. And, for the first time, changing the world was our objective.

We did so because we recognized that in the global community we could preserve our own interests and advance them by expanding the community of like-minded nations. We had become, irrevocably, committed to an active, on-going international role for America.

FAST FORWARD: THE CHANGING GLOBAL ENVIRONMENT

Think of America at that moment. We were the great victor, one of two remaining superpowers who would dominate the second half of the twentieth century. Of the world's $25 billion in trade, 50 percent was controlled by the United States. We were the center, the engine, the arbiter of the world economy.

Today, we are the sole surviving military superpower. But of the world's $3.6 trillion in trade, we are involved in less than 15 percent. We are the leader -- still the GDP champ by a margin of about a hundred percent -- but we are no longer so relatively dominant. Furthermore, as world trade has grown, our economy has grown more dependent on those around us. Since 1946, the percentage of our economy involved in international trade has increased by over 300 percent. At the same time, our unfettered economic clout has been reduced. Even as late as 1960, almost half of the world stock of foreign investment originated in the United States. Today that number is 25 percent. In the mid-seventies, almost half of Asia's foreign trade was with the U.S.; today it is 22 percent.

This sea change -- the disappearance of a serious rival for military preeminence, and the loss of our position as an unrivaled economic superpower, has brought us to a crossroads.

The old policies will no longer work. They must be adapted to meet the changes that have taken place. A new world beckons. It is once again a world in which our commercial interests are rising to the top of our global agenda. But now there is something different about our condition.

In the past, when our foreign policy was driven by our commercial interests we went through periods of relative isolationism with regard to other areas of our foreign policy. This approach is apparent in the remarks from Presidents Washington through Harding. We would reluctantly extend force overseas to protect commercial interests -- but only reluctantly. We were admonished to avoid international "entanglements." Today, however, our commercial interests demand that we be engaged internationally on a permanent basis. There can be no turning back. We must buy from overseas suppliers and sell to burgeoning overseas markets. We must be engaged to be competitive, and to expand the job base at home. But, in so doing, we must involve ourselves in a web of complex linkages that may seem very much to be "entanglements," and that require a new, far-reaching foreign policy to serve our interests.

NATIONAL SECURITY AS THE CENTURY ENDS

With the threat of the Cold War gone, it is widely acknowledged that our economic interests have returned to the fore. That is also as history dictates. There are few national interests more basic than those pertaining to our economic security, protecting our livelihoods, and elevating our living standards.

I am constantly asked, "Have our economic interests surpassed our national security interests in our foreign policy?"

The answer is clear. While economic issues have rightfully gained in importance, restored to the central role they have had for most of our history, they can never take precedence over threats to our physical security. But to pose the question is to suggest a false choice. Which is more important to you, the safety of your family, or your ability to feed them? National security and economic security are inextricably linked, perhaps more so today than ever before. Therefore, recognizing this linkage and understanding its implications are vitally important to crafting the successor policies to those of our Cold War years.

The nature of the inter-relationship of these two sets of interests becomes clearer when either is viewed independently. Consider for a moment our immediate national security objectives.

You might identify several core goals:

- Defending our borders against attack;
- Helping our allies in Western Europe, Japan, and elsewhere defend themselves against attack;
- Projecting enough force and confidence to keep others from even thinking about attacking us or our allies;
- Preventing disturbances abroad which would disrupt the financial or

trading system on which we depend:
• Containing threats such as terrorism, non-proliferation, and narcotics trafficking.

But as you consider each of these points, you quickly recognize that to achieve these goals, we must set others that pertain to our economy. As President Clinton said during his campaign, and as he reemphasizes time and again, economic strength is at the heart of our national security. For example:

• Economic strength and vitality at home are essential so that we can maintain a strong industrial base for defense production without sapping the rest of the economy. This includes maintaining strong domestic industries that are of strategic importance.

• Economic strength and vitality are essential so that we can hold our own in an ever more competitive world economy. The importance of succeeding in the face of such competition is essential to higher standards of living in America, to more and better jobs, and to the morale of the population. The morale of the population is, of course, essential to be able to ask for, and afford, sacrifices if times get tough.

• Economic strength and vitality are essential so that we are never in a position to have strategic materials cut off from us in a time of national emergency.

• Economic strength and vitality allow us to provide economic assistance to help other countries in their efforts to combat their economic instability. Indeed, economic investments early on can avoid more costly military investments in the future.

• Economic strength and vitality enable us to give financial support to peacekeeping efforts in regions of the world.

• Economic strength and vitality are critical to our influence abroad. To the extent that it is the U.S. market that is the world's most prosperous and inviting, and to the extent we can be a leading force in international trade and investment, we enjoy much greater political influence abroad.

• Economic strength and vitality are critical to growth and enhanced influence of U.S. firms around the world, which gives us important linkages to other societies, and critical channels of communication and influence.

Of course, this linkage between economic security and national security is not new. You cannot fight unless you can buy a sword. And what is worth fighting for if it is not for those things which you value? The reality is that economic tactics have been used effectively as national security tools many times in the past. From placing pressure on England and France during the 1956 Suez crisis, to trade sanctions against communist countries to recent embargoes against Haiti or Iraq, we have regularly used economic influence as an effective means of persuasion, an alternative to acts that put our troops at risk.

But in all of these circumstances, economics was being used to achieve a "higher" foreign policy objective: one consistent with our central goal of containing communism. Today, and as we look forward, we see quite a different picture, one in which foreign policy will increasingly be used to achieve economic goals.

ECONOMIC DIPLOMACY IN THE CLINTON ADMINISTRATION

I would like to discuss some recent and current issues to give you a flavor of how economic considerations are being factored into foreign policy and national security decision-making in the Clinton administration.

Pacific Community, NAFTA, and GATT

The Clinton administration can be proud of several achievements in the international realm. Let me point to three in particular.

The first, enunciated during the President's first foreign trip to Japan last summer, was the redirection of United States attention across the Pacific. Acknowledging the centrality of Asia to our future interests will, in my view, be seen as one of the President's lasting achievements. In initial assessments of this step, economic reasons for the turn to Asia were cited: more trade travels across the Pacific than the Atlantic, the fastest growing markets of the world are in Asia, our most significant competition lies in Asia -- and so on. But the significance of the decision to upgrade our economic and commercial engagement in Asia cuts directly to central national security concerns.

Asia is where the United States' two major Cold War era conflicts were fought. Asia is home to what some view as the four great powers that will dominate world security issues in the next century: the Unites States, Japan, Russia, and China. These countries currently control 70 percent of the world's military arsenals, 50 percent of the world's people and over 40 percent of the world's GDP. Asia is home to some of the most dangerous situations in the world today: from the development of a nuclear threat in North Korea to the potential of nuclear conflict on the sub-continent. It is home to the world's largest army, in China, and a still awesome Russian nuclear capability. It is also home to a potentially powerful Japan.

At the same time, the end of the Cold War has led to lessening our emphasis on the projection of military power around the world. While our forces remain strong in Asia, it is our growing investment and trade with the region that assures these nations that we will be a permanent presence, that we will protect our interests when they are threatened and that we will place a premium on stability. At the same time, our commercial links can be very influential. They contribute to growth and to the generation of jobs. They are engines of education and training. They are sources of information about what is good in our society. They build understanding. **In short, even as our role as a military stabilizer is somewhat wound down, it is offset by our equally influential role as an economic stabilizer.**

Another foreign policy achievement of this Administration was the successful conclusion of the North American Free Trade Agreement -- the NAFTA -- creating for the first time the institutional framework for an integrated North American market.

The NAFTA was a watershed in our recognition of the importance international trade plays in our lives. In the years between 1985 and 1992, virtually all the new jobs created in America could be linked to export growth. The international portion of our economy is growing and will grow more rapidly in the future. The NAFTA was a demonstration that we recognized this and that we would continue to expand our trade. In the words of the President, we would "compete, not retreat."

This was more than just a hard-won political battle. It represented the articulation and ratification of a policy of international economic engagement that is a prerequisite for success in the new international economy.

Beyond these aspects of the NAFTA, however, were the direct national security consequences it offered. Mexico, a nation of 80 million people had, since its revolution, viewed us as a threat and an adversary. Its statist, central planning approach to government had led to privation among its people and a growing gap between our countries. Illegal immigration and drug trafficking and other sources of tension were a constant in our relationship and, until several years ago, there was no reason to assume matters would improve. Then, in the wake of the 1982 debt crisis, the Mexican government began a political process that ultimately led to the adoption of major economic changes including fiscal reforms and massive privatization of major segments of the economy. The NAFTA was created in large part to cement these reforms in place. Part of the deal was that Mexico would have greater access to our market, and we would have access to theirs. But this meant a new level of competition that would leave Mexico no choice but to continue those kind of economic reforms that would make its economy more competitive, thereby leading to more growth, more jobs, and less of a potential problem for us in the future. **Put another way, a prosperous Mexico was not just in our economic interest, but in our national security interest, too.**

The NAFTA also illustrates the idea that economics have taken center stage in foreign policy in another way. During the past several decades, the primary foreign policy issue we faced in this hemisphere was containing the spread of communism. Today, wherever we go in the hemisphere we hear the refrain in response to questions about what do they wish to discuss with the United States: "trade, trade and more trade." Consider, for example, the Summit of the Americas, to be held this December in Miami. This is the first hemispheric summit in almost 30 years. The last such gathering was dominated by unelected military leaders and discussions of how to fight the communist menace. This summit will be dominated by issues of economic integration, economic reform and how economic progress will serve the region's social agenda and consequent political stability.

I'll state this another way. When all is said and done, expanding trade -- how, when, and where -- is the central foreign policy issue in the hemisphere.

A third major foreign policy achievement was the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade.

Ratification of that agreement. which will produce an average 33 percent reduction in tariffs worldwide and stimulate international trade to the tune of $200 billion annually, will be another landmark in the redirection of American foreign policy and the latest affirmation that trade is central to our national interests.

But, as with economic engagement in Asia and the NAFTA, the GATT should be seen in a broader context. In the post-Cold War environment, a strengthened GATT can help contain the trade conflicts among the advanced industrial nations that could otherwise spin out of control, especially since there is no single military threat to hold the allies together. At the same time, recognizing that we are entering into an era in which the potential for regional conflict is a great threat to peace, and that such conflicts are most likely to involve developing nations, the GATT offers economic benefits to the developing world that dwarf the total of all official development assistance we can offer. Since the conflict between nations is often motivated by economic problems, growth contributes to peace. Furthermore, membership of the GATT is seen by some countries, such as China, as certification of their membership in the international economic community. And it will be in the GATT's successor, the World Trade Organization, that many nations play out the major geoeconomic issues of the years ahead, such as access to markets, access to technology, and subsidization of strategic industries.

Trade and Our Traditional Allies

During the Cold War, allies such as Japan and Germany, not to mention other members of the Atlantic Alliance, needed us. We provided the strategic umbrella that protected them from the immediate threat posed by the Soviet Union. We also needed our allies for the support and resources they offered in containing communism. Consequently, tensions which may have arisen among members of the alliance over trade issues were subordinated, lest they undermine our security objectives.

When the Cold War ended, a new reality was dawning. This was the subject of my book, A Cold Peace, which suggested that in the post-Cold War era, diverging interests among the United States, Germany and Japan would lead to a period of greater tension among former alliance members. I pointed out that there would be no overriding strategic framework to contain the divisiveness, unless we made a far reaching conscious effort to develop one, based on a fusion of political, security, and economic considerations. Nothing I have seen in my current job has altered my view.

Consider, for a second, Japan.

It is clear that peace and prosperity in Asia, and indeed around the world, is almost unimaginable without close cooperation between the United States and Japan, by far the world's two most important economies. We have acknowledged time and again -- and President Clinton has repeatedly reaffirmed this belief -- that no bilateral relationship is more important to us than that with Japan.

Throughout the Cold War, the ties between Washington and Tokyo had as their underlying premise that economic problems between nations were important, but that in the end, they would be subordinated to the U.S.-Japan security alliance, devoted as it was to fighting communism and to containing the USSR and, for many years, China.

As we all know, however, today the economic problems between us and Japan are very real. As a consequence, the Administration spends <u>much</u> more time on these trade and financial issues than on security concerns. The President himself has been heavily involved in such questions as how we think about Japan's growth, or what the U.S says about access to Japan's markets for telecommunications, to take a few examples. <u>No</u> American president in our lifetime has spent even a fraction of such time on these kinds of issues. But that is as it should be. This is our most important trading relationship. Our deficit with Japan is huge and growing. Last year it topped $59 billion. At the same time, Japan, after Canada, is our second largest trading partner, with a bilateral trade volume at over $150 billion.

In short, the balance between economics and security has shifted in the case of Japan, with the latter carrying much more relative weight than it has in the past.

Creating more such jobs is one reason we are actively working on opening up the Japanese market. At the same time, to the extent that the American people feel Japan is not holding up its end of a fair trading bargain, the overall

U.S.-Japan relationship, including its security dimension, is bound to suffer. As **President Clinton has said, "We do not intend to bear the cost of our military presence in Asia and the burdens of regional leadership only to be shut out of the benefits of growth that stability brings. It is not right. It is not in the interests of our Asian friends. And, ultimately, it is a trade relationship that is simply not sustainable."**

When it comes to Germany and Western Europe, the interplay of economics and national security is also great. We want to see a strong, prosperous European Union. Our current commercial stake is already enormous -- $350 billion in annual trade and, by some estimates, direct and indirect investments representing holdings equivalent to almost 20 percent of Europe's GDP. We would like it to be even larger, and have been pressing our trading partners to reduce barriers to a wide range of products, from high technology to entertainment to agriculture. **As in Asia, our long-term economic presence will be the most tangible evidence of our close ties with the European Union and its members and, as in Asia, to the extent we feel that we are not being fairly treated, the overall alliance, including its military dimension, will suffer.**

In the European case, however, economic policy is security policy in another way, too. Western Europe has, at its doorstep, a host of former communist nations striving to revamp their economies after half a century of marxism. To the extent they succeed, Western Europe will benefit greatly (as will we). But if there are serious problems, we will surely see an escalation of dangerous tensions which will result in political turmoil and, possibly, massive influxes of refugees into Western Europe. This, in turn, will undermine the economies of Germany, France and the others. Such economic deterioration will rebound against us in the interconnected world economy. It is therefore in our interests to contribute to economic progress in Eastern Europe and the former Soviet Union and to work with the Western Europeans to do it.

The point is this: we have major security interests in Western Europe. The agenda, however, is 95 percent economic. So are the policy tools.

Trade with the Big Emerging Markets

The view of the world I had when I wrote A Cold Peace has been supplemented since I joined the Administration by the fact that it is now increasingly clear that the most vital component of our future trade growth will come not from Japan and Europe, but from a set of markets with which we have very limited relevant experience. These are the Big Emerging Markets (BEMs).

Last September, as part of our National Export Strategy, we undertook a study of potential export growth around the world. We saw that while trade might grow with our traditional trading partners, it would grow slowly. They were mature markets and undergoing difficult times economically. At best we could hope for a couple of points of growth a year -- and it would take a couple more years for that to happen.. So, we began to look elsewhere. **We found when we studied the 150 or so markets that might be called "emerging" that for the past few years, a small number held exceptional promise for us. We identified them as the Big Emerging Markets.**

These BEMs had been growing rapidly, as had our exports to them. What is more, in the future they would set the pace for the entire world. In fact, they are likely to drive our export growth for the next 10 to 15 years, representing an additional $1 trillion in trade over 1990 levels by the year 2010. By the year 2000, we may be trading more with them than we do with Europe or Japan. A decade after that we could be trading more with them than with Europe and Japan combined.

The ten markets on which we are focussing share a number of traits: they are physically large and have huge populations; they are growing rapidly; they have a strong proclivity to buy the kind of products and services in which the United States excels; and they are influential in their regions. They also have significant political and, often, military clout and aspirations.

In Asia, they include the Chinese Economic Area (the PRC, Taiwan and Hong Kong), Indonesia, India and South Korea. In Latin America, they include Mexico, Brazil and Argentina. In Africa, the key country is South Africa. In the Middle East, it is Turkey. In Central Europe, Poland.

The leadership in the BEMs is preoccupied with achieving growth as a foundation of domestic stability. It is important to all of them that their

productive energies not be sapped defending themselves against neighbors or worrying about internal political instability. Consequently, they view security and economic development as twin objectives that are inseparable. While some among the ten are in fact, building up their militaries, *all* see their security interests tied to more trade, more jobs, more investment. It is not too strong to say that they are obsessed with moving up the ladder of nations quickly. This is not simply a drive for advancement. It is a response to rapidly rising public expectations and the need to satisfy them. The alternative is popular discontent and, possibly, political chaos.

In this environment, not only do we have a competitive imperative to succeed in these markets but our greatest post-Cold War asset is our ability to engage these nations economically and commercially -- to keep our market open to their products; to encourage our firms to invest there; to give them access to our technologies on terms fair to all parties; to help these governments with their economic reform efforts. During the Cold War we always said that exporting our brand of capitalism was a means of winning countries over to our side. But for the most part that was not our main focus -- military alliances were. Now, the effort to encourage these nations to pursue free market policies is just about the entire ballgame -- an essential ingredient to the effective pluralist political systems which we would like to see established.

The dilemmas we face in balancing our economic and national security interests in the Big Emerging Markets are many. The requirements for a very sophisticated program of economic diplomacy are very real.

The BEMs, for example, are oftentimes the very countries where we have the most serious problems in such areas as human rights, workers rights, intellectual property rights, lax environmental standards, and violation of non-proliferation codes. In these cases, our commercial interests are often complicated and set back because we are compelled to pressure these governments in ways that aggravate our overall relationships. I wish there were an easy answer here, but there is not. We are not purely a mercantilistic nation, and will never be. We must balance a broad range of interests -- broader than any other country given our value system and our leadership responsibilities.

But it would be a mistake, as well, to take our eyes off the ball. We need these markets as never before. They will be increasingly essential to our economy and to good jobs in America. The more we diverge from an intense commercial focus, the more we will lose out to competition from Japan and Europe -- which is already raging anyway.

In addition, while we have to carefully balance all our interests, economic and otherwise, we should not forget that the agendas of the BEMs are overwhelmingly one of economic growth and reform. Unless we are able to engage them on <u>that</u> terrain, we will lose most of our influence.

<u>Economies in Transition</u>

The Big Emerging Markets do not represent the sole range of our interests outside of our traditional trading partners. **There is another class of countries which are very important to us -- "Economies In Transition" (EITs), countries which are trying to make the transition from non-market to market status.** These are countries in which our strategic interests might be comparable to or even outweigh our immediate commercial interests. **However, in virtually every case of an economy in transition, we find that it is primarily through commercial relations that we can achieve our strategic goals.**

Russia and the other nations of the former Soviet Union are the primary example here. We could also include in this group South Africa (also a BEM), where a major economic and social transformation will be occurring as three-quarters of the population becomes fully enfranchised for the first time ever.

Consider the former Soviet Union. I recall a question that was posed to a senior Treasury official of this Administration during a debate concerning aid flows. There was some criticism that Russia was getting more attention than some of the more impoverished nations of the earth. A reporter asked a colleague of mine if he thought this was unfair. He replied, "If you mean to ask do I think we ought to treat a country with tens of thousands of nuclear warheads differently from anyone else, then my answer is you're damned right I do!'"

Russian stability is crucial to world peace. Economic reform and some degree of economic vitality in Russia are crucial to Russian stability.

Russia's vitality depends on its ability to harness its existing resources. For that it needs foreign investment and expertise.

I have participated in meetings of our U.S.-Russian Business Development Committee which Secretary of Commerce Ron Brown chairs and I have listened to the passion of Russian officials as they discuss how important progress is, how important our economic deliberations with them are, how vital it is that we make deals happen with U.S. companies. My colleagues at the Department of Commerce have been actively involved in this Administration's unprecedented efforts to bring U.S. technology and investment dollars to bear in Russia's great oil and gas fields. These are multi-billion dollar projects. In my view, these are America's most important initiatives in Russia at the moment.

Consequently, organizations such as our Business Development Committee in Russia have a central role to play in achieving our policy objectives. The subject of these meetings -- the real nuts and bolts of commercial policy from tax laws to duties, from establishing a commercial law framework to strengthening the framework for intellectual property rights -- are the issues that will determine how quickly we can engage in the Russian economy, how willing our companies will be to invest and trade, how quickly Russia will become competitive with other markets in the contest for global capital.

Furthermore, because we are now dealing with a diversifying economy that is spread out across eleven time zones and is no longer controlled from the center, we can no longer afford to be so Moscow-centric or so government-centric. We must deal with Russia on many levels, in many cities, sector-by-sector if we are to make the most of the changes that are taking place. This, of course, will be the inevitable result of ever-broadening commercial relationships, for entrepreneurs will be spread from one corner of the nation to the other, and they will want to deal with one another without heavy-handed government involvement. **The ties developed between our firms and their Russian partners will, in the end, be the most critical ties we have to our former enemy, for they will be deep, complex, based on truly common interests, and not tied to a small number of personalities. Our economic interaction will be the best way to transmit American ideas and ideals. Our firms can help to lift the lives of Russian workers, to improve the management of the Russian economy, and to expand Russian growth -- all to Moscow's benefit and our own.**

The very same is true in other former Soviet republics -- Ukraine, Kazakhstan, and several others. Recognizing their importance in their own right -- not as appendages of our Russia policy, we are setting up Business Development Committees and Joint Commissions to develop new networks of commercial relations with these newly independent states. And it will be through these kinds of commercial links that so much of our foreign policy will unfold.

Another example of the importance of economic diplomacy in economies in transition comes in South Africa. Here, again, is a country that means a great deal to us both as a market and for security reasons. South Africa is not only a potential nuclear power, but it is, in the words of African Development Bank President Babacar N'Diyae "the root of the tree of Africa." It is the best hope of a continent that is ripped with conflict and racked with unspeakable pain. South Africa's economy represents 75 percent of the GDP of Southern Africa and almost 45 percent of that of all of Africa. Consequently, were the country to be victimized by violence, it would undermine the already tenuous grip on growth or better living conditions that are essential to the stability of bordering states.

The stability of South Africa turns primarily on one issue -- satisfying the high expectations of the newly enfranchised. This will be an enormous challenge. The unemployment rate in South Africa is over 40 percent, 50 percent for blacks. Eighty percent of the country is without electricity. Similarly appalling statistics exist for access to clean water, housing, sewers, and other necessary infrastructure.

The new government will be called upon to create jobs and provide the necessities of decent life that black South Africans have been denied for 350 years. But the country has an internal debt ratio of 60 percent. Heavy borrowing will be difficult. We also know that we do not live in a world in which foreign aid will flow in great quantities. This leaves two choices: an enormous influx of private sector support or printing money. Inflation would undermine the economy, scare off inbound capital and render the government's efforts to help the people impotent. Unrest would be certain to result given the already high level of volatility in that country.

Thus, it is on a commercial axis that the fate of this country will turn. Businesses and investors will hold the key to peace in South Africa, the success of the democratic experiment, the restoration of justice and the stability of the region. Secretary Brown, speaking for the Administration, has cited this imperative, and has committed the Commerce Department to actively working to bring together would-be business leaders among the newly enfranchised, representatives of the established economy in South Africa and American business and financial executives. The State Department, the National Security Council, and other parts of the government as well are giving these issues the same kind of high-priority attention. This is not merely a commercial effort. It is a national security imperative.

The Administration initiatives are of equally fundamental importance in the Middle East. If ever there was a case of beating swords into plowshares, this is it. Trade and investment ties will be essential to lifting up the lives of the hundreds of thousands of Palestinians living in the West Bank and Gaza. To improve their living standards and to give them hope for their children and grandchildren is an absolutely critical precondition of an enduring peace for these Territories, for Israel and Egypt and Jordan which have also embarked on the road to peace, and for other countries which we hope will do so in the future.

We are already building the economic alternative to war in the Middle East. Israel has concluded economic agreements with the Palestinians and the Jordanians, as it had before with Egypt, and U.S. support has played a key role. We are initiating new projects in the West Bank and Gaza, with the help of a unique coalition of Jewish-American and Arab-American leaders called Builders for Peace. We are providing financing support for the Territories through the World Bank and direct bilateral support. Vice President Gore recently joined Palestinians and Israelis in launching a new OPIC agreement for loans and investment insurance to Gaza and Jericho. We are working hard to end the anti-Israeli boycott so that we can help the Palestinians fight the frustration of poverty rather than their Israeli neighbors. At the end of next month, public and private sector leaders from America, Europe, Asia and the Middle East will convene an economic summit for the entire region in Casablanca.

So, in the Middle East as in other regions, we can see the vital importance of an economic and commercial strategy for peaceful development. Again and again, it is clear that the central foreign policy issues are dependent on successful economic diplomacy in this post-Cold War era.

The importance of economic issues in a foreign policy context when it comes to EITs can be summed up this way:

- Without economic growth, economies in transition will not remain politically stable.
- Access to Western markets is essential to their growth.
- We will not be able to offer them access to our market unless there is a *quid pro quo* through a program of market-opening reforms on the part of these would-be trading partners; otherwise, the burden on us would be too great, and the political support at home too shallow.
- The most skillful diplomacy is needed to ensure that we strike the right bargain.

The Case of China: Economics, Human Rights, and More

Let me dwell on China for a minute, since I just returned from an intense trip there as part of the Presidential Business Development Mission headed up by Secretary Brown. Twenty-four prominent CEO's were the core of the group, which made the trip particularly significant for its focus on commercial diplomacy. **In addition, China is a Big Emerging Market -- the biggest -- and also an Economy in Transition. As if that weren't enough, it is also the most visible case of where economics and human rights intersect.**

In May of this year, President Clinton made a courageous decision to sever the link which existed between our demands for human rights progress in China and our willingness to grant China normalized trade status (MFN). The reasoning was that he felt we could more effectively pursue both our human rights objectives and our commercial objectives if we followed a strategy of commercial engagement which allowed us to broaden our channels of communications and our influence with a broad range of Chinese people.

Secretary Brown's mission was designed to implement this strategy. He pushed hard -- with great success -- for the establishment of some fourteen commercial agreements which would broaden and deepen our trade ties. He proposed the establishment of a U.S. Commercial Center in Shanghai to facilitate more American trade, and a special facility in the Commerce Department to marshal expertise from around the country on ways to develop our commercial strategy with China. He presided over some $6 billion dollars of business contracts for American firms, and pushed hard for many others which we hope will come to fruition in the months ahead.

There is no doubt in my mind that commercial interaction, over time, will give us a stronger basis of cooperation with China on the broad range of foreign policy issues before us -- including non-proliferation, arms sales, North Korea and other hotspots, and human rights. Let me elaborate on the human rights dimension, in particular, since this received so much public attention.

During Secretary Brown's visit, the Chinese government agreed to resume a human rights dialogue with the United States. This may not sound like much, given the plight of individuals in jail or in detention, but how can we address all these issues if we are not having a dialogue? **The juxtaposition of the resumption of the stalled human rights dialogue, plus the dealmaking, was exactly what we had hoped for, and a major breakthrough.**

But this is not the full story. In the Administration's view, our economic interaction with China is itself an important part of improving human rights. It is not the whole human rights policy, of course, but it is part of it. In general, trade propels the kind of economic growth that will benefit the Chinese people, lifting their living standards, giving them more choices. But we can get more specific. When firms like AT&T or Sprint conclude deals, as they have just done, they are giving millions of Chinese people phones and faxes -- and more freedom to communicate to the outside world and to hear and see what is happening in that world. When firms like General Electric or Foster Wheeler build power plants in China, ordinary Chinese have electricity they didn't have to cook, to read, to literally light up their lives. When Raytheon or Lorale build airports and supply air traffic control systems, China and the modern, freedom-loving world get that much closer together.

On his trip, Secretary Brown met with the President of China, the Prime Minister, and two of the key Vice Prime Ministers. He talked to leaders in many other walks of life in China -- from business to city government. He laid the groundwork for a much broader interaction between Americans and the Chinese in the months and years ahead. This is what commercial engagement is all about. **No one is saying that we do not face formidable problems with China in the years ahead. But in terms of achieving our human rights and other foreign policy goals, there is just one key question: are we better off with this strategy, or with breaking off engagement, which was the course we were on?**

Trade and Technology Policy

Another critical arena where economics and national security overlap is in the links between trade and technology. In the post-Cold War era, technology is still crucial for national defense, of course, but the purely commercial aspects are getting increased attention. It used to be that much of our leading edge civilian technologies -- in areas such as computers and aerospace -- were spinoffs from defense-related research. Today, the flow goes the other way: many of the great innovations are in the civilian and commercial sectors.

Some of the ways that trade and technology impact our foreign policy now are straightforward. Take export controls. No one denies that the need to retain controls is essential to national security -- such as preventing nuclear proliferation -- but controls which unnecessarily hold back U.S. exports are increasingly being eliminated. This is a major change in the calculation of U.S. interests in the world, and demonstrates the importance attached to exports, and also to the influence we can have abroad when American companies are permitted to compete in the global marketplace without one hand tied behind their backs.

Another straightforward example of the new emphasis on technology for commercial leadership is the Administration's focus on research partnerships with industry. There is now in place an extensive web of "joint ventures" between government and industry funded by the Departments of Commerce, Energy and Defense, as well as a variety of other agencies. The projects range from the automotive sector to the medical field to flat panel displays. The purpose is to rejuvenate our technological base by channelling a good deal of the effort and resources which once went into military defense toward our own economic vitality and competitiveness. It's all further validation of President Clinton's policy that in order to be influential abroad, we need a growing and vibrant economy at home. The central core of our foreign policy, in other words, is a strong economy.

One of the most far-reaching aspects of trade and technology -- one which clearly brings into play our economic diplomacy -- is the National Information Infrastructure initiative, better known as "the information superhighway." This new system will connect the country -- our firms, our governments, our communities, our universities and libraries, etc. -- with the most modern communications technology. I am no expert on this project, believe me. But I do know from my trips abroad that leaders in many other nations are anxious to "hook up" to the infrastructure we are building. It's a bit like what we created with the NAFTA, in my view: other nations want to join up in this far-reaching, future-oriented venture.

Moreover, if it is America that sets the standards by which the information age is wired, if it is American information producers and software companies that turn their commanding lead into the market domination of the future, if it is we who devise the systems and the software that makes it all go -- for all voice, data, and video communications and processing -- if all this happens, as I believe it will, then we will have not only an economic game plan for success, but also a strategic game plan for maintaining influence, for encouraging open markets and open societies, for spreading our ideas and ideals.

MAKING POLICY IN THE NEW ENVIRONMENT

Recognizing that times have changed and that new policies are needed is important, but it is relatively easy. The challenge is not just in devising new approaches, but in *implementing* them.

Economic Policy is Often More Complicated Than Traditional Defense Policy

Some of the problems are practical: it is easier for governments to move missiles and diplomats around than it is for them to achieve economic goals. But there are several other reasons.

First, the politics of economic actions involve many more special interest groups than those of traditional foreign policy actions -- especially as more and more Americans recognize how dependent they are on international trade for their livelihood. The balancing of domestic and international economic considerations is played out everyday now.

Increasingly, for example, we want to elevate environmental protection in our overall international economic policy. Some officials are pressing for trade sanctions when environmental goals are not met. Others, although wedded to a clean and safe global habitat, are against such linkages.

Another example is our laws which protect U.S. firms from the dumping of unfairly priced foreign products into the United States. Many industries want the laws to be tightened. Others believe that consumers benefit from cheaply priced goods and want to see the laws diluted.

There are many other examples, of course. But this much is clear: issues such as the link between environment and trade and antidumping laws are now questions of high foreign policy, for they are having a major impact on how we develop and conduct trade policy.

The multiplicity of voices and the power of special interests are reflected most clearly in Congress -- which is as it should be in our democracy. More than in any other major country, Congress plays a key role in trade policy -- in fact, Congress has the constitutional power to regulate trade, and delegate authority to the Executive Branch as it sees fit. In today's world, this complicates a foreign policy which is so centered on economics for this simple reason: **Congress is the ultimate political institution, as we know, and all politics (as the late Congressman, Tip O'Neill, so aptly said) is local. On the other hand, all economics is now global. Therein lies a tension which rarely arises, at least with the same intensity, when we are mobilizing troops.**

A second reason why the conduct of international economic policy can be so difficult is that while in the defense arena, governments are the main actors, in the commercial realm we have to deal with private companies.

Many of the corporations have multinational involvements; their interests may not be the same as that of the purely American interest, at least as the Administration and Congress would define it.

Third, even as the need for economic diplomacy increases, governments have less power over the international economy itself. The private markets have grown exponentially, and it is they that drive so much of what happens. A trillion dollars changes hands in the foreign exchange markets every day. Last year more American money went abroad in search of investments in stocks and bonds than did so in all of the 1980s. Governments have crucial roles to play, of course, but they are no longer in control.

Finally, many of the traditional instruments of foreign economic policy are of greatly diminishing utility. It is increasingly difficult to use our vast market -- to open it or close it -- as a foreign policy tool, because free trade is so imbedded in our way of life. Foreign aid is of virtually no leverage because the countries that really count in the calculus of our interests don't need it. As I mentioned, unless non-proliferation or certain types of arms sales are involved, we are less and less apt to use export controls for foreign policy purposes.

Recognition of the Importance of the "Nuts and Bolts" of Commercial Policy

In the past fifty years, the "high policy" pursuits of foreign policy specialists focused on geo-strategic issues, the big picture management of containment, the bravura of shuttle diplomacy. **To date, the glamour pursuits of economic policy have been the big geo-economic concerns: global trade negotiations, macro-economic policy management, and annual summit meetings. But the reality is that the building blocks of effective economic diplomacy are often very technical.** What is more, economic interactions between nations take place on many more levels than political interactions, the majority between private sector entities that governments cannot, and should not, control. **In fact, the unit of economic interaction is very often the deal, something so small that it can take place between two people at opposite ends of a phone or fax connection, yet every bit as powerfully binding than even the grandest of international treaties.**

As a consequence, very important aspects of economic diplomacy can take place at a very detailed, often arcane or obscure level.

Consider how important regulatory or standards harmonization is to the process of linking economies by facilitating trade. Consider how important are the technical impediments to linking two phone systems or electrical power grids to the economic relations between countries. Consider how these factors have transformed the foremost leaders on the world stage as President Clinton was forced to become conversant in the details of the Japanese cellular telephone market and former Prime Minister Hosokawa became knowledgeable about the nuances of government procurement and President Boris Yeltsin felt obligated to steep himself in the details of market access issues.

Issues such as tax treaties and allocation of the radio spectrum are the nitty-gritty of commercial policy. In the past, they have been viewed as disparate, often marginal concerns, the specialized pursuits of narrowly focused technocrats. Today, we see that while each may be seen as a separate thread, they weave together to become the fabric of commercial policy. We must view them as such as we seek to harmonize them, to orchestrate them to ensure the best possible outcomes in our economic diplomacy whether our objective is more jobs at home, faster growth, increased trade, higher savings rates, closer relations between nations, creating economic incentives or disincentives for the actions of other nations or the other such goals of economic diplomacy.

It is no accident, therefore, that one of our principal mechanisms for building relations with key countries, be they Big Emerging Markets or Economies in Transition, is government-to-government commissions to deal with a host of commercial issues together, to begin to view many seemingly disparate and technical issues in a broader policy framework. The Business Development Committee in Russia is, as I have said, a centerpiece of our foreign policy. So is the Joint Commission on Commerce and Trade (JCCT) with China. So will be the Business Development Committees and their equivalents with South Africa, Argentina, and India that are now being formed. I predict that this will become the pattern more and more, as such issues as tax treatment, intellectual property rights, standards harmonization, and others become central to trade, central to our exports, central to the health of our economy, and hence, central to our national security..

The Economy at Home Matters Most

We must recognize too, that just as domestic prosperity is a by-product of international economic success, our international economic clout is dependent on successful management of our domestic economy. **Success abroad begins and ends at home.** This is why President Clinton's forceful stand on reducing the federal budget deficit is so vital internationally. From providing better health care to American workers and families, to educating them so they may compete more effectively, to making our streets safer, what we do at home has profound international consequences.

Because of the importance of these issues, in some respect domestic economic diplomacy is a critical component of successful international economic diplomacy. This entails effective relations between the Administration and Congress and between the Administration and the business and labor communities. It entails our being able to present our foreign policy and economic policy goals to the American people in a comprehensible way -- to explain how foreign and economic policy are now one and the same, how we are pursuing our objectives in each area. These issues were brought to life in the debate around the NAFTA. Winning that debate was a most important step in gaining a mandate for the kind of international economic policy we will need to serve our national interests.

In the years ahead, there will be much more to do to revitalize the United States economy. We spend just one-third as much as a percentage of GDP on infrastructure as do Germany or Japan. We spend as much on our military as do the next ten highest spending nations combined. Choices must be made as to where we want to invest to transform our industrial base from Cold War to post-Cold War status. Our international policies must serve these ends. And, where possible, we must step beyond the limitations imposed on us by ideologues who decry any government involvement in industry.

Changing Roles for Cabinet Officers and Government Agencies

In addition, to make the policies these new circumstances demand, we are making internal adjustments within the Clinton administration. They take the form of a cabinet which works as a team in pursuing the President's objective of focusing on a strong economy as one of the core elements of our foreign policy and national security, and in making foreign policy serve economic ends.

Not long ago, for example, Secretary of State Warren Christopher went to Japan. In the past, his predecessors would have spent most of their time discussing political and security matters. They would have left trade policy matters relating to economic growth to others. Not this Secretary of State. Instead, he carried the Administration's message that economics was as important to the U.S.-Japan relationship as any other aspect. He spoke forcefully in private and in public about the need for Japan to open its markets wider and faster, and to stimulate its economy. Secretary Christopher's role embodied perfectly the fusion of foreign policy and commercial policy.

I might add that this is increasingly true of the State Department, generally. Many who work for Secretary Christopher in Washington are highly knowledgeable about economic and commercial matters. They weigh in on these issues not just from a traditional foreign policy perspective, but with extensive technical knowledge about the policy issues themselves. On my travels abroad I have been extremely impressed with the ambassadors I have met, all of whom have elevated the commercial mission to the forefront of their responsibilities. Since the time that I was at State in the mid-1970s, in fact, there has been the equivalent of a revolution.

The other side of the story is the widening briefs of agencies that have traditionally not been seen as having any role in foreign policy. The Treasury Department has been a major player in foreign policy in the past, but its role today is even more important. It would be a mistake to think, however, that Treasury's mandate is confined to finance. **Secretary Bentsen and his powerful team exert major influence on virtually every economic issue.** Bentsen's trips to Russia, China, Indonesia and other places were critical to our overall foreign relations in each case. His importance in gaining Congressional support for the Administration's global economic policy is also critical.

The U.S. Trade Representative is also a major player in the nation's foreign policy now. As the leader in all trade negotiations, the chief formulator of trade negotiating strategy, and the key link with Congress on all trade matters large and small, it doesn't take much to see why Ambassador Kantor and his staff are heavily involved in so many foreign policy and national security questions. On Japan, on China, on the Asia-Pacific issues, and on Latin America, the USTR is indispensable.

My own department, Commerce, is also involved in a broad range of issues that contribute to the development of foreign policy. Secretary Brown's chairmanship of the Russian Business Development Committee, as I mentioned before, is critical to U.S.-Russian ties. Secretary Brown led the first Presidential mission to South Africa, and continues to play a leading role in our relations there. He has had a central role in the Middle East, leading commercial missions essential to the peace process. His recent trip to China, and the success of commercial diplomacy is another important example. His broader responsibilities in technology, telecommunications, the environment, and his involvement in trade strategy also put him at the center of the action.

Creation of the National Economic Council

The creation of the National Economic Council (NEC) alongside the already existing National Security Council in the Clinton White House was another sign that the President recognized that we need new institutions to accommodate changing circumstances. Several staffers hold dual appointments to both the NEC and the NSC. Many economic issues demand the attention of the National Security Council -- such as our Japan debate. Many national security issues have a major economic component -- such as the debate over export controls -- and get the attention of the NEC. Is China policy an economic or a national security issue? It is both, and it is handled by the NEC and NSC together, in the closest possible kind of coordination. So are such crucial issues as trade policy towards Russia or the next steps in extending free trade in Latin America. But, viewing any of these issues from both traditional national security and economic perspectives, giving full reign to both sides, effecting a balance, or changing the existing balance when necessary, can still be dislocating and demands continuing adjustment of how we think, how we coordinate, and how we implement policy.

REFLECTIONS ON EFFECTIVE ECONOMIC DIPLOMACY

I believe that the Clinton administration has done an exceptional job in a short period of time in recognizing the imperatives of economic diplomacy and in integrating them into our foreign policy. I doubt that anyone inside or outside of the Administration thinks this is the end of the issue, however; in fact, we have just begun to make the dramatic adjustments that will be necessary as the United States pursues its interests amidst rapidly changing economic realities.

For the future, I would point to several dimensions of policy that present particular challenges.

First is vision. I keep thinking about the generation that came to power during and after World War II. They had the vision to create a world order out of the wartime destruction. They had assimilated the lessons of the 1930s and were determined to build an international system that would contain and overcome those problems. Looking back, we must conclude that they were remarkably successful.

Within the Clinton administration, I think there would be a consensus about the kind of world order we would like to see at the turn of the century, and beyond. But what is different today from, say, the late 1940s or early 1950s, is that it's not enough for just the Administration itself to have a vision. We are a much more democratic society than ever before. The explosion of communications and information services means that the Congress and the public must share and support American goals, if they are to be realized. This sounds like Civics 101, I know, but the challenge is enormous when we are dealing with the complicated issues I have raised in this speech. **In the late 1940s and 1950s, there was a war to react to, and there were good guys and bad guys in the world. Today, the "lessons" of the Cold War are not as crystal clear, and the line-up of nations does not so easily lend itself to good and bad distinctions. So, building a consensus will be very difficult. But there can be no viable strategy without it.**

Second, as I hope I've shown, economic diplomacy is different than merely economic policy — it is the fusion of economic policy and foreign policy. Although we've made an excellent start, we need to give more attention to longer-term strategies with our trading partners, trying to preempt crises before the automatic force of our elaborate laws kick in, giving more attention to the analysis of the people and institutions that run foreign countries, figuring out their constraints and their needs so that we can find effective solutions to real problems. We need to back up the pursuit of our bilateral goals with early and consistent multilateral efforts,

building constituencies for our point of view, learning how to cajole and persuade behind the scenes.

Third, our international economic diplomacy will have to take into account the growing role of private entities that more and more determine trade and investment patterns. It is private business, after all, where money, technology, and even information on other countries most heavily resides. It is the financial markets which make the critical assessments about whether governments are pursuing the right kinds of policies. When I was in Washington in the mid-1970s, involved in foreign policy from the vantage point of the State Department, these factors were not so well recognized. Today, they increasingly are.

Fourth, while no one wants or intends to surrender sovereignty, it is a fact that our ability to act unilaterally has increasing limits. It's not just that we have fewer unilateral instruments at our disposal, but that we ourselves are helping to create a world of more multilateral structures -- from the NAFTA to the World Trade Organization -- where policies will be made and disputes resolved. In many ways, this is a new ball game for us, and we must learn to play it well.

We should not underestimate the sea change that will be required. For years our diplomacy in the UN Security Council or in the multilateral networks devoted to arms control was staffed by people who were highly specialized in maneuvering diplomatically in those settings. They knew the substance of policy and the international politics. We are dangerously short of that kind of person in the trade and economic arena -- especially when you consider how that arena is expanding. This is all the more true because our top economic officials frequently come from outside the government. They know the issues. But they have much less experience in the politics. And they are unlikely to spend enough time in the government to learn.

Fifth, when we talk about economic diplomacy, it's important that we have some hierarchy of goals, or else we can drown in a sea of the complexities I've discussed. I'd like to suggest three questions that should always be asked at the beginning of any discussion about our foreign policy:

What are we doing of direct benefit to the U.S. economy? Are we creating jobs? Are we improving living standards?

What we are doing contributing directly to the avoidance of war?

Are we contributing to global economic expansion, fostering a rising tide which lifts all boats, including our own?

These aren't the only questions but they should be the starting point.

Finally, we must give increased attention to the social underpinnings of our economy -- exactly as President Clinton is doing. The "social agenda" -- from health care to the prevention of crime to better programs for education and training of the workforce -- is an essential component of our ability to sustain a strong open economy in a competitive world. We must find ways to extend the economic benefits of open trade, and to cushion the impact on families of the dislocation that takes place in this rapidly changing world economy.

Of this I am convinced: despite the radically ordered nature of foreign policy and foreign economic policy, America must continue to be the world's leader. We may have to alter our traditional style to fit with changing requirements, but unless we are out there pushing, most things will go the wrong way for us.

Thank you very much.

TRADE AND INFORMATION TECHNOLOGY

IN A CHANGING WORLD ECONOMY

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

Before the
Japan Telecommunications Association
Tokyo, Japan

June 6, 1994

SUMMARY

Twenty years ago, only 50,000 computers existed on the globe. Today, more than 50,000 personal computers are sold worldwide every ten hours.

Five years ago the global Internet was composed to 217 networks. Today, there are 22,000 networks, and a new one signs up every thirty minutes.

In the early 1990s, American companies for the first time spent more on computing and information technologies than on mining, manufacturing and farm equipment. Today, about 60 percent of all U.S. workers have jobs which depend on information-intensive activity, and as new jobs are created we estimate that eight out of ten will be information-driven industries.

By any standards, we are witnessing dramatic change in the way we work, play, and communicate with one another.

This speech begins with a description of the Clinton Administration's commitment to build a twenty-first century infrastructure for the information technology which is emerging. It then focuses on two aspects of the information revolution – trade issues, and U.S.-Japan relations.

The effective use of new information technologies has become the foundation of competitive firms and nations in the 1990s and beyond. The advent of technology allowing us to translate many products into digital form and transmit that information at enormous speeds across borders is changing our concept of trade and forcing us to look at many of our traditional approaches with a new perspective.

The trade issues are intellectual property rights, product and service standards, rules of origin, market access, trade in services, different regulatory systems, and competition policy.

With regard to the U.S.-Japan dimension, the discussion notes both the similarities and differences in how the two countries are proceeding in the information technology arena, and also outlines the agenda for cooperation between the governments and firms of the two nations.

It is a great pleasure to be here today to discuss the future of information technologies, the industries they will spawn, including the burgeoning businesses incorporating multimedia capabilities, and the trade this revolution will spark. I am certainly not an expert on the sophisticated technologies that many of you are developing and already using. However, I would like to contribute some perspectives on areas in which I have been involved these days -- the interaction of new information technology and trade, and the increasing imperatives for U.S.-Japanese cooperation on both a bilateral and global basis.

As many of you know, President Clinton and his entire Administration have placed the highest priority on harnessing technology for the benefit of not only American citizens but also men, women and families everywhere. He, Vice President Gore, and Secretary of Commerce Ron Brown have presented a vision of a National Information Infrastructure which is the U.S. part of a network of networks -- the Global Information Infrastructure. They have created partnerships, in spirit and in fact, with the businesses that will build these information highways. They have articulated the critical principles on which American policy will be based, and suggested similar objectives for our trading partners.

In addition, Ambassador Mickey Kantor has focussed on opening new markets in the telecommunications sector -- including efforts in the Uruguay Round, in separate negotiations with the European nations, and in the context of the U.S.-Japan "Framework" talks. Ambassador Kantor has also pressed other nations to adopt more effective laws and regulations to safeguard intellectual property rights, a critical part of an effective global information infrastructure.

The Department of State and the White House Office of Science and Technology Policy have also played crucial roles in negotiating new arrangements for scientific and technological cooperation around the world.

The Department of Commerce, where I work, has had a particularly broad role in information technology. Secretary Brown heads up the Administration's Information Infrastructure Task Force, which coordinates information policy within the government, and reports to the President and Vice-President on the activities of its three policy committees. He also appointed the members of the U.S. Advisory Council for the NII, which brings private expertise to bear on our policymaking process. Several of my colleagues have front line responsibilities: Undersecretary Mary Good, who users in the United States by the year 2000. By 1993, the number had reached 16 million.

There are many more such examples, of course, which leads me to present one more quote, which I believe is right on target. It is by Jeffrey Katzenberg, Walt Disney's studio chief, who recently said about the information highway, "It will be the first time a roadway, a railway, an airway, or a phoneway has ever been built to a place for which we don't know the destination."

I don't want to belabor all the trends which show how fast things are moving. Suffice it to say, the world is witnessing an unprecedented proliferation of high technology products and services that will have a profound impact on our societies, our economies, on international relations, and on trade. Just two examples by way of illustration:

Twenty years ago, only 50,000 computers existed in the entire world; today more than 50,000 personal computers are sold worldwide every ten hours.

Or look at the Internet. New networks are signing up to the Internet every thirty minutes. Five years ago, there were 217 networks worldwide, with less than one percent outside of the U.S. Today there are 22,000 networks, about half of which are in other countries.

Impact on the Economy

To a great extent economic growth in America is now being driven not just by the service sector, but by the computer, software and telecommunications industry. According to some estimates, for example, business and consumer spending on high-tech equipment accounts for nearly 40 percent of GDP expansion since 1990. Investment in information technology is increasing productivity throughout America. Exports in 1993 exceeded overseas sales of aircraft, traditionally our leading exporter.

Impact on the Workplace –

The Information Revolution has had a profound impact on the composition of the workforce. It has begun to transform the workplace into an environment where the manipulation of information, rather than materials, is the most highly valued product. Nearly ten percent of U.S. economic activity is now generated in the information sector, but about 60 percent of all U.S. workers have jobs which depend on the information they generate and receive on advanced information networks. More startling, as new jobs are created, we estimate that 8 out of 10 are in the information-intensive sectors of our economy.

Impact on Industries

Every industry will be dramatically affected.

Manufacturers will have new options. Boeing, for example, established an international network for designing its newest aircraft, the 777. Japanese engineers working on portions of the fuselage and wings are linked electronically across the Pacific. The entire plan was developed on computers, without any paper. Advanced design software ensures that the thousands of parts manufactured around the world by the many 777 suppliers are characterized by up-to-the-minute inventory control, delivery and just-in-time production.

In financial services, advanced voice technology promises to change banking as customers are able to talk to bank computers over the telephone at any time to make deposits or move their funds over a range of investments. Traders will soon be able to use their computer terminals to view events around the world that affect their buying and selling securities.

When it comes to video, interactive television will provide movies on demand, as well as extensive shopping possibilities. We will be able to design our own TV channels, drawing from extensive menus of films, documentaries, comedies, and news programs. Think of your television as a computer, able to connect to an unlimited number of programming sources from around the world.

Health care is already being revolutionized by computerized record keeping and billing procedures. Telemedicine -- in which medical specialists in one area of the world can help guide delicate surgical operations elsewhere -- is already here, too. Visualization technology for creating animated and three-dimensional models of human anatomy is now used in classrooms and conferences to educate and train surgeons and nurses.

In fact, all education is being revolutionized. On-line education is becoming more prevalent; all the world's libraries could someday be accessible to every student; multimedia video techniques will enhance students' interest in learning and ability to retain information.

Tourists and business travelers will soon be able to carry a small electronic "concierge in a box" with maps, hotels, restaurant directories, and other information useful to visitors in an unfamiliar city.

Retailers will use information technology for on-demand inventory. Instead of customers coming to retail stores, retailers will increasingly be the ones who move to their customers via computers and television.

With the newspaper of the future, you will be able to customize your own reading and interact with it -- calling up more text, diagrams, or video clips about stories that interest you.

The telecommunications industry itself is in a constant state of transformation, even as it transforms other industries. Today's networks may soon look like the "Model T" once did, as new products, services and delivery systems proliferate under the pressure of deregulation and competition.

The list goes on...

THE UNITED STATES' APPROACH TO THE NATIONAL AND GLOBAL INFORMATION INFRASTRUCTURE

Goals

The concept of the National Information Infrastructure, generally referred to as the NII initiative, is to enable all Americans to access information and communicate with each other using voice, video and/or data over a high-speed, nationwide network, anytime, anywhere. The NII will integrate and interconnect components of the network in a technologically neutral manner that does not favor one industry over another.

Our goal is the creation of a national and international electronic marketplace that is secure, open, affordable, easy to access, and easy to use. Although it will fall to the private sector to build that marketplace, governments and industry must work together to address crucial issues and remove barriers in the areas of security, technical standards and interoperability, and in the legal and regulatory framework. Because government policies are a major force in the information infrastructure, government will be a major participant.

As Vice President Gore has observed, "Our goal is not to design the [information] market of the future. It is to provide the principles that shape that market. And it is to provide the rules governing this difficult transition to an open market for information. We are committed in that transition to protect the availability, affordability and diversity of information and information technology as market forces replace regulations and judicial models that are simply no longer appropriate."

Both the NII and the Global Information Infrastructure (GII) can be divided into four parts: 1) a set of widely accessible and interoperable communications networks; 2) the providers of content, including digital libraries, information databases and services; 3) information appliances and computing systems that are easy to use; and 4) users -- people who will buy, employ and communicate over these networks.

Describing the communications networks alone fails to capture the full scope of the information infrastructure. What is important is the ability to assemble all the necessary technical elements on demand to satisfy specific market needs. The networks are critical because they can make that assembly possible with relative ease in a cost-effective way. They do not, however, take into account issues related to data banks, computing systems and human resources that are critical elements of the information infrastructure or to the economic development and quality-of-life goals that must drive it.

Although it may be easy to describe the physical characteristics of communications networks, it is very difficult to conceptualize information infrastructure in its entirety. The infrastructure is more than just electronic equipment and components -- it is also the system of services, relationships and activities that are built around them. Just as the national highway system would be useless if it did not have local roads, automobiles, gas stations, motels, driving rules, police, insurance companies, maps and road signs, so too will communications networks be useless unless they are supplemented with training programs, data bases, computing capabilities, software protocols, standards, security systems, intellectual property laws and services that support economic growth and societal well-being.

Principles

The changing nature of technology requires governmental action that is forward-looking, but not ideological or rigid. It requires a regulatory and economic framework in which innovation and creativity can be rewarded. We must develop policies that ensure the rapid deployment and widespread use of the information infrastructure.

In order to make the most out of modern technology and entrepreneurship, all countries must not only develop adequate infrastructures, but they must also adopt appropriate regulatory regimes. The guiding principles should include:

First, reliance on private investment.

As a corollary, the private sector must be guaranteed a reasonable opportunity to obtain a fair return on its investment. And to maximize the investment incentive, state-owned telecommunications facilities should be privatized.

Second, competition instead of monopolies.

Competition will lead to pricing toward costs, and therefore will hasten the development of universally available communications networks. Competition increases innovation, reliable service, and economic growth. But competition must be fair. We aggressively seek in our domestic markets to eliminate cross-subsidies and discriminatory access. These policies should be applied internationally. The competitive model also dictates that international accounting rates and collection charges should be cost-based. Lower prices for telecommunications services dramatically increase demand. This in turn creates more revenues, extending and sustaining world communications networks. We believe that all countries will benefit from reducing accounting rates and calling prices to appropriate cost-based levels, because then networks will be used more efficiently and domestic businesses will be more competitive.

Third, a flexible regulatory framework.

Regulators must have the freedom to accommodate evolving technological changes and to ensure that regulations are responsive to market demands, while safeguarding the public interest.

Fourth, open access, interconnection and interoperability.

If all countries do not work together to develop open, interconnected and interoperable networks, the vision of a Global Information Infrastructure will give way to isolated, fragmented systems. These have less value in all respects than globally interconnected systems. It is especially important not to permit a monopolistic incumbent carrier to block competition through financial and technical barriers. Regulators should issue effective interconnection rules and fair pricing policies, taking care not to trammel on the intellectual property of those developing the systems.

Finally, universal service.

We have a moral duty to find a way to link people to everyone in their country, and all countries should be linked to the Global Information Infrastructure. Achieving it will require in each country a careful assessment of economic efficiencies, technical capabilities and social benefits. Fortunately, expanding communications markets and diverse new low-cost technologies offer regulators new solutions to the problems of universal service.

We recognize that the development of the world's telecommunications networks will take place regardless of whether governments adopt appropriate policies, or make commitments to provide universal service. The real issue is not whether technological innovation and business investment will take place, but whether the potential for economic growth through telecommunications development can be fully realized and whether its benefits will be available to all the world's people.

We were heartened that Vice President Gore's inaugural speech at the recent World Telecommunications Development Conference of the International Telecommunication Union was welcomed by the world's telecommunications leaders. The Declaration of Buenos Aires issued at the conclusion of the conference incorporated the fundamental principles of private investment, competition, open access, universal service, and a flexible regulatory environment.

Mechanisms

The Information Infrastructure Task Force (IITF) created in September 1993 and chaired by Commerce Secretary Ron Brown is an interagency group that advises the President and the Vice President on formulating a cohesive policy for implementing the NII. The IITF consists of three policy committees on telecommunications, information, and applications and technology, which work with each other and with other related federal working groups to develop a national NII policy. The Committee on Applications and Technology was created in part to provide a forum for discussing and coordinating the host of applications efforts across the Federal government.

As one of the nation's biggest users of information technology, government plays a major role in the development of NII applications. In addition, we believe that there is an essential role for governments to complement and enhance private sector initiatives in the development of national information infrastructures by supporting advanced research. To this end, the Commerce Department is providing limited federal funding directed to non-profit organizations for demonstration projects and state planning grants for applications that could be used over the NII. Moreover, government research agencies play a national role in R&D for the information infrastructure, including the development of prototype applications such as advanced manufacturing using computer networks.

In addition, the U.S. Advisory Council for the NII was created in January 1994 to ensure that the private sector has a voice in the formulation and implementation of the NII. The Council, which is chaired by the private sector, consists of 30 senior-level individuals chosen by the Secretary of Commerce. Nominations were solicited from a variety of NII constituencies and interest groups (e.g., trade and industry associations). The council represents business, labor, academia, public interest groups, state and local governments, and other groups affected by the NII. The council is expected to exist for two years unless its charter is extended.

The U.S. Government will develop policies related to the NII within the context of an evolving Global Information Infrastructure (GII), which will combine the information infrastructures of individual nations. The GII will be a cooperative effort among governments; it will allow an exchange of ideas within a community and among nations; and it will make possible a global information marketplace, where consumers can buy or sell products. A fully realized GII poses significant challenges for national, social and economic policymaking that are just beginning to receive attention.

The United States is not alone in these efforts. At least 19 countries are pursuing similar national information infrastructure initiatives. The European Union is expected to invest over $170 billion by the end of the century in developing a European Information Society, while Canada, Singapore, Korea and, of course, Japan are pursuing similar efforts. These initiatives are important because each country needs to develop its own infrastructure in order to create a global network. I am no expert on the NII, believe me. But I do know from my trips abroad that leaders in many other nations are anxious to "hook up" to the infrastructure we are building. Separate threads will gradually be woven together to become the fabric of the GII.

The United States is now engaged in planning efforts to fulfill our Vice President's call for a GII. Holding consultations with a variety of nations may figure into this enormous undertaking. I am pleased that the United States offered two weeks ago to hold a bilateral meeting with the Government of Japan to exchange information on our respective national infrastructure initiatives. Our countries are also engaged in consultations on telecommunications infrastructure through multilateral bodies such as the ITU, the OECD and the Asia-Pacific Economic Cooperation (APEC) Working Group on Telecommunications. This type of dialogue and information exchange provide a means for developing a common vision, and for increasing coordination.

CHALLENGES FOR INTERNATIONAL TRADE AND COMMERCIAL POLICY

Not only is the Information Revolution having a significant impact on individual industries, but it is also changing how and what we trade. Over the past 50 years or so, a set of laws and regulations has evolved that governs how trade takes place between and among them. These laws and regulations are based, for the most part, on the concept that trade consists of the movement of physical goods across borders. The advent of the technology allowing us to translate many products into digital form and transmit the digital information at enormous speeds across borders is changing our concept of trade and forcing us to look at these laws and regulations anew, to be sure that they are adapted to the new challenges we face.

It is interesting to note that in 1991, American companies for the first time spent more on computing and information technologies than on mining, manufacturing and farm equipment. Indeed, we are now seeing a shift in trade from "merchandise goods" to services (and struggling, in the process, with how to measure that.) While overseas sales of physical products -- computers semiconductors, etc. -- will continue to expand, and while we will continue to promote exports in those categories, the fact is that exports of communications and information services, including software, are growing faster, and now account for over a third of all technology exports.

The effective use of new information technologies has become the foundation of competitive nations and firms in the 1990s. Information technology has also enlarged the competitive arena, and made it truly global.

Here are some of the specific challenges we face:

Intellectual Property Rights

Development of advanced information infrastructures will create unprecedented market opportunities and new challenges for world-renowned media and information industries. However, the broad public interest in promoting the dissemination of information to citizens must be balanced with the need to ensure the integrity of intellectual property rights, especially copyrights, in information and entertainment products. This protection is crucial if these products -- whether in the form of text, images, computer programs, databases, video or sound recordings, or multimedia formats -- are to move in commerce using the full capability of the information infrastructure, while retaining the necessary incentives for their creation and dissemination.

The question of upholding intellectual property rights becomes even more difficult when exporting to other countries where legal and cultural norms vary concerning the protection of privately- generated original works from piracy. The lack of satisfactory intellectual property protection in many countries allows piracy to flourish to the financial detriment of creative communities and information industries. Concern for intellectual property protection remains a major impediment to private investment in information resources and services.

There also is the need to ensure protection when these products are being transmitted to consumers electronically, rather than in a physical form. Works transmitted as intangible products across national borders are not handled by customs authorities or subjected to tariffs, monitoring or control. As a result, the current intellectual property rules need to be examined to ensure that they are up to the challenge of the increasing trade in intangible products.

The tensions between the goals of protection, on the one hand, and interoperability and usability, on the other, have raised some serious issues, especially for the software industry. For example, in trying to find a legal solution, the European Software Directive, effective on January 1, 1993, grappled with defining limits on decompilation -- often referred to as reverse engineering -- to ensure interoperability of software and hardware manufactured by different companies while also protecting the copyright in the proprietary software. The United States argued that European law should be silent on this issue and instead should be governed by the well-known copyright principle of "fair use" that guides U.S. practice. We are pleased that the European directive includes only narrow exceptions for decompilation and that it struck a balance that both sides can live with. The United States also is pleased that Japan recently decided against changing its copyright law to allow reverse engineering of computer programs.

The balance between protection and interoperability and usability also has challenged those who are looking for a technological solution. For example, a 1986 proposal by a software industry trade association aimed at preventing software piracy through a hardware modification failed to gain industry acceptance from hardware manufacturers. The hardware industry had competing concerns about the effects of the modification on overall costs as well as on market demand, since software, whether legally or illegally acquired, drives hardware purchases. The microcomputer software industry has come to rely on the threat of lawsuits and criminal prosecution as the primary means of copyright enforcement, while the U.S. Government has made the protection of intellectual property rights in foreign markets a top priority in trade negotiations.

Upgrading intellectual property protection was a major U.S. objective for the recently concluded Uruguay Round of trade negotiations under the auspices of the General Agreement on Tariffs and Trade. The resulting agreement on the Trade Related Aspects of Intellectual Property Rights (TRIPs) provides a good foundation for international protection in this area. TRIPs goes well beyond the existing international intellectual property agreements, ensuring the highest level of copyright protection for computer programs as well as enforcement provisions to ensure compliance.

The United States also is working bilaterally under the so-called "Special 301" provision of the 1988 Omnibus Trade and Competitiveness Act to upgrade intellectual property protection in particular problem countries. "Special 301" calls for the United States Trade Representative to report to Congress annually on intellectual property related problems being encountered by U.S. companies in foreign markets and provides authority to take trade action, if necessary. Special 301 recently has enabled the United States to upgrade protection in Thailand, Taiwan, Egypt, Italy, Venezuela and Poland, among others. We are continuing to work with other countries, such as China, to ensure that these countries will make the improvements we seek in copyright protection and enforcement of U.S. intellectual property rights.

The task of ensuring effective intellectual property protection for the information and entertainment industries is further complicated by the emerging global technological environment where the conventional distinction between products and services breaks down. Products are networked, and network-accessible services are linked to products. Rights must be acquired to cover all forms of delivery, because multiple delivery paths are possible and it is difficult to predict what technologies will prevail or how markets will be structured. On the other hand, the control and security offered by different technologies may also determine the choice of distribution paths. For these reasons, we must look at the networked multimedia environment as a whole, from mass-market products to specialized network-based services, and, in acknowledgement of the relentless globalization of world commerce, work to create common legal and regulatory regimes that are responsive to the challenges of this emerging technological matrix.

Standards

Global standards that promote innovation, competition, and interconnectivity will be vital for a fully realized global information society. The importance of international standards to ensure interconnection and interoperability are a critical step to the realization of a global information infrastructure. Care must be taken that such standards do not affect the ability of intellectual property rights-holders to exercise their rights. This issue will become even more complex as wireless technologies become a more prevalent means of communications. We have to pursue the adoption of policies, domestic and international, that will facilitate the interconnection of national networks to ultimately create a global network and make real the vision of linking schools, hospitals, businesses and homes.

The different technical standards, formats and requirements developed in Europe, the United States and Japan make interconnection and, therefore, communications very difficult. At the user level, there is a growing desire to be able to choose products and services that work together without additional changes and cost. That is why we support fair, transparent international standards development.

Despite this need, there are conflicting pressures between the desire to protect the legitimate rights of the developers of technology and the desire to support open systems. On the one hand, countries and companies that are first to accurately define the future and develop technology and products to meet future needs could get a head start on everyone else. Of course, the risk of making costly mistakes from which others may benefit is high. Contrast this to the benefits of being able to operate in the broad global marketplace, a situation in which everyone can win through cooperative efforts and all nations will be better off. As technology continues to be transferred rapidly throughout the world through overseas production facilities, licensing agreements, and joint ventures, it may be naive to think that a head start in advanced communications will result in any significant long-term trade advantage.

Rules of Origin

The question of rules of origin has a major impact on several key areas, including the application of tariffs and local content requirements for government contracts. However, the increasing trade in services and the important question of determining the origin of services adds a quantum leap in complexity. In the growing service sectors, such as telecommunications, engineering, financial services, or even travel services, the significance and definition of origin is difficult to determine. How do you determine the origin of a blueprint or chemical formula that is converted into digital form in one country, transmitted over communications facilities to another country where modifications take place, and then transmitted again to third and fourth countries for use in building or manufacturing?

One of our objectives in negotiating the Agreement on Rules of Origin in the Uruguay Round was to address this issue of the need to cooperate in developing policies regarding rules of origin. The Agreement provides for an extensive, multi-year work program with the objective of multilateral harmonization of rules of origin. The effort will commence upon the entry into force of the World Trade Organization in early 1995. The intent is to preclude the use of rules of origin as a method of distorting trade and investment decisions by establishing clear and predictable multilaterally-agreed rules of origin for non-preferential trade in goods.

Market Access

High technology sectors have generally been viewed as essential national resources and have been subject to protectionist pressures and consequent market-opening initiatives. The telecommunications sector provides a prime example, with countries hosting national industries reluctant to open their government procurement to international competitive bidding. In addition, basic telephony has traditionally been considered the exclusive domain of national telephone companies. In a global Information Age, these policies are self-defeating. Countries adhering to such policies will fall farther and farther behind the competition. We will continue to support multilateral efforts to open these politically sensitive markets, which have proven to be extremely difficult.

The European Union is an example of the kinds of problems we are having. The European Union made no commitments in audiovisual services under the General Agreement on Trade in Services. Access to this key market is declining. In December 1993 the Spanish government adopted restrictions on motion pictures that will drastically reduce foreign access to the Spanish theatrical market. Other signs of increased protectionism include threats to extend television broadcast quotas to programming transmitted by other delivery systems, such as cable or satellite. In fact, the French became the first government in Europe to extend the protectionist quota regime to music broadcast by radio.

Resolution of audiovisual issues remains a high priority objective of the Clinton Administration. In consultation with our private sector, the United States is currently exploring a range of possible responses to our continuing audiovisual problems with the European Union.

Limited market access in the European market not only affects the audiovisual industry. Potential investors, telecommunications companies, hardware and software providers also suffer the consequences of protectionism. I am pleased to note that, in contrast, Japan and other key countries in Asia -- Korea, Singapore, Malaysia and Thailand -- have made important commitments in the audiovisual area in the Uruguay Round Services negotiations.

The U.S. Administration is committed to an international trade policy to open foreign markets that are closed to our competitive multimedia industry goods and services. We will continue to pursue U.S. trade liberalization objectives both multilaterally and bilaterally.

For many years, the U.S. has sought to cover government-owned telecommunications utilities under the GATT Agreement on Government Procurement. In addition, the U.S. has used Title VII of the 1988 Omnibus Trade and Competitiveness Act, which requires an annual report to Congress on discriminatory foreign government procurement practices and negotiations, to address these practices bilaterally. In 1992, the European Union was identified for the discriminatory procurement policies of government-owned telecommunications and heavy electrical utilities in certain EU member states and sanctions were imposed.

Despite multi-year negotiations between the U.S. and European Union, which did result in an April 13, 1994 agreement to double to over $100 billion the bidding opportunities available on each side under the GATT Agreement -- including government-owned heavy electrical utilities -- agreement could not be reached on telecommunications utilities. In the absence of an agreement on EU practices affecting telecommunications equipment and services, the U.S. sanctions imposed under Title VII will remain in effect. The sanctions prohibit suppliers from the EU member states, except for Greece, Portugal, Spain and Germany (which do not discriminate), from participating in certain categories of U.S. government procurement contracts.

Another major issue for the United States relates to access to Japan's government procurement in telecom. This, as you know, is a major issue in the current framework negotiations. We feel that it is vital that the Japanese government agree to more open and competitive procedures for its procurement leading to a significant increase in access and sales of competitive foreign products. Since these issues are being negotiated right now, I will not comment further -- except to underline how important they are to the Clinton Administration.

Special Attention to Services

The General Agreement on Trade in Services (GATS) negotiated in the recently completed Uruguay Round of multilateral trade negotiations, establishes for the first time, comprehensive multilateral disciplines and procedures covering trade and investment in services, as well as specific market-opening concessions from a wide range of individual countries. In the Telecommunications Annex to the GATS, countries have agreed that public telecommunications networks and services will be available on reasonable, non-discriminatory conditions to firms and individuals who use those networks and services. Users will also be able to provide enhanced or value-added services and intra-corporate communications. Although basic telecommunications networks and services are not covered by the Agreement, the United States and other trading partners with major telecommunications markets such as the European Union, Canada, Japan, Korea, Hong Kong, Australia, to name just a few, initiated negotiations in May of this year, to extend the GATS to this key sector of the global economy. In these negotiations, which are scheduled to last two years, the United States is looking for the principal telecommunications countries to make major changes to their monopoly-dominated systems to open their markets to foreign competition. We are hoping for an ambitious set of commitments from these major countries.

Subsidies

There will be intense pressure on governments to help their national industries in the race to reap the advantages of being the first to bring new products and services to market. But the attraction of industrial policy rests on the common misconception that a few "critical" technologies determine living standards and global economic success. What matters is a complex mix of many technologies, management practices, work habits, culture and government policies that is too intricate to control.

Trade policies have often been used as a means of developing national information industries. Restricted procurement, subsidies and local content requirements are the most common tools to shelter strategic domestic industries from competition. On balance, such policies have been ineffective in fostering world class competitive industries because they limit access to state-of-the-art technology.

Pressure for governments to increase subsidies for research and development, in particular, will grow as the cost of developing and commercializing new technologies skyrockets. The new GATT Subsidies Code, which the U.S. supports, allows subsidies for what is called industrial research and pre-competitive development activity under carefully defined circumstances.

The U.S. strongly opposes subsidies for commercialization, however. These are not permitted under the new agreement, and we will work hard to ensure that the Code is enforced.

Different Regulatory Systems

Increasingly, governments are recognizing the benefits of deregulation, privatization, and competition in the telecommunications area. In recent years, many countries have opted to privatize their state-owned telephone companies in order to obtain the benefits and incentives that drive competitive private enterprises, including innovation, increased investment, efficiency and responsiveness to market needs. Adopting policies that allow increased private sector participation in the telecommunications sector has provided an enormous impetus to telecommunications development in dozens of countries.

Because this is an evolutionary process, telecommunications service providers do not operate in a uniform regulatory environment around the globe. Some countries, for example, treat certain classes of service providers as "common carriers" rather than private operators, and subject them to additional regulation and scrutiny. In other cases, regulations are based on whether or not the service provider has its own network facilities. In most instances other than a national monopoly, service providers have limitations on the types of services they provide. These types of variances in the regulatory climate can increase the costs of doing business, reduce the return on investment, and cause uncertainty. These can, in fact, become trade barriers.

As more business users operate on an international level, they require services that provide the same telecommunications applications support they receive at a national level. Telecommunications user groups are urging their regulators and service providers to adopt a global perspective and provide seamless international communications networks. Regulatory harmonization, therefore, is an important issue on the international commercial agenda.

Competition Policy

A liberal, open trading system assumes a maximum of competition. This is why the traditional monopolies, which have so often characterized the telecommunications sector, are a major impediment to trade. Oftentimes privatization is not enough, especially if a public monopoly is replaced by a private one. Competition is the best way to make the telecommunications sector more efficient, more innovative, and more profitable as consumers make more calls and prices decline. As noted by the International Telecommunication Union, in the eight OECD countries that permit competition, telecommunications contributes around six percent more to GDP than in those 16 countries that do not permit competition, translating into an extra $16 billion per year of telecommunications revenue.

In the past, it may have made sense to have telecommunications monopolies. In many cases, the technologies and economies of scale meant that it was inefficient to build more than one network. Today, there are many more technology options than in the past, and it is not only possible, but desirable, to have different companies running competing -- but interconnected -- networks.

Although monopolies still exist in the provision of telecommunications services, there is a growing momentum toward their elimination. The desires of new entrants in the telecommunications sector are forcing many governments to gradually break down national monopolies. We are even beginning to see some movement in one of the last barriers to competition in the telecommunications sector -- the restriction on the competitive provision of basic telecommunications services. Monopolies in local telephony and local cable TV appear to be no more natural than were monopolies in the liberalized areas of long distance and customer-owned equipment. In Europe, recent proposals to allow mobile communications companies to be freed from all restrictions on building their own networks may pave the way for broader liberalization of fixed voice services later in the decade.

CHALLENGES FOR U.S.-JAPAN RELATIONS

America and Japan are the world's two single most influential countries in the world economy. From the perspective of Washington, there is no bilateral relationship that is more important than the one with Japan. The challenges of the new Information Age will be challenges to both countries.

Common Views

The U.S. and Japan share a common regard for the information technology sector from both economic and social perspectives as we attempt to build our national information infrastructures. In the United States, we are realizing the complexity of the many issues surrounding the establishment of a national information infrastructure. To a large extent, these issues delve into unchartered territory. I know that Japan faces a similar situation. Although

Japanese government and industry widely endorse the need for a Japanese information infrastructure and for regulatory reform to support it, an official government consensus on a comprehensive program is still evolving.

I understand that the Telecommunications Advisory Council announced on May 31 its recommendation for the Ministry of Posts and Telecommunications (MPT) to promote the Japanese information superhighway and related projects. According to the Council's report, entitled "Reforms Toward the Intellectually Creative Society of the 21st Century," Japan's information infrastructure will be based on extending fiber optic lines throughout the country by 2010, lead to market growth of 123 trillion yen and generate new employment of 2.43 million. MPT emphasizes private network development, supported by government initiatives in developing applications and public promotion of networking in areas such as education, research, medical and welfare services, administrative operations, and public libraries. In the report, MPT asserts that the government must create the conditions for network development in the private sector through promoting private investment and standardization, establishing security systems in computer-related business, improving protection of intellectual property rights, and deregulating, particularly in the broadcast and cable TV industries. There are many similarities in the themes with the U.S. approach.

I am aware that the Ministry of International Trade and Industry has also issued an advisory group report on this subject, entitled "Program for an Advanced Information Society," and that there is currently a debate underway in Japan on how to deal with the Information Age. As a foreign official, it would be inappropriate for me to take sides in this debate. However, I hope that this debate will be resolved in a manner that conforms with the general principles of increased competition, open markets, and a minimal, flexible regulatory environment.

Since 1985, Japan has clearly made efforts to deregulate its telecommunications sector. The introduction of "new common carriers" that compete with NTT in the provision of long distance services has resulted in long distance charges in Japan falling 55 percent between 1985 and 1992. Japan also allows some competition in its cellular and international telecommunications services. In the area of value-added services, competition has resulted in over 800 companies providing an array of services. Last December, Japan announced a long overdue plan to deregulate cable TV which should go a long way in stimulating the growth of that sector. Recent projections estimate that cable TV subscribership in Japan will grow from about 8 million today to over 20 million over the next six years. Clearly, progress towards deregulation has been made, but further deregulation is urgently needed.

I understand that recommendations are now under consideration for revisions to the two major pieces of legislation affecting Japan's telecommunications sector: the Telecommunications Business Law and the Broadcast Law. I hope you maximize this opportunity to begin charting the future course of Japan's telecommunications sector in a way that positively affects the development of your own information infrastructure.

Differences in Approach

In other respects, there are many differences between our countries in terms of telecommunications deregulation and competition.

The fact that NTT has yet to be fully privatized is a case in point, which may further complicate Japan's efforts to accelerate development of its national infrastructure. We know from our experience that major policy changes are followed by a period of market disruption as incumbent service providers and new entrants adjust to the new environment.

Let me give another example of our different approaches. Japan envisions a nationwide fiber optic network as the path to a broadband "multimedia" infrastructure, whereas the U.S. Government is committed to remaining technologically neutral in the development of the NII. As I have noted, the Clinton Administration believes that government should not dictate how the NII will be built. We will let the private sector determine the best methods of delivering information to its customers -- be it hybrid of optical fiber, coaxial cable, copper wire, satellites as well as an array of wireless technologies.

Importance of the Trade Agenda

The trade agenda that I have described is crucial. It has been in the information technology sector that so many trade disputes have taken place in recent years -- over semiconductors, supercomputers, computers, satellites, cellular telephones, international value-added services, and access to government procurement.

Our efforts should start with making sure past agreements are enforced.

They should focus also on the current "framework talks" in which the United States is seeking fairer access for foreign firms to bid on Japan's government procurement in the telecom sector. As I have already discussed, the aim should be for competitive foreign firms to be able to benefit from significant increases in market access and sales.

Importance of Continued, Broad Deregulation

These issues become particularly acute in an environment in which there will be many changes in the information technology sector -- new products, new services, new players. The United States wholeheartedly supports the emphasis of successive Japanese governments on the issue of broad based deregulation. We hope that the Hata Administration will accelerate this trend, and that as it does so, it will allow increased access to Japan's market for competitive foreign firms. To slow up on deregulation, or to impede access, would not only undercut trade relations, but it would also deny the Japanese market and Japanese consumers the benefit of the technological revolution that will be taking place elsewhere.

I know this is not an easy issue for Japan, which has managed to maintain tight control over the economy and which has prized stability at the expense of chaotic changes for most of the post World War II period. But the time has come to open the markets wider and faster, within a sensible regulatory framework, of course.

Global Cooperation

The agenda is also one of extensive cooperation on a scale which goes well beyond both our countries. We must both take a leadership role in the development of the Global Information Infrastructure. This entails working together to establish everything from standards that ensure interoperability, to the establishment and enforcement of laws and regulations to protect intellectual property rights, to assistance to developing nations and former communist "economies-in-transition" to join the global network.

This latter point is important. One of the principles which the U.S. holds dear is that the global network provide universal service. Vice President Gore set out the vision not long ago in Buenos Aires when he proposed a goal of connecting every school and every library in the world to the Internet and ultimately to the Global Information Infrastructure. It's not an easy task. while we in this room may enjoy the convenience of videoconferencing from nearby locations, more than half the world's population lives more than two hours from a phone, and an equal number have never made a telephone call. There are fewer telephones in all of Africa than in Tokyo.

CONCLUSION

The challenge to America and Japan to collaborate constructively in the information technology sector is among the biggest challenges we face.

We are talking here not about one industry, but many -- and many which can hardly be defined.

We are talking not just about one set of policies, but many which cut across all manner of trade and regulatory issues.

We are talking about the fiercest kind of commercial competition for one another's markets and for markets like Italy or China or Brazil for the sale of hardware and software and information services of all kinds.

And we are talking about having a true international consciousness that encompasses a sense of responsibility to help other countries improve their own information infrastructures so they can play in the big leagues along with us.

I feel confident we can rise to the challenge, but it will take an extraordinary effort.

Thank you very much.

THE U.S. AND CHINA AT A CROSSROADS

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

Before
The U.S.-China Trade and Investment Conference
The Biltmore Hotel
Los Angeles, California

April 11, 1994

GOOD MORNING. IT IS A GREAT PLEASURE TO BE HERE TODAY. CALIFORNIA IS THIS COUNTRY'S WINDOW ON THE PACIFIC AND THEREFORE ON OUR FUTURE. THE STATE AND THE CITY OF LOS ANGELES OFFER VITAL, VIBRANT TESTIMONY TO WHAT COMES WHEN AMERICAN ENTREPRENEURS HEAD WEST.

I AM ALSO PLEASED TO BE ABLE TO ATTEND THIS EVENT. IT IS, IN MY VIEW, AN IMPORTANT GATHERING AT AN IMPORTANT TIME. I AM ESPECIALLY GLAD TO BE HERE TO OFFICIALLY WELCOME MINISTER WU YI AND HER DELEGATION TO THE UNITED STATES. SHE HAS COME FOR A SESSION OF THE U.S.-CHINESE JOINT COMMITTEE ON COMMERCE AND TRADE WHICH WILL BE HELD LATER THIS WEEK IN WASHINGTON, A MEETING WHICH WILL BE CO-CHAIRED BY HER AND SECRETARY OF COMMERCE RON BROWN.

IT IS IN PREPARATION FOR THAT MEETING THAT I HAD MY FIRST OPPORTUNITY TO MEET MADAM WU YI ON A RECENT TRIP TO BEIJING, AND I VERY MUCH APPRECIATED HER GRACIOUS HOSPITALITY DURING MY VISIT. I HAD HEARD MANY

FINE THINGS ABOUT HER PRIOR TO OUR MEETING BECAUSE SECRETARY BROWN HAD MET HER DURING THE APEC MEETING IN SEATTLE LAST NOVEMBER AND WAS STRUCK BY HER CHARM, SINCERITY, AND FORTHRIGHTNESS. I AM SURE YOU ALL SHARE OUR VIEW THAT CHINA IS INDEED VERY WELL REPRESENTED ON THE TRADE FRONT.

THE POTENTIAL OF THE U.S.-CHINA COMMERCIAL RELATIONSHIP IS WHAT HAS BROUGHT ALL OF US HERE TODAY. WE HAVE A SINGULAR OPPORTUNITY FOR THE WORLD'S MOST ADVANCED ECONOMY TO JOIN WITH THE WORLD'S BIGGEST EMERGING MARKET FOR MUTUAL GAIN. THIS ADMINISTRATION RECOGNIZES THE IMPORTANT ROLE THAT CHINA CAN AND SHOULD PLAY IN AMERICA'S GROWING COMMERCE WITH A DYNAMIC ASIA.

I AM CERTAIN THAT OTHERS AT THIS CONFERENCE WILL REVIEW THE DRAMATIC PROSPECTS FOR TRADE AND INVESTMENT. TODAY I WANT TO USE MY FEW MOMENTS

BEFORE YOU TO DISCUSS THE CURRENT STATE OF OUR RELATIONSHIP WITH CHINA AND THE POTENTIAL FOR THAT RELATIONSHIP.

LET ME SAY AT THE OUTSET THAT THE CLINTON ADMINISTRATION SEEKS STRONG TIES WITH A STABLE AND PROSPEROUS CHINA. THAT GOAL IS IN AMERICA'S NATIONAL INTEREST. CHINA IS AN IMPORTANT MEMBER OF THE INTERNATIONAL COMMUNITY. I THINK IT IS FAIR TO SAY THAT NO U.S. ADMINISTRATION SINCE CHINA'S 'REOPENING' TO THE U.S. UNDER PRESIDENT NIXON HAS WORKED MORE INTENSIVELY OR DEVOTED MORE RESOURCES TO THE PRESERVATION AND ENHANCEMENT OF OUR TIES WITH BEIJING. PRESIDENT CLINTON, VICE PRESIDENT GORE, SECRETARY CHRISTOPHER, SECRETARY BENTSEN, SECRETARY BROWN, SECRETARY ESPY, AMBASSADOR KANTOR AND MANY OTHER SENIOR MEMBERS OF THE ADMINISTRATION HAVE BEEN HEAVILY INVOLVED IN WORKING TO STRENGTHEN AMERICAN TIES.

WHY, THEN, DO WE FIND OURSELVES AT SUCH A CROSSROADS IN THE RELATIONSHIP? AND HOW CAN WE REALIZE THE FULL POTENTIAL OF THIS RELATIONSHIP WHICH IS SO IMPORTANT TO BOTH OUR COUNTRIES? TO ANSWER THAT QUESTION, IT MUST BE SAID THAT BONDS BETWEEN CHINA AND THE UNITED STATES ARE NOT BASED SOLELY ON COMMERCIAL CONSIDERATIONS. THERE ARE POLITICAL AND STRATEGIC INTERESTS AT STAKE, TOO. AND THAT IS WHY IT IS ESSENTIAL FOR OUR TIES TO BE GROUNDED ON A BROAD BASE OF AMERICAN SUPPORT.

FOR FOUR YEARS AFTER 1989, THAT BROAD SUPPORT DID NOT EXIST. THERE WERE DEEP DIVISIONS WITHIN CONGRESS AND THE AMERICAN PUBLIC REGARDING U.S. POLICY TOWARDS CHINA. BUT IN THE SPRING OF 1993, A CONSENSUS WAS FINALLY REACHED WITH THE PRESIDENT'S EXECUTIVE ORDER. THE NEW POLICY WAS BASED NOT ONLY ON THE VIEWS AND LEADERSHIP OF THE PRESIDENT, BUT ALSO ON THE OPINION OF SIGNIFICANT MAJORITIES IN BOTH HOUSES OF CONGRESS,

WHICH HAD PRESSED FOR THE PREVIOUS FOUR YEARS TO LINK MFN FOR CHINA TO PROGRESS IN HUMAN RIGHTS AND OTHER AREAS. THE EXECUTIVE ORDER WAS DRAFTED IN CLOSE CONSULTATION WITH CONGRESS AND THE BUSINESS COMMUNITY. IT WAS DESIGNED TO BALANCE OUR HUMAN RIGHTS OBJECTIVES WITH THE ARRAY OF OTHER GOALS AND INTERESTS IN OUR BROAD AND COMPLEX RELATIONSHIP WITH CHINA.

ALLOW ME TO SAY A WORD ABOUT MFN. THIS ADMINISTRATION, LIKE THE CHINESE, AND LIKE MANY IN THIS ROOM AND IN THIS COUNTRY, WOULD LIKE TO SEE RENEWAL OF MFN. BUT WE HAVE SAID, AS CLEARLY AS POSSIBLE, AND AS OFTEN AS POSSIBLE, THAT IN ORDER TO GRANT MFN, THERE MUST BE OVERALL SIGNIFICANT PROGRESS IN HUMAN RIGHTS IN CHINA.

BY THAT WE DO NOT SEEK TO INFRINGE ON CHINA'S SOVEREIGNTY. WE RECOGNIZE THAT THE U.S. AND CHINA DO

NOT HAVE THE SAME HISTORY, CULTURE OR SYSTEM OF GOVERNMENT. NEVERTHELESS, AS A MATTER OF DEEPLY-HELD PRINCIPLE, WE ASK THAT CHINA ABIDE BY HUMAN RIGHTS STANDARDS THAT ARE UNIVERSALLY RECOGNIZED. IN ADDITION, WE STRONGLY BELIEVE THAT A SOCIETY THAT PROTECTS AND PROMOTES THESE RIGHTS WILL, OVER TIME, PROVIDE A MORE STABLE AND ATTRACTIVE CLIMATE FOR TRADE AND INVESTMENT, AS WELL AS A BETTER LIFE FOR ITS CITIZENS.

FOR MUCH OF THE PAST FEW MONTHS, WE HAD BEEN ENCOURAGED BY THE SLOW BUT DISCERNIBLE PROGRESS ON A NUMBER OF KEY HUMAN RIGHTS FRONTS. DESPITE THE UNFORTUNATE ATMOSPHERICS DURING SECRETARY CHRISTOPHER'S VISIT TO BEIJING, A NARROWING OF DIFFERENCES OCCURRED AND PROGRESS WAS MADE IN CERTAIN AREAS. AND WE WELCOME FOREIGN MINISTER QIAN'S APRIL 6 POSITIVE STATEMENT ON THE UNIVERSAL DECLARATION OF HUMAN RIGHTS.

BUT THE FACT IS THAT MORE IS NEEDED TO MEET THE CONDITIONS OF THE EXECUTIVE ORDER. AND WE ARE DEEPLY TROUBLED BY THE RECENT SERIES OF DETENTIONS AND ARRESTS OF CHINESE CITIZENS. SUCH ACTIONS CAST A CLOUD OVER OUR EFFORTS TO FURTHER COOPERATION BETWEEN OUR TWO COUNTRIES.

IT IS IMPORTANT WE SEE THAT PROGRESS SO THAT THOSE IN PRIVATE ENTERPRISE CAN CONTINUE TO BUILD BRIDGES AND FORGE THE BONDS THAT CAN DEFINE AND ENHANCE OUR TIES IN THE DECADES AHEAD. OUR COMBINED BUSINESS SKILLS AND INDUSTRIOUSNESS CAN CREATE A POWERFUL ENGINE FOR ECONOMIC GROWTH. AND THE POTENTIAL BENEFITS TO BOTH OUR COUNTRIES IN IMPROVING TRADE RELATIONS WILL BE FELT NOT ONLY IN COMMERCIAL TERMS AND ECONOMIC SECURITY, BUT MORE BROADLY IN A SECURE AND STABLE ASIAN-PACIFIC REGION.

I KNOW THAT THE GOVERNMENT OF CHINA UNDERSTANDS THE STAKES, AS DO WE. I STRONGLY HOPE THAT ENOUGH PROGRESS WILL BE MADE ON THE HUMAN RIGHTS FRONT TO ALLOW BOTH COUNTRIES TO MOVE TO A MORE NORMAL TRADING FRAMEWORK AND THEN BEYOND--TO EXCEPTIONALLY REWARDING LONG-TERM COMMERCIAL TIES AND TO A BROADER RELATIONSHIP WHICH RESTS ON A MUCH FIRMER FOOTING.

WE HAVE A SHARED CHALLENGE--A COMMON GOAL. MY HOPE IS THAT MADAME WU YI WILL RETURN FROM HER VISIT TO AMERICA WITH A STRONG SENSE OF THE NEED FOR OUR TWO GREAT COUNTRIES TO RESOLVE THEIR DIFFERENCES, AND TO MOVE ON TO REALIZE THE PROMISE OF THE FUTURE.

THANK YOU VERY MUCH.