

Remarks Prepared for Delivery

**Keynote Address of Ambassador Charlene Barshefsky
The Global Trading System
A GATT 50th Anniversary Forum
The Brookings Institution
March 4, 1998**

Good morning. [Acknowledgments.]

All of us here today can be justly proud of the GATT's achievements over the past half century. The work of my predecessors and of this Administration has contributed to a progressively more liberal world trading environment for goods, services, and investment. An environment where world consumers have more choice, and therefore more freedom. An environment where human, financial, and natural resources are used more efficiently and productively with gains to all rather than a select few.

Over its existence, the GATT has successfully addressed increasingly complex restrictions to trade. Starting off with border measures such as tariffs and quotas; moving in the Tokyo Round to non tariff barriers; and in the Uruguay Round to include more fully agricultural trade, services, investment, intellectual property rights (IPR), and in so doing, to begin to address the trade impact of domestic regulations.

Our task for the future is of course broader than each of these parts, although even traditional barriers are still too high in many areas and must be reduced. As we move forward, we must fashion an international trading system that can accommodate the tremendous technological change that is sweeping the global economy. We are looking to foster a trading system that is transparent and genuinely pro-competitive. A trading system where bribery and corruption no longer sap economic vigor from economies. A trading system that develops effective instruments to address the social dimension of trade, including respect for workers and the environment. A trading system that recognizes the challenge of domestic regulation. A trading system that can accommodate proliferating regional trade agreements as well as transitional economic systems without sacrificing free-market principles.

And perhaps most importantly, a trading system that answers the concerns that trade is the enemy of jobs and high living standards. Misplaced though they are, these concerns have the very real potential of derailing future economic progress..

Contributions of the GATT System to World Economic Growth

Let me start by summarizing the contributions of the to world economic growth. The standard portrayal of the economic achievements of the GATT is to describe steady progress in

reducing global trade barriers, the rapid expansion of trade, and trade's contribution to post-War prosperity. While agreeing completely, I would like put the 's contribution in a broader context.

Immediately after the Second World War, many nations concentrated on the potential of markets to spin out of control and emphasized the superiority of alternative economic systems. It is remarkable today to recall that even in the late 1950s, when a Soviet Premier threatened to bury the U.S. because in part of the systemic preeminence of the Soviet economy, his threat was taken with the utmost seriousness.

One of the great issues of the post war period has in fact been the question of how governments create the best environment for allocating scarce resources to meet current and future human needs and desires. As we saw earlier this decade with the collapse of the Soviet economic model, and as we see today with the discredited Asian economic model, free markets will repeatedly win hands down.

One has neither to idealize free markets -- competition is sometimes painful and divisive -- nor to believe that there is no useful role for government in modifying market outcomes, in order to understand that there is simply no substitute for resource allocation made under more competitive market environments.

The GATT was the post-War institution in which we most clearly expressed Western faith in the role of an integrated and increasingly open and global market. The GATT System has not let us down. It has served as a catalyst for the greatest expansion of global growth and opportunity the world has ever witnessed. It has succeeded in fostering freer markets through trade agreements, resulting in a 16-fold increase in global trade that has helped lead to a four-fold increase in real global output in the post-War period.

The ascendancy of freer, more open global markets offers great promise for contributing importantly to a world of expanded prosperity and peace, in which many hundreds of millions will be lifted out of poverty and in which the economic aspirations of Americans -- who already enjoy the world's highest living standard -- can be better met.

The Uruguay Round

It was clear to everyone heading into this last Round that the GATT rules were increasingly unable to deal effectively with the full range of issues presented by trade growth and more global markets. Many areas of trade such as intellectual property rights and investment were not covered by GATT rules; GATT disciplines such as agriculture were inadequate, and the dispute settlement mechanism was in many cases ineffective. The old GATT rules also created unequal obligations among different countries, despite the fact that many of the countries that were allowed to keep their markets relatively closed were among the greatest beneficiaries of the system.

These deficiencies were largely the subject of the Uruguay Round. WTO members, for example, are now required to accept all obligations of the GATT and its corollary agreements, rather than being able to pick and chose among obligations.

The WTO's new dispute settlement system has met our key objectives of a swift, sure and effective mechanism to resolve trade disputes through a rules-oriented system. Going into the Uruguay Round, we consistently argued that disputes took either too long to resolve or remained unresolved at the end of the process due to the ability of countries to block the adoption of a panel report.

The WTO's committee structure and requirement for biennial ministerial meetings have also given us a new opportunity to press for agreements on a much more real-time basis. Given the speed of both economic change and technological advances in communications, it is imperative that we have a WTO structure that can move rapidly.

The Uruguay Round's cuts in tariffs are already helping to boost U.S. exports throughout the world. In the sectors in which duties were eliminated or harmonized, U.S. exports have grown by nearly 34 percent, far outpacing the increase of all U.S. exports.

The Uruguay Round also made important strides in touching on issues that had not been seriously addressed before, such as agriculture, trade and the environment and some investment disciplines. In the areas that had never been covered by GATT rules, such as intellectual property rights and services, the new disciplines of the WTO are essential.

CHALLENGES FOR THE 21ST CENTURY

Now that the results of the Uruguay Round are being implemented, it is time, in part because of the 50th anniversary but also because we are approaching the 21st century, to examine the GATT System and assess the operation of the WTO. There are many challenges facing us that will bear upon the future direction of global trade policy. I want to highlight several of them this morning.

Trade Policy for the Information Age

I think it fair to say that the GATT System is well on its way to entering the 21st century. Just last year we completed a "trifecta" of global agreements that frame the foundation of the 21st century economy: information technology, telecommunications, and financial services. These three agreements, which cover literally tens of trillions of dollars in trade, were recently described by Renato Ruggiero as the equivalent of a major trade Round, so significant is the amount of commerce involved.

The three agreements recognize that we are in an era characterized by intense technological change. A time when product life cycles are measured in months and information and money move around the globe in seconds. A time where we can no longer afford to take 7 years to finish a trade Round, or decades pass between the time a trade barrier is identified and it

is acted on.

The Information Technology Agreement (ITA) will result in the elimination of tariffs on a wide range of global information technology products over the next several years. Covering 93% of global output in this trillion dollar sector, the negotiation of this agreement should help dispel the myth that significant trade liberalization can only occur through comprehensive negotiating Rounds. And we are moving forward with negotiations for an ITA II for expanded product and country coverage.

The Agreement on Basic Telecommunications, which came into effect in January, covers over 95% of world telecom revenue in a \$600-billion industry, and was negotiated among 70 countries -- both developed and developing. It provides U.S. and foreign companies access to local, long-distance and international service through any means of network technology, and ensures that U.S. companies can acquire, establish or hold a significant stake in telecom companies around the world.

This agreement represents a change of profound importance for the telecommunications industry and, potentially, for the GATT. A 60-year tradition of telecommunications monopolies and closed markets has been replaced by market opening, deregulation and competition, reflecting American values of free competition, fair rules and effective enforcement.

In this regard, sixty-five countries bound themselves to enforceable regulatory principles based upon the framework for competition that our Congress enacted in the landmark Telecommunications Act of 1996. Sixty of these countries have agreed to a specific set of regulatory principles that even we did not have one year ago. The global adoption of these pro-competitive principles is binding. Foreign countries are committed to establishing independent regulatory bodies, as well as forbidding anti-competitive practices such as cross-subsidization, and mandating transparency of government regulations and licensing.

And lastly, in December, we secured the multilateral Agreement on Global Financial Services that will open markets to U.S. suppliers of banking, securities, insurance and financial data services. This agreement covers 95% of the global financial services market, and 102 WTO members now have market-opening commitments in the financial services sectors. The commitments before us encompass \$18 trillion in global securities assets; \$38 trillion in global (domestic) bank lending; and \$2 trillion in worldwide insurance premiums.

A well-functioning financial services industry is key to economic growth in any country, as we have seen in the United States. With the most open financial services market in the world, competition in the financial services industry has delivered lower prices and greater choices and contributed enormously to prosperity here. The agreement will foster the development of financial markets, especially in emerging economies, helping to lay the foundation for sustained growth. Many countries had already begun the process of financial sector liberalization, but in the past had hesitated to lock in those measures. This agreement locks in that progress and in addition, substantially advances the process of market opening abroad.

Financial Services, together with the ITA and the Telecom Agreement, completes the triple play of global market opening agreements we have reached in the past year. These are the infrastructure of the 21st Century economy-- information, communications, and finance. Yet although these agreements are still warm, we must move ahead, and this means addressing global electronic commerce -- electronic transmissions and especially the Internet.

As the President noted in his speech last week to the Technology '98 Conference, the Internet is the fastest growing social and economic community in history, with 1.5 million new web pages created every day; 65,000 every hour. This phenomenon and the ability of people throughout the world to access it has remarkable possibilities to empower people all over the world. The rapid changes in technology and electronic commerce are something that trading system must recognize and address, and it must do so quickly.

The changes are indeed staggering. The Ford Taurus that you drive today has more computer power than the Apollo 11 that Neil Armstrong took to the moon. The evolution of computers and the electronic commerce that they make possible is likely to revolutionize the way many industries do business. Already it is projected that by 2002, electronic commerce between businesses in the United States alone will exceed \$300 billion. And today, Internet use is already divided rather evenly between the United States and the rest of the world, with global growth in usage at an accelerating rate.

When we look at the global trading system, we see 50 years of effort to undo what governments have done--working to undo government-imposed tariffs and non-tariff barriers to trade. But the world of electronic transmissions is, in trade terms, pristine. Today, no member of the WTO considers electronic transmissions as importations for customs duty purposes. There are no customs duties on cross-border telephone calls, fax messages or computer data links, and this duty-free treatment should include electronic transmissions on the Internet. An agreement to this effect would be an important next step in preparing for the 21st Century economy, and supporting this wholly new form of commerce.

Building Transparent, Open and Competitive Markets

All countries have regulatory systems in place to protect such critical interests as the health, safety, and security of their citizens. These are essential functions of government. The must be sufficiently flexible to identify further areas of needed regulation that require a global response, while ensuring that regulatory systems already in place in fact result in the transparent, pro-competitive markets they are intended to foster. The Asian financial crisis serves as a stark reminder that genuine transparency is more than the mere publication of rules and regulations.

As we look to potentially new areas of needed regulation, certain basic principles should apply. The role of the WTO is not to demand a system of uniform regulation nor to detract in any respect from the absolute right of governments to establish a particular set of regulatory norms, provided they are neither discriminatory, arbitrary, nor disguised barriers to trade. Rather, the role of the WTO is to ensure that national regulatory practices are fully transparent and not politically directed. This includes the principles of genuine national treatment and due

process, commitments to publish and make widely available all regulations, and to ensure that it is those public regulations and not others that are actually applied. Inherent in the need for clear, enforceable rules is also the need for impartial regulators. In short, fundamental fairness must prevail.

There are many areas of regulation that may well require a global response, but let me touch simply on two: competition policy, and bribery and corruption.

It has been a long-held theory among many countries that sound competition law enforcement is crucial to the health of national economies. Indeed, economic globalization has dramatically increased the importance of strong competition policies due to the increased risk of international cartels and the tremendous growth in transnational mergers.

Reaching agreement on competition policy within the WTO will be difficult, given the great disparity between countries on antitrust rules -- both in substance and in the vigilance of their enforcement -- and the fact that almost half of the WTO members do not have competition laws of their own. What is critical, however, is that we develop an international culture of competition and sound antitrust enforcement, built on the basis of shared experience, bilateral cooperation and technical assistance. From that base we should focus on those particular practices and industries where the most egregious anticompetitive practices have been concentrated. If we can do that, we will have a solid foundation from which to build a more comprehensive regulatory framework for competition policy.

Global action is also needed to address the pernicious problem of bribery and corruption. Governments have begun to recognize what many throughout the world have known for decades: bribery subverts and can destroy political processes, it stifles efficient markets and it acts as an invisible tariff on most imports and contracts. The price paid by both the developed and the developing world for the continuation of bribery and corruption is simply not sustainable.

Our most visible efforts to address the problem have taken place in the OECD. In 1994, the OECD adopted a recommendation on combating bribery and in 1996 adopted a recommendation that would prohibit the tax deductibility of bribes in international business transactions. In 1997, an agreement was reached to pursue a Convention that would require governments to put in place criminalization statutes. This agreement was signed by 34 countries and obligates parties to criminalize bribery of foreign public officials in international business transactions.

In addition, the WTO has established and begun enforcing basic rules that diminish the opportunities for bribery and corruption to take place in, for example, government procurement and customs valuation. Work is already underway to ensure greater transparency in government procurement procedures, an area where bribery is most vexing.

While these are important first steps, much more needs to be done to ensure that strong rules are in place, that those rules are vigorously enforced and that we create a global ethic among government leaders that condemns bribery and corruption in all forms. Once the

foundation has been laid through the efforts just mentioned, the WTO should utilize the work of the OECD and begin the process of tackling head on bribery and corruption.

Last, establishing a regulatory framework to address important issues like competition policy, bribery and corruption, and others is necessary, but not sufficient. The real challenge is to ensure that regulatory systems do not create false process, i.e., the appearance of transparency undermined by de facto decisionmaking based on factors divorced from the regulatory framework. The WTO must demand enforceable regulatory transparency at all levels of decision-making, if trade concessions are to yield tangible benefits.

The WTO Must Insist on Real Market Access

Another challenge for the WTO is to integrate fully all nations into the global trading system. This challenge extends beyond the accession of new members. We are, of course, right to reach out to the billions of people who live in countries that lie outside of the international trading system. But we also need to look inside and ask how, over decades, some countries have been members of the GATT System, while maintaining home markets essentially hostile to competition.

The Asian financial crisis points to this phenomenon -- successive Rounds which nonetheless fail fundamentally to open major markets, including Japan's. As we look ahead, we need to examine whether GATT or the creation of the WTO should have been more alert to structural and systemic barriers which allowed these circumstances to endure. In this regard, many of the seeds of the Asian financial crisis: excessively close linkages between government, business, and banks, a lack of transparency and a suppression of competition and market mechanisms have their parallel in the trade realm. How can the WTO system deal with structural barriers, the nature of which will invariably reduce or negate the value of trade concessions made?

Other countries, long members of the have also failed to open up to global competition although the mechanism has differed. India has long maintained balance of payments restrictions on imports, now under challenge. Many African nations have never undertaken the basic bindings -- commitments -- that would open their markets and enable them to grow, and some have actually increased overall levels of protection, plunging them further into poverty. New trade incentives, anchored in economic reform and embodied in both the Administration's Africa policy and pending legislation should help to alleviate this vicious cycle. Yet, in each of these cases, we must again ask how the failed to engender more fundamental economic reforms.

Last, our attention must also be focused on bringing new countries into the . China, Russia, and the other countries of the former Soviet Union come to mind. The integration of new members, whose economies are in transition or take alternative form, is complex. In order to ensure that market-based rules are not undermined, these countries should be brought in, but only on the right terms. The accession process must result in significant and enforceable commitments to open markets, to operate transparent, non-discriminatory regulatory systems,

and to afford effective national treatment both at the border and within the domestic economy. Our task is difficult, but I believe ultimately attainable.

The Broader Dimensions of Trade

An equally important challenge for the GATT System will be to recognize and address the fundamental relationship between trade and the environment and trade and worker rights.

With respect to the environment, we start from the obvious: both trade and environment are critical. No one is being asked to choose one over the other and no one should. The key is how to manage the demands of the two in a way that protects a rules-based trading system while addressing legitimate environmental concerns.

While some initial progress was made in the establishment in the Uruguay Round of the Committee on Trade and Environment, the Committee's work thus far has proved disappointing. The issues are contentious and the Committee's agenda remains somewhat ill-defined. Yet we must find a way to move forward. Sustainable development is not only beneficial to the , it is its very predicate.

As with the environment, the issue of trade and labor must be addressed or the WTO risks sending the unintended message that there is no link between trade and the welfare of workers. Obviously, this is absurd.

Core labor standards are not a matter of Western values but of internationally recognized human rights. Indeed, many if not most WTO members have agreed to these standards within the ILO.

While the importance of adherence to core labor standards stands on its own substantively, addressing the issue in the trade policy context is also critical to maintaining support for open trade regimes. If the trading system is not seen as contributing to the solution of problems such as exploitative child labor, slave labor or subhuman working conditions, it becomes all too easy to assume that the trading system is part of the problem.

Yet, as the OECD has noted, more open economies grow faster, and faster growth and rising incomes promote more sustainable development, facilitate adjustment and the efficient redeployment of a society's productive resources, starting first and foremost with its human capital --its workers. Market liberalization (and the rise in incomes it allows) forms part of the solution to low labor standards, since above all else, low labor standards are so often rooted in poverty.

As we know from experience in many countries, market liberalization alone, is not enough. The challenge for the GATT System is to build a consensus that open trade should promote not only economic wealth but fundamental worker rights.

Public Confidence and Global Growth

As critical as the issues I have just outlined may be, the lack of public understanding and acceptance of the role of trade in economic life threatens to undermine the GATT System. The next step for the GATT is not only a pro-competitive, forward-leaning trade agenda, but also gaining the support for trade of consumers and workers across the globe.

We are perhaps victims of our own success. Large increases in world trade have fueled a tremendous global expansion of wealth -- the United States is in the 7th year of economic expansion, in large part because of trade. But we have also witnessed here and around the world a growing gap between the "haves" and "have nots."

We can pretend that the rules of international trade are the dominion of elites and businesses, or we can recognize that the pace of change in today's economy -- largely fueled by technology -- is increasingly a source of apprehension and anxiety even among the workers and consumers who are reaping the benefits of global trade. If the global trading system does not factor in this social dimension, the credibility of an open markets policy will be seriously jeopardized.

In the United States there is a growing recognition that an effective economic safety net must exist to respond to economic change that moves faster by the day. Worker training, educational opportunities, health care, adjustment assistance and many other programs must be responsive to the needs of individuals and communities. This is one part of the answer.

To comprehensive domestic education and trade adjustment policies, we must add a sustained effort to improve public understanding about the role of trade in the global economy. As the OECD noted in a report late last year, the combination of government policy and education is critical if supporters of greater market openness are to withstand the backlash from those who are most exposed to the risks of change, and from those who choose to make political hay out of protectionist arguments:

And third, greater transparency of the itself is necessary. Any alleged secretiveness breeds distrust and misapprehension. The work of the WTO, including its dispute settlement bodies, must become more open and accessible to our domestic publics if we are to build confidence in the international trading system.

An effective safety net, public education, and transparency are necessary components to addressing anxieties in this new age. But, our challenge goes beyond that, and I believe the First Lady framed the task best at the recent World Economic Forum in Davos when she asked: "How do (governments) create the instruments that are needed ... today to provide the kind of support for the economy at the same time that they provide the ... capacity for their people to be able to thrive in this new economic environment?" We must find the right balance between government, business, and civil society that permits real competition to flourish, but which answers the social demands of our citizens.

Thank you.

speeches

Remarks by Ambassador Charlene Barshefsky
United States Trade Representative
Designation of Irbid Qualifying Industrial Zone
March 6, 1998

Muasher
El-i-sar

Ambassador Ben-Elissar, Ambassador Muasher, Ambassador Ross, Assistant Secretary Indyk, Ladies and Gentlemen, it gives me great pleasure to be here today to designate the first qualifying industrial zone in the Middle East, the exports of which will receive duty-free treatment in the U.S.

All of us gathered here today recognize that, in the long run, the road to a secure and lasting peace in the Middle East will require greater economic cooperation. When the people and the leaders realize that cooperation and partnership with their neighbors will lead to their own prosperity, the momentum for peace will build.

Today's action is an important step in that process. Designation of Irbid as the first qualifying industrial zone will enable Israeli and Jordanian businesses to come together in Irbid and export duty-free to the U.S. market. Working together, they will produce the real fruits of the peace process.

Some of those benefits are already evident. Eight Jordanian-Israeli joint ventures producing items such as gold jewelry and apparel under brand names such as Banana Republic, Victoria's Secret, Polo/Ralph Lauren, J. Crew and J.C. Penney already employ about ~~100~~ people in Irbid. Duty-free access to the U.S. market will lead to the immediate opening of six new ventures, which will employ about 1700 people, including a Motorola cellular telephone plant and a Standard Textiles hospital supplies factory.

The Jordanian and Israeli business people in the Irbid project can attest to the fact that economic cooperation leads not only to greater prosperity for both Jordanians and Israelis, but also to greater understanding. The day-to-day contact required in all businesses inevitably leads to the realization that the people who have been described as your enemies are very much like yourselves.

We hope that designation of the Irbid zone will also be a first step toward greater economic integration in the region. Such integration will enhance productivity and allow the region to be more competitive in global markets. This is common in other regions, but only just beginning in the Middle East. Trade among the countries in the Middle East accounts for only 7 or 8 percent of the region's total trade, compared to 60 percent in the EU, 30 percent in Asia, and 20 percent in the Western Hemisphere.

Over the course of the past year, we have worked closely with Jordanian Minister of Industry and Trade Mulki and Israeli Minister of Industry and Trade Sharansky on the development and designation of the Irbid zone.

Minister Sharansky wrote me this week and noted that the effect of designation of the Irbid zone "goes far beyond its dollar value" and that "it will create a microcosm of economic cooperation in the Middle East." He observed that, as economic cooperation grows, "the fruits of peace will be evident to anybody with eyes to see and ears to hear."

We are living through difficult times in the peace process. However, we are fortunate to have visionaries like Omar Salah of Jordan and Dov Lautman of Israel, the businessmen who organized the Irbid park. They have not lost sight of the goal of peace and are working every day to make it a reality.

I am grateful to be able to contribute to their efforts by exercising the authority that has been given to me to designate the Irbid duty-free area as the first "Qualifying Industrial Zone."

I will conclude by pledging our ~~continued support~~ economic cooperation for greater economic cooperation not only between Israel and Jordan, but also between Israel and Egypt and among all the countries in the region.

Ministers Mulki and Sharansky have already informed me of their intention to propose additional Qualifying Industrial Zones. We will welcome these proposals and will work closely with them to ensure that the new zones receive prompt designation.

Irbid is good beginning, but ~~we hope it is just a beginning and that we will see more qualifying industrial zones~~, more economic cooperation, more jobs, and more prosperity on the Middle East. This will be good for Jordan, good for Israel, and good for the United States.

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goal

Now, before I sign the Federal Register Notice formally designating the Irbid duty-free area as the first Qualifying Industrial Zone, I would welcome remarks from Ambassador Ben-Elissar, Ambassador Muasher and Ambassador Ross.

DRAFTED BY: Dan Clune

CLEARED BY: Jeff Lang, Cathy Novelli, Jay Ziegler,
William Busis, Matt Rohde

Q's and A's
Irbid Qualifying Industrial Zone
February 19, 1998

Q. What are the requirements for duty-free entry?

A. The statute and Presidential Proclamation require articles to be grown or manufactured in the zone and specify that the value added in the zone, Israel, the West Bank and Gaza must not be less than 35 percent of the total value of the product.

In addition, Israel and Jordan have signed an agreement that requires businesses in the zone to involve substantial economic cooperation between the two countries.

Q. Do only certain products qualify for duty-free treatment?

A. Any product that meets the requirements of the legislation and presidential proclamation will receive duty free treatment.

Q. When will the designation become effective?

A. Upon publication of a notice in the *Federal Register*, which we expect will occur next week.

Q. Where's Irbid?

A. Irbid is a city in northwestern Jordan with a population of about 300,000.

Q. What is the size of U.S. trade with Israel in Jordan?

A. In 1997, we exported \$6.0 billion of goods to Israel and imported \$7.3 billion. We exported \$402 million to Jordan and imported \$25 million.

Q. What is the size of trade between the two countries?

A. In 1996, trade between Israel and Jordan totaled \$14.1 million.

Q. How big is this industrial park?

A. The park contains about 50 factories, most of which produce goods for the domestic market or for export to the developing world. Eight Israeli-Jordanian joint ventures employing about 1100 people already process goods exported from Israel duty-free under the U.S.-Israel Free Trade Agreement. We expect that designation as a qualifying industrial zone will lead to the opening of six new ventures, including a Motorola electronic component plant, which will employ another 1700 people.

Q. Is the U.S. getting anything in return for giving these products duty-free treatment?

A. Duty free treatment for products of Irbid and other qualifying industrial zones is intended to encourage greater economic cooperation among countries in the region. More economic cooperation means more jobs and more prosperity in the Middle East. In the long run, this is the best way to build the foundation for a lasting peace. It's good for Jordan, it's good for Israel, and it's good for the United States.

Q. Irbid is in Jordan. What's the Israeli connection?

A. First of all, the zone we are designating today includes not only the Irbid industrial park, but also an Israeli Customs Station located at the Sheikh Hussein bridge between Israel and Jordan, which will monitor the flow of inputs from Israel to Irbid.

More importantly, we chose Irbid as the first qualifying Industrial Zone because Israeli and Jordanian joint ventures were already up and operating there. The Agreement signed between Israel and Jordan will ensure that any new venture will also involve substantial economic cooperation between the two countries.

Q. How does the agreement do that?

A. By establishing a Joint Committee that will approve businesses located within the zone whose products will be eligible for duty-free treatment. The Committee may determine that a business involves substantial economic cooperation if the Jordanian and Israeli manufacturer each contribute either one-third of the 35 percent content required by our legislation or 20 percent of the total production costs.

Q. Is the U.S. a member of this Committee?

A. A representative of the United States will have the right to participate in meetings of the Committee as an observer.

Q. What are the rules of origin?

- A. An article be either wholly the growth product, or manufacture of the zone or a new or different article of commerce that has been grown, produced or manufactured in the zone. In making this determination for textile and apparel products, U.S. Customs will use the rules of origin set out in Section 334 of the Uruguay Round Agreement Act.

DRAFTED BY: Dan Clune

CLEARED BY: Cathy Novelli, William Busis, Matt Rohde, Chris Wilkas

Talking Points for the New England Council
Indian Treaty Room
March 10, 1998

Speeches

Good afternoon. Thank you, Cheri (Cheri Carter, Special Asst. to the President for Business Liaison) for that introduction.

Before I begin, I would also like to acknowledge James Brett (President of the New England Council) for his work on behalf of the public and private institutions that the New England Council represents.

Let me also recognize the strong leadership role that the New England Council has demonstrated over the years on issues such as the GATT, NAFTA, Fast Track, and currently IMF funding. Thank you again for your support and we at USTR look forward to working with the New England Council in the future.

PRINCIPLES OF TRADE POLICY

a few basic

Let me start with ~~the~~ principles behind our trade policy:

- Our businesses, workers, artists and farmers should be able to sell their goods, services, inventions and artistic works freely and fairly around the world.
- Consumers should continue to enjoy the advantages of new products, high quality and low prices open competition can bring.
- ^{OS} Producers should not be unfairly damaged by foreign cartels, dumping and subsidies. That is, uneconomic over-capacity abroad cannot be allowed to chase rational, economics driven investment at home.
- And every American should be able to participate in the global economy -- and given the skills to compete effectively.

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SEE COMMENTS - plus* ↓

Talking Points for the New England Business Council
Indian Treaty Room
March 10, 1998

Good afternoon. Thank you, ___ for that introduction.

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PRINCIPLES OF TRADE POLICY

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- And every American should be able to participate in the global economy -- and given the skills to compete effectively.

TRADE CRITICAL TO OUR FUTURE

- This is essential to our future. Americans are 4% of world population. If we can't sell to the other 96% others will.
- Exports are already critical to American jobs and prosperity. In Connecticut, one out of every four manufacturing jobs relies on exports. Since 1992, exports have made up more than a third of U.S. economic growth. U.S. exports now support just over 10% of all the jobs we have, and 17% of all new jobs. *1.5 mfg jobs*
- But foreign countries still have higher tariffs, more restrictive quotas and more tolerance for subsidies and cartels than we do. And these problems are at their worst in areas where the US is most competitive -- agriculture, high tech, services, medicine, entertainment, air travel and more.

more

AND SO FAR

we have concluded 245 separate trade agreements, intended to even this out. And we are working.

- Last year, New England alone exported \$40.7 billion in goods. That is as much as the total GDP of a lot of countries, and up from only \$29.4 billion in 1993.
- That has helped employment grow in Massachusetts from 2.8 million to 3.2 million jobs, and to raise average manufacturing wages from \$11.90 an hour in 1992 to \$13.24 today/
- [NEW ENGLAND SUCCESS STORY]
- Our 34 separate agreements with Japan more than doubled exports to Japan from Vermont, New Hampshire and Rhode Island.
- NAFTA has made Canada the largest export market for every New England state. Mexico is now our second largest export market for goods. Two-way trade with these countries is up 63% since NAFTA was signed, compared to 44% everywhere else.
- The Uruguay Round cut tariffs and improved market access in goods, agriculture, and services. It also created better dispute settlement. We have brought 35 enforcement actions to the WTO, and have prevailed on 17 of the 18 decided so far.

Last year, we added to this accomplishment by extending basic, fair rules into three broad new areas:

- The Information Technology Agreement, especially important for New England's high-tech firms.
- The Agreement on Basic Telecommunications Services will create more than a million U.S. jobs in the next ten years.
- The Financial Services Accord last December.

THE IMMEDIATE CHALLENGE: THE ASIAN CRISIS

In the immediate future, we have a responsibility to prevent a financial crisis from spreading in Asia and perhaps elsewhere.

- The IMF programs in Asia have ended the currency crashes and helped markets recover in Thailand and Korea. Full implementation will do the same in Indonesia.

*IMTA
openly*

- The **Agreement on Basic Telecommunications Services** will create more than a million U.S. jobs in the next ten years.
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In the immediate future, we have a responsibility to prevent a financial crisis from spreading in Asia and perhaps elsewhere.

- The IMF programs in Asia have ended the currency crashes and helped markets recover in Thailand and Korea. Full implementation will do the same in Indonesia.
- They will also make structural reforms to solve the problems at the root of this crisis, and which will also promote transparency and open markets.
- The next essential step is to approve new funding for the IMF. I am happy to see the House Banking Committee strongly endorse the President's

request for IMF funding, and hope to see the full Congress move ahead as soon as possible.

And work with Congress to extend the General System of Preferences, the Caribbean Basin Initiative and win fast-track authority as the President requested in his State of the Union address last January.

- Fast track authority ensures that the President is in a strong position to conclude tough trade deals in America's interest. It is a partnership between the President and Congress that gives America credibility in international negotiations.

THE WORK AHEAD

Now let us look ahead to the specific next steps:

- "Built-in agenda" for the WTO, including agriculture, intellectual property, services and government procurement.

- Bring China, Russia, and 29 other nations into the WTO under proper commercial terms.
- New sectoral agreements: an expanded Information Technology Agreement, a duty-free Agreement on Pharmaceuticals; mutual recognition agreements in professional services and an agreement on global electronic commerce.
- Asia Pacific Economic Cooperation forum to eliminate tariffs on \$1.5 trillion in global trade -- medical equipment, environmental services and technology, energy equipment and services, natural resources and telecommunications.
- Open talks next month in Chile to create the 34-nation Free Trade Agreement of the Americas (FTAA). Senator Chris Dodd (D-CT) in particular deserves credit for bringing us to this point.
- Partnership for Economic Growth and Opportunity for Africa.
- Transatlantic Agenda to improve trade ties with the EU.

FIT critical
up or
down

- Make trade and environmental policies mutually supportive.
- Build a consensus that open trade should promote not only economic wealth but fundamental worker rights.

MEETING CONCERNS ABOUT TRADE

Finally, we must also address concerns about trade at home.

- Workers and firms do face more foreign competition than they did ten or twenty years ago. Combined with technological change (note: technology has accounted for 80% of the job loss while trade has accounted for 20%), that has caused concerns we need to meet, especially for people from poor or rural areas. We don't want to be a country where kids from Brookline and Newton grow up with no worries while kids from northern Maine and New Hampshire, or inner city Boston and New Haven, grow up with no hope.
- And we can prevent that through education and training.

To ensure that American workers are better prepared for today's global economy, this Administration has developed a broad safety net which includes:

- The President's balanced budget for 1999 providing for significant investments in education and health.
- We have increased the minimum wage and provided for a new \$500 per-child tax credit for working families.
- The President has also made reform of existing trade adjustment assistance programs a priority. One such reform is to provide adjustment assistance to all workers displaced from firms that have shifted production to another country. Such assistance is already available within NAFTA for companies that shut down and move to Mexico and Canada.
- We will work with Congress to increase funding for worker training.
- Help schools across the country hire ⁵⁰⁰ 100 new teachers; link every school to the Internet; and give all young Americans the skills they need to be successful.

- We will continue to pursue policies that support a healthy economy; an economy that grows and provide for new jobs.

CONCLUSION

Altogether we will open more opportunities for Americans, and make sure nobody is left behind. Software engineers in Massachusetts and New Hampshire. Specialty farmers in Vermont and lobster boats off Maine. Men and women working at MassPort and Fall River. And the young men and women coming out of high school and college in every New England town in just a couple months. It is an extraordinary opportunity, and together we can make the best of it.



ECAT Presentation
(for delivery)

3/24/98

Handwritten notes: "Bereuter", "Burnham", "Cohen", "Jerome", "Legislation", "Bereuter", "Burnham", "Cohen", "Jerome", "Legislation".

Handwritten note: "Speech 2" with a downward arrow pointing to the text below.

Good morning. Thank you, Ernie (*Ernest Micek, CEO of Cargill Inc. and Chairman of ECAT*) for that introduction and thank you for allowing me the opportunity to address ECAT's annual meeting. I would also like to acknowledge Duane Burnham (*Chairman and CEO of Abbott Laboratories*) and Cal Cohen (*President of ECAT*). Thank you for your ongoing commitment to advancing America's trade agenda. **[If Bereuter is there when you begin speaking, thank him for his leadership on trade issues.]**

I am very pleased to be here with the Emergency Committee for American Trade today. For close to twenty-five years now, ECAT has been an important voice as our government has made trade policy. I have always been grateful for your advice in the past; and it has been good advice.

Together we have worked to create and pursue an agenda that serves our country's needs in a new era. We have worked to create an environment where world consumers have more choice. An environment where human, financial, and natural resources are used more efficiently and productively with gains to all rather than a select few. And, as we move ahead, we can lock in economic reforms -- the openness to the world -- the freedom, democracy, and self-determination -- we see emerging after the Cold War.

The Importance of Trade to U.S. Economic Prosperity

Let me begin today by putting trade in the context of the U.S. economy. We are in the 7th year of economic expansion in the United States. The unemployment rate is at the lowest level in nearly a quarter-century. We have created over 15 million new jobs since 1992. More Americans are working now than at any time since the Government began recording labor statistics nearly 50 years ago. Industrial production is 28 percent higher than in 1992; this compares with gains of only 7 percent in Japan and 5 percent in Germany. And strong investment has expanded industrial capacity by 3.5 percent a year, the fastest rate since the 1970's.

The good news continues on inflation, and consumer confidence is the highest in 30 years, more than twice the level of 1992. The combination of the unemployment and inflation rates in the U.S. is just over 6 percent, the lowest so-called "misery index" for the U.S. since the 1960's.

And last month brought perhaps the best news. The President submitted a balanced budget for 1999. For the current fiscal year, estimates show that we will be roughly in balance. For the first time since 1969 the federal government is on its way to spending no more than it takes in, an achievement that was not expected until the year 2002. This is a far cry from the annual \$300-billion deficits of just a few years ago. We also see the very real prospect of budget surpluses in the near future.

The role of international trade has played in our economic expansion cannot be overstated. Since 1992, exports have accounted for more than one third of U.S. economic growth. By comparison, in 1970 exports of goods and commercial services

accounted for only 5 percent of our Gross Domestic Product; by last year the share had more than doubled to 11.5 percent. Exports account for 1 in 6 new jobs, and 1 in 5 manufacturing jobs. U.S. exports now support just over 12 million jobs. And as ECAT's own recent study, "Global Investments, American Returns," finds exporters and internationally active companies pay higher wages. In fact, goods export-oriented jobs pay 13 to 16 percent higher than the national average.

The 1997 trade figures were released late last month and they confirm that America's export-led growth remains robust. Exports grew a strong 10 percent last year and reached a record \$932 billion. Last year's export growth rate surpassed the growth rate in 1996 by more than 42 percent. Growth in exports since President Clinton took office is up 51%.

The trade deficit, which remained essentially flat last year, continues to decline as a percent of our Gross Domestic Product. Because our economy grew at nearly 4 percent last year, the trade deficit accounted for just 1.4 percent of GDP, less than half the level of ten years ago. [ASIA]

The importance of trade is underscored by our shrinking share of the world's population. Americans now comprise only 4% of the world's population, and the world's population is growing more rapidly than our own. The power of an emerging global middle class made up of consumers with the ability to shift their consumption patterns have become a critical factor driving markets. In India and China, for example, there will be just over 300 million new members of the middle class by 2005. These new middle class consumers around the world represent a booming potential market for our goods, services, and agriculture.

Whether we capture this export potential will determine whether the U.S. economy remains on top of the world in the next century. Our success depends on a vision that sees the future of the United States in the 96 percent of global consumers that live outside our borders. Vision that demands an active trade agenda to open new markets and reduce barriers. Vision that insists that other countries live up to their obligations just as we live up to ours. Vision that recognizes that our ability to compete in a changing global environment, including a meaningful safety net here, will be critical to our children's future. This is the vision that underlies the Clinton Administration's efforts to expand and preserve open access to overseas markets.

Trade Policy Successes Create Market Opportunities

The ability of our firms and workers to compete successfully in the global marketplace is the direct result of the efficiency and competitiveness of the U.S. economy and the liberalizing, market-opening trade policies pursued by this and previous Administrations. Under the President's leadership and the bipartisan support of Congress, we have negotiated 250 trade agreements in the last 5 years, including 34 market access agreements with Japan alone, all designed to advance our domestic economic and trade interests.

5 huge ones

In the last year alone we have completed three major global trade agreements in areas where the United States is the most globally competitive and which provide the infrastructure for the 21st century economy.

- ▶ The **Information Technology Agreement** covers \$500 billion in global trade, more than \$100 billion in U.S. exports, and eliminates tariff barriers to over 90% of world trade in information technology products such as semiconductors, computers, telecommunications equipment and the like. The ITA will provide our companies a \$5 billion annual tax cut because foreign tariffs are higher than ours.

- ▶ The **Agreement on Basic Telecommunications Services** will create more than a million U.S. jobs in the next ten years, and a world-wide industry worth \$675 billion today will double or triple within the next decade. The agreement covers 95% of the world telecom market and will allow U.S. telecommunications companies to compete fully against local phone monopolies.

- ▶ The **Financial Services Accord** will ensure that our companies can compete in foreign markets and maintain the U.S. lead in international banking, insurance, and brokerage services. The agreement on financial services covers \$18 trillion in securities assets; \$38 trillion in bank lending; and \$2 trillion in insurance premiums -- altogether, twice the value of the GDP of the entire world.

Financial Services, together with the ITA and the Telecom Agreement, completes the trifecta of global market opening agreements we have reached in the past year. These are the infrastructure of the 21st Century economy -- information, communications, and finance. Yet although these agreements are still warm, we must move ahead. We are moving forward with negotiations for an ITA II for expanded

product and country coverage, and we must address global electronic commerce --
electronic transmissions and especially the Internet.

*In all, I think IPR remains
essential.*

As the President noted in his speech to the Technology '98 Conference, the Internet is the fastest growing social and economic community in history, with 1.5 million new web pages created every day; 65,000 every hour. This phenomenon and the ability of people throughout the world to access it has remarkable possibilities to empower people all over the world. The rapid changes in technology and electronic commerce are something that trading system must recognize and address, and it must do so quickly.

The changes are indeed staggering. It is projected that by 2002, electronic commerce between businesses in the United States alone will exceed \$300 billion. And today, Internet use is already divided rather evenly between the United States and the rest of the world, with global growth in usage at an accelerating rate.

When we look at the global trading system, we see 50 years of effort to undo what governments have done--working to undo government-imposed tariffs and non-tariff barriers to trade. But the world of electronic transmissions is, in trade terms, pristine. Today, no member of the WTO considers electronic transmissions as importations for customs duty purposes. There are no customs duties on cross-border telephone calls, fax messages or computer data links, and this duty-free treatment should include electronic transmissions on the Internet. An agreement to this effect would be an important next step in preparing for the 21st Century economy, and supporting this wholly new form of commerce.

Agreements like those reached last year and hundreds of others negotiated by the Clinton Administration are yielding results for U.S. workers and companies.

→ an example

NAFTA: Exports to our **NAFTA** partners continue to rise; up 13% to Canada and an impressive 26% to Mexico last year. Two-way trade with our NAFTA partners has grown 57 percent since NAFTA was signed, compared with 33 percent for the rest of the world. The importance of NAFTA really hits home when we realize that Canada remains our single largest trading partner, and that last year Mexico displaced Japan as our second largest export market, even though the Mexican economy is one-twelfth the size of Japan's. The U.S. trade surplus with the rest of Latin America has tripled.

Trade Figures

The **Uruguay Round** resulted in hard-won gains in reducing tariffs, improving market access in goods, agriculture, and, for the first time, services. The Uruguay Round also established a tighter, more enforceable dispute settlement mechanism.

of course, UR +

Bilaterally market access agreements ~~is~~ have contributed significantly to enhanced opportunities for U.S. workers and firms. For your sake -- and mine -- I will not recount all of the bilateral agreements here. Some of the more notable agreements, however, include: the Intellectual Property Rights agreements with China, which have improved, but not yet solved problems of IPR protections in China; the agreements with Japan last year regarding distilled spirits and port practices, and the mutual recognition agreements with the European Union that will facilitate testing and inspection procedures and thereby reduce the burdens of exporting to the EU.

Whether ag, ind'l goods, IPR, services

Of course, while the negotiation of agreements for market access is a central feature of Administration trade policy, enforcement of U.S. rights is equally critical. Since 1993, the United States has brought over 75 enforcement actions under our domestic trade laws and international agreements. The United States has brought more enforcement actions in the WTO--35 cases to date--than any other country. Of these, the United States has prevailed on 17 of the 18 complaints we have filed. We have brought good cases to the WTO and under U.S. trade laws, we have scored significant victories for the full spectrum of U.S. industries from agriculture to IPR and manufactured goods.

Significant Hurdles Remain for U.S. Exports

- multilateral
- regional
- sectoral
- bilateral
all means

Despite our successes, more work is clearly necessary. Our task today is more complex than simply reducing tariffs, although there is surely more to do in this area. Our trade policy agenda has a broad focus. It seeks to strengthen global free trade rules under the WTO system, ensure that countries comply with the agreements that they have signed, and expand trade opportunities for U.S. exporters through bilateral or regional agreements, or through broad sectoral agreements. Let me give you just a few examples:

When the Uruguay Round was completed in 1995, we knew that there was unfinished business. That's why we insisted on a so-called "built-in agenda" of work for the WTO. More open markets for agriculture, services, intellectual property rights, and government procurement are all part of the built-in agenda. Multilateral trade negotiations in agriculture, for example, are set to begin in

as we look a head-up on the current initiatives & foundation for future initiatives

a few examples as we look ahead - don't get into the bilateral coming out of active agenda

dom. neg.

1999. In addition, new areas of focus for the GATT system must include developing a global response to competition policy, and bribery and corruption ^{others} to ensure that markets operate as efficiently as possible.

+ 50 years, San Jose (structural) systemic-cultural-behavior

▶ We are working to expand the global trading system to bring China, Russia, and 29 other nations wishing to join the *WTO* under terms that open their markets for U.S. workers and companies. We are taking a leadership role in all these negotiations, making sure that all these accessions are concluded on commercially meaningful terms.

Just finished Taiwan

regional: 3 now / 2 foundation laying

7 APEC
Asia - biggest challenge
+ biggest opportunity (insert)

We have launched a trade agenda in the *Asia Pacific Economic Cooperation* forum to eliminate tariffs and expand trade across \$1.5 trillion in global trade, including medical equipment, environmental services and technology, energy equipment and services, natural resource products and telecommunications. As with the ITA, we will use the WTO to multilateralize and lock in the benefits of these sectoral agreements.

▶ Our exports to Latin America continue to grow more than twice as fast as our exports to the rest of the world. The Free Trade Agreement of the Americas (FTAA) provides the means for establishing hemisphere-wide rules that substantially expand opportunities and promote non-discrimination among all 34 FTAA countries. As a result of the San Jose Ministerial from which I just returned, real negotiations will be launched by the Leaders in Santiago on April 18-19. We have established a structure with leadership determined through the end of negotiations in 2005; nine negotiating groups with chairs set for the first 18 months; and a Committee on Electronic Commerce,

comprised of both government and private sector experts, to make recommendations on how to increase and broaden the benefits to be derived from the electronic marketplace. Additionally, we achieved consensus on two key principles for the United States for the negotiations: (1) The FTAA negotiations should improve upon the WTO rules and disciplines wherever possible and appropriate; and (2) the FTAA can co-exist with bilateral and sub-regional agreements to the extent that the rights and obligations under those agreements are not covered by or go beyond those of the FTAA. In other words, the FTAA aims to provide a single set of rules throughout the hemisphere.

US-EU initiative (*)

President Clinton is in Africa today building on his Partnership for Economic Growth and Opportunity initiative. The Initiative is a comprehensive program aimed at promoting sustained, stable economic growth in Africa by focusing on those countries that are successfully implementing economic reform programs. The President is working to open African markets to foreign trade and investment, and create new opportunities for growing African nations. We will also pursue efforts to assist in Africa's integration in the global community of trading nations. The House has already passed the Economic Growth and Opportunity Act, which provides enhanced access to the U.S. market for those African nations which adopt open economies and reform to grow and prosper. We are sending a resounding message that our nation is committed to pursuing a new economic partnership with an emerging Africa.

Foundation
laying
Africa
Middle East

- ▶ The U.S.-EU alliance will be further strengthened as we look to expand areas of cooperation and achieve further market opening under the Transatlantic Agenda initiated in 1995.

- 26
3
- ▶ In the *Middle East*, in addition to bringing countries in the region more fully into the multilateral trading system, we are attempting to increase the level of economic integration in the Middle East. This will enhance productivity, allow individual countries to be more competitive in global markets, and foster the type of economic cooperation that is central to the peace process. We took an important step in that direction earlier this month when I designated the first "qualifying industrial zone," an industrial park in the city of Irbid, Jordan, where Israeli and Jordanian companies working together will enjoy duty-free access to the United States.

- ▶ ~~U.S. trade policy has been geared to encourage *China* to establish the rule of law, open its economy to imports and investment, and reform its trading regime pursuant to the rules and obligations of the World Trade Organization. We have pursued a complementary policy that combines bilateral, regional (APEC) and multilateral trade initiatives. Embedded in our bilateral agreements -- in particular a hallmark of the intellectual property rights agreements -- are broader international norms to which China has committed: transparency of laws and procedures, access to administrative and judicial decision making, and curbs on the arbitrary exercise of administrative discretion. Each of our ongoing negotiations -- in the context of the WTO and bilaterally, on services, market access and IPR -- is also grounded in~~

international norms and practices and in the necessity of adherence to a rules-based regime.

- ▶ We recently reached a comprehensive market opening agreement with *Taiwan* which will dramatically open Taiwan's markets to U.S. agricultural products, services, and industrial goods. U.S. farmers will see new markets for pork, chicken, and other meat products that have never been open to any foreign imports. U.S. exporters of industrial products will achieve levels of market access comparable to those available in other developed economies. And, Taiwan will provide broad access for the full range of services, including financial and telecommunications services. Once all members of the WTO have completed their bilateral market access negotiations with Taiwan, multilateral negotiations will ensue to work out the full range of rules-related commitments Taiwan must make to formally enter the WTO.

> bilateral China → Korea.

+

Our goals in *Japan* remain the same -- to open Japan's market and spur domestic demand in Japan. In 1997, we reached several important new bilateral trade agreements, resolving issues such as Japan's ports practices and discriminatory liquor tax. We will continue to monitor closely these and the many other bilateral agreements with Japan. A critically important goal this year is to see implementation of the Enhanced Initiative on Deregulation and Competition Policy announced last year. This deregulation agenda with Japan affects critical areas of the Japanese economy -- financial services, telecommunications, housing, medical equipment and pharmaceuticals -- where we are aiming for decisive action on the part of the Japanese

esp
now -
see
insert.

government in the first half of this year. As I will mention, we also look to Japan to play a central role in resolving the Asian financial crisis.

- ▶ We will continue building on our initiatives regarding *core labor standards* and *trade and environmental* policies in all fora to make sure that worker exploitation and environmental indifference abroad do not damage America as well.

Best apply

We cannot lose sight of perhaps the most immediate trade challenge facing U.S. exporters -- the unfolding of economic events in Asia. The causes of the Asian financial crisis are complex, but across the region a common web emerges -- inadequate supervision of financial institutions, speculative real estate and equity booms, excessively close ties between governments, banks and corporations. These relationships and, in some countries, a deep-seated resistance to competition and free trade and investment, resulted in a misallocation of capital.

We know that in the short term U.S. exports will be lower compared with what they would have been without the Asian problems. (The trade numbers for January provide the first evidence of the effects of the crisis; the goods trade deficit with Korea, our largest trade partner among the countries most involved in the Asian financial crisis, deteriorated by roughly \$1 billion between January 1997 and January 1998 with the reduction in U.S. exports accounting for 90% of that increase.) But the international effort to restore economic and financial stability to the region is the single most important trade policy objective we can have. It offers an unparalleled opportunity to push with renewed vigor for much-needed and long-delayed

fundamental economic reforms -- reforms that can lead to improved economic performance and economies more open to imports.

The stabilization programs in Asia spear-headed by the International Monetary Fund are heavily focused on structural reforms. Such reforms include measures to strengthen the financial sector, rationalize business-government linkages, improve transparency and open markets to foreign investment and reduce trade barriers. If effectively implemented, these programs will complement and reinforce our trade policy goals. For these reasons, it is imperative that the IMF funding requests now before the Congress be approved as soon as possible.

We also look to Japan, the world's second largest economy, to play a central role in resolving the crisis in Asia. We see the need for action in three areas. First, we see the need for fiscal stimulus to support Japan's economy and to make it a potential source of confidence for the region. Second, it is crucial for Japan to act clearly and decisively to strengthen its financial system with an infusion of public money. Finally, it is equally important for Japan to deregulate financial and other sectors to open up the Japanese economy. The U.S. cannot be the only engine of global growth or the sole buyer of goods to absorb the tremendous productive capacity of the Asian region.

Also - Deal most immediately on the horizon.

We cannot and must not turn our backs on events in Asia. The United States has enormously important economic and national security interests at stake in promoting restoration of financial stability in Asia. When we act to resolve the Asian crisis as part of an international effort, we act to protect and benefit the

American people. Put another way, the countries in trouble are some of our biggest customers. In 1997, Asia accounted for 28% of total U.S. exports.

The Clinton Administration has spent the past five years focusing considerable attention on the Asian markets: the substantial barriers to market access for U.S. and foreign goods and services, the lack of pro-competitive mechanisms, and the need for comprehensive deregulation and greater transparency. Systemic reform of the Asian economies through the implementation of the IMF structural measures will intensify the benefits of an already aggressive trade policy.

The United States Must Stay Involved in World Trade

key = 1
I sometimes hear people blame trade agreements as the cause of trade problems. This argument is simply wrong because it fails to recognize that the United States already has the most open market in the world. The objective of trade agreements is to open new markets and create new opportunities for our products.

~~The problem is not trade agreements. The problem is high tariffs and long-standing trade barriers in foreign markets. The problem is phony science. The problem is preferential treatment that other countries enjoy. The solution is to be very, very aggressive in using all of the tools at our disposal to crack open what is clearly a world of opportunity. We owe it to U.S. workers and farmers to resolve today's disputes without losing sight of the benefits of further reform of the international trading system.~~

We simply do not have the option of closing our borders and ignoring the rest of the world. There is nothing that our competitors would like more than for this country to retreat and engage in an endless debate on trade. The nation tried this with Smoot-Hawley once, and the result was to exacerbate the consequences of the Great Depression.

The danger of inaction is the danger of lost opportunity. We risk losing out increasingly to others not because they are more efficient producers, but because they are party to trade agreements that put the United States at a commercial disadvantage.

As the President said in his State of the Union Address, "We must shape this global economy, not shrink from it". At the same time, we must prepare our workers and our workers' children for this global economy.

That is why this Administration has developed a broad safety net to make American workers better prepared:

- ▶ The President's balanced budget for 1999 provides for significant investments in education and health. His budget provides funds to help schools link their students to the Internet, hire new teachers, and reduce class sizes -- all critically important so that our children can enjoy the benefits of the global economy.
- ▶ We have increased the minimum wage and provided for a new \$500 per-child tax credit for working families.

- ▶ The President has made reform of existing trade adjustment assistance programs a priority. One such reform is to provide adjustment assistance to all workers displaced from firms that have shifted production to another country. Such assistance is already available within NAFTA for companies that shut down and move to Mexico and Canada.
- ▶ We will also work with Congress to increase funding for worker training.
- ▶ We will continue to pursue policies that support a healthy economy; an economy that grows and provides for new jobs.

last point

Public View of Trade

Let me say in conclusion, we must devote considerable resources to explaining to the public the benefits of increased trade. Preparing American workers is only half the battle; American workers must see a personal opportunity in the prosperity that increased trade holds out for our country. This is a real challenge, not because increased trade does not, in fact, create increased opportunity, but because Americans do not see the opportunity as tangibly as they see the threat. Americans see imports, but do not see exports. All U.S. exports -- computers, airplanes, wheat, software, chemicals, soy beans -- end up abroad.

Ans the concern that trade is the enemy of jobs = high living standard!

Supporters of trade must work harder than ever before as the focus on trade has intensified. With trade representing almost one third of our GDP, imports exceeding a trillion dollars last year for the first time ever; and exports likely to exceed a trillion

dollars this year, it is no wonder that more people are engaged and consumed by the debate. You must help shape that debate.

In this regard, I applaud your announcement last week of plans to launch a national, grassroots trade education campaign to explain to workers and communities the benefits of free trade. Having American workers talk to other American workers and to their communities about the tangible benefits of trade is critical. As I said at the outset, ECAT has since its formation been an important voice in American trade policy -- I welcome its continued role.

Thank you.

INTRO

As we move forward, we must fashion an international trading system that can **accommodate the tremendous technological change** that is sweeping the global economy.

We are looking to foster a trading system that is **transparent and genuinely pro-competitive**.

A trading system where **bribery and corruption** no longer sap economic vigor from economies.

A trading system that develops effective instruments to address the **social dimension of trade**, including respect for workers and the environment.

A trading system that recognizes **the challenge of domestic regulation**.

A trading system that can **accommodate proliferating regional trade agreements** as well as transitional economic systems without sacrificing free-market principles.

And perhaps most importantly, a trading system that answers the concerns that trade is the enemy of jobs and high living standards.

CHALLENGES FOR THE 21ST CENTURY

Trade Policy for the Information Age

The three agreements recognize that we are in an era characterized by intense technological change. A time when product **life cycles are measured in months and information and money move around the globe in seconds**. A time where we can no longer afford to take 7 years to finish a trade Round, or decades pass between the time a trade barrier is identified and it is acted on.

Yet although these agreements are still warm, we must move ahead, and this means addressing **global electronic commerce** -- electronic transmissions and especially the Internet.

The rapid changes in technology and electronic commerce are something that trading system must recognize and address, and it must do so quickly.

Building Transparent, Open and Competitive Markets

All countries have regulatory systems in place to protect such critical interests as the health, safety, and security of their citizens. These are essential functions of government. The GATT system must be **sufficiently flexible to identify further areas of needed regulation** that require a global response, while ensuring that regulatory systems already in place in fact result in the transparent, pro-competitive markets they are intended to foster.

As we look to potentially new areas of needed regulation, certain basic principles should apply. The role of the WTO is not to demand a system of uniform regulation nor to detract in any respect from the absolute right of governments to establish a particular set of regulatory norms, provided they are neither discriminatory, arbitrary, nor disguised barriers to trade. Rather, the role of the WTO is **to ensure that national regulatory practices are fully transparent and not politically directed.**

Competition policy.

Economic globalization has dramatically increased the importance of strong competition policies due to the increased risk of international cartels and the tremendous growth in transnational mergers. We must **develop an international culture of competition** and sound antitrust enforcement, built on the basis of shared experience, bilateral cooperation and technical assistance. From that base we should focus on those particular practices and industries where the most egregious anticompetitive practices have been concentrated. If we can do that, we will have a solid foundation from which to build a more comprehensive regulatory framework for competition policy.

Bribery and corruption.

Global action is also needed to address the pernicious problem of bribery and corruption. Governments have begun to recognize what many throughout the world have known for decades: bribery subverts and can destroy political processes, it **stifles efficient markets and it acts as an invisible tariff on most imports and contracts.** The price paid by both the developed and the developing world for the continuation of bribery and corruption is simply not sustainable.

In addition, the WTO has established and begun enforcing basic rules that diminish the opportunities for bribery and corruption to take place in, for example, **government procurement and customs valuation.** Work is already underway to ensure greater transparency in government procurement procedures, an area where bribery is most vexing.

The **real challenge** is to ensure that **regulatory systems do not create false process**, i.e., the appearance of transparency undermined by de facto decisionmaking based on factors divorced from the regulatory framework. The WTO must demand enforceable regulatory transparency at all levels of decision-making, if trade concessions are to yield tangible benefits.

The WTO Must Insist on Real Market Access

Another challenge for the WTO is to integrate fully all nations into the global trading system.

We need to ask how, over decades, some countries have been **members of the GATT System, while maintaining home markets essentially hostile to competition.**

How can the WTO system deal with **structural barriers**, the nature of which will invariably

reduce or negate the value of trade concessions made?

Other countries, long **members** of the GATT system have also **failed to open up to global competition although the mechanism** has differed. India /African: we must again ask how the failed to engender more fundamental economic reforms.

Last, our attention must also be focused on **bringing new countries into** the GATT System.

The Broader Dimensions of Trade

An equally important challenge for the GATT System will be to recognize and address the fundamental **relationship between trade and the environment and trade and worker rights.**

Public Confidence and Global Growth

As critical as the issues I have just outlined may be to gain the **support for trade of consumers and workers across the globe.**

If the global trading system does not factor in this social dimension, the credibility of an open markets policy will be seriously jeopardized.

In the United States there is a growing recognition that an **effective economic safety net** must exist to respond to economic change that moves faster by the day. Worker training, educational opportunities, health care, adjustment assistance and many other programs must be responsive to the needs of individuals and communities.

**Testimony of
Ambassador Charlene Barshefsky
United States Trade Representative
before the
House Appropriations Committee
Subcommittee on Commerce, Justice, State,
The Judiciary and Related Agencies
March 31, 1998**

Mr. Chairman:

I welcome this opportunity to appear before the Subcommittee to present the Fiscal Year 1999 budget request for the Office of the United States Trade Representative.

This Subcommittee has consistently supported USTR's mission to open markets, to expand trade, and enforce trade laws and trade agreements. I thank the Committee for its support for providing USTR with additional career positions and funds in FY 1998 which will help ensure we meet the tasks before us. We look forward to your continued support in the years ahead.

This afternoon, I will present USTR's program priorities for the next eighteen months, describe our budget request for FY 1999 and respond to questions the Subcommittee may have.

Program Priorities

Let me begin today by putting trade in the context of the US economy. We are in the 7th year of economic expansion in the United States. The unemployment rate is at the lowest level in nearly a quarter-century. More Americans are now working than at any time since the Government began recording labor statistics nearly 50 years ago. Industrial production is 28% higher than in 1992; this compares with gains of only 7% in Japan and 5% in Germany. And strong investment has expanded industrial capacity by 3.5% a year, the fastest rate since the 1970s.

The good news continues on inflation, and consumer confidence is the highest in 30 years. The combination of the unemployment and inflation rates in the US is just over 6%, the lowest so-called "misery index" for the US since the 1960s.

And last month brought perhaps the best news. The President submitted a balanced budget for 1999. For the current fiscal year, estimates show that we will be roughly in balance. This is a far cry from the annual \$300-billion deficits of just a few years ago. We also see the very real prospect of budget surpluses in the near future.

The role international trade has played in our economic expansion can hardly be overstated. Since 1992, exports have accounted for more than one third of US economic growth. Second, in 1970 exports of goods and commercial services accounted for only 5 percent of our Gross Domestic Product; by last year the share had more than doubled to 13 percent. Exports account

for 1 in 6 new jobs, and 1 in 5 manufacturing jobs. US exports now support just over 12 million jobs. And jobs supported by US goods exports pay wages that are on average 13% to 16% higher than the average for all US workers.

The 1997 trade figures were released last month and they confirm that America's export-led growth remains robust. Exports grew a strong 10 percent last year and reached a record \$932 billion. Last year's export growth rate surpassed the growth rate in 1996 by more than 42 percent.

The trade deficit, which remained essentially flat last year, continued to decline as a percent of our Gross Domestic Product. Because our economy grew at nearly 4 percent last year, the trade deficit accounted for just 1.4 percent of GDP, less than half the level of ten years ago.

The importance of trade is underscored by our shrinking share of the world's population. Americans now comprise only 4% of the world's population, and the world's population is growing more rapidly than our own. The power of an emerging global middle class made up of consumers with the ability to shift their consumption patterns have become a critical factor driving markets. In India and China, for example, there will be just over 300 million new members of the middle class by 2005. These new middle class consumers around the world represent a booming potential market for our goods, services, and agriculture.

Whether we capture this export potential will help determine whether the U.S. economy remains on top of the world in the next century. Our success depends on a vision that sees the future of the United States in the 96 percent of global consumers that live outside our borders. Vision that demands an active trade agenda to open new markets and reduce barriers. Vision that insists that other countries live up to their obligations just as we live up to ours. Vision that recognizes that our ability to compete in a changing global environment, including a meaningful safety net here, will be critical to our children's future. This is the vision that underlies the Clinton Administration's efforts to expand and preserve open access to overseas markets.

Trade Policy Successes Create Market Opportunities

The ability of our firms and workers to compete successfully in the global marketplace depends on the efficiency and competitiveness of the U.S. economy and the liberalizing, market-opening trade policies pursued by this and previous Administrations.

In the last year alone we have completed three major global trade agreements in areas where the United States is the most globally competitive and which provide the infrastructure for the 21st century economy.

- ▶ The **Information Technology Agreement (ITA)** covers \$500 billion in global trade, more than \$100 billion in U.S. exports, and eliminates tariff barriers to over 93% of world trade in information technology products such as semiconductors, computers,

integrated circuits, telecommunications equipment and the like. The ITA will provide our companies a \$5 billion annual tax cut because foreign tariffs are higher than ours.

- ▶ The **Agreement on Basic Telecommunications Services** is expected to create more than a million U.S. jobs in the next ten years, and a world-wide industry worth \$675 billion today will double or triple within the next decade. The agreement covers 95% of the world telecom market and will allow U.S. telecommunications companies to compete fully against local phone monopolies.
- ▶ The **Financial Services Accord** will ensure that our companies can compete in foreign markets and maintain the U.S. lead in international banking, insurance, and brokerage services. The agreement on financial services covers \$18 trillion in securities assets; \$38 trillion in bank lending; and \$2 trillion in insurance premiums -- altogether, twice the value of the GDP of the entire world.

Financial Services, together with the ITA and the Telecom Agreement, completes the trifecta of global market opening agreements we have reached in the past year. These are the infrastructure of the 21st Century economy -- information, communications, and finance. Yet although these agreements are still warm, we must move ahead. We are moving forward with negotiations for an ITA II for expanded product and country coverage, and we must address global electronic commerce -- electronic transmissions and especially the Internet, the newest mode of global commerce.

Greater Workload

This successful record, coupled with the tasks we must take on in the next decade, speaks to a greatly expanded workload.

We are party to more agreements. Five years ago, we had a small handful of cases in the GATT. Since then, we have been involved in nearly sixty cases, plus other dispute settlement cases in NAFTA.

We have new trade partners to work with. Russia, China, Taiwan and others are joining the world trading system, and we are working with their governments to bring them into the WTO on commercial terms.

We have new issues to address, as government procurement, bribery, corruption and transparency and scientific issues like biotechnology have greater effects on trade. And new technologies have created not only new products but new fields of trade like electronic commerce.

Our \$24.8 million request will help us reach our goals on these and the other issues on our trade agenda. The request is aligned with the GPRA Annual Performance Plan for FY 1999, which I submitted to the Congress last month. The Performance Plan establishes concrete performance

goals that we expect to achieve next year. The goals are part of USTR's five-year Strategic Plan that I sent to Congress last September.

Asian Financial Crisis

Let me turn now to the specifics of our trade policy agenda. And our most immediate challenge is the financial crisis in Asia. Its causes are complex, but across the region a common web emerges -- inadequate supervision of financial institutions, speculative real estate and equity booms, excessively close ties between governments, banks and corporations. These relationships and in some countries, a deep-seated resistance to competition and free trade and investment, resulted in a misallocation of capital.

Recession in the affected countries, combined with lower currency values, will hurt American exporters. And the longer the crisis continues, the worse the harm will be. We cannot sell to our major customers in the region if they cannot buy. And so the international effort to restore economic and financial stability to the region is the single most important trade policy objective we have now. It also offers an unparalleled opportunity to push for much needed and long-delayed fundamental economic reforms--reforms of a structural or systemic nature that can lead to greater transparency and pro-competitive economies.

Monitoring the implementation of these countries trade policy reforms, through the IMF, the Administration, US industry, and the WTO, is central; these countries can tolerate backsliding even less than we can.

Legislative Priorities

Restoration of IMF funding must be the first priority on the Congressional trade agenda, and the Asian financial crisis underscores fundamental US interests in the global economy. This crisis also illustrates why fast track remains a priority for the Administration. It is plainly to our advantage to have every tool at our disposal in trade negotiations, and we are plainly disadvantaged when market opening efforts are stymied for lack of the appropriate tools. We are continuing to consult with the Congress on fast track, and will work with you to make decisions as to timing and scope of fast track legislation.

We are also working in Congress to gain approval of the International Shipbuilding Agreement. This would dramatically strengthen U.S. competitiveness across an industry which has been flooded with subsidies by our competitors.

Renewal of the GSP program, which provides market access to the United States for developing countries, is another critical issue on the trade agenda.

The Administration also continues to support expanded trade benefits to the Caribbean Basin countries that meet eligibility criteria.

President Clinton is in *Africa* today building on his Partnership for Economic Growth and Opportunity initiative. The Initiative is a comprehensive program aimed at promoting sustained, stable economic growth in Africa by focusing on those countries that are successfully implementing economic reform programs. The President is working to open African markets to foreign trade and investment, and create new opportunities for growing African nations. We will also pursue efforts to assist in Africa's integration in the global community of trading nations. The House has already passed the Economic Growth and Opportunity Act, which provides enhanced access to the U.S. market for those African nations which reform to grow and prosper. We are sending a resounding message that our nation is committed to pursuing a new economic partnership with an emerging Africa.

Monitoring and Enforcement

Now let me describe our negotiating agenda -- which begins with making sure the agreements we reach will stick.

All negotiations and agreements require follow up and enforcement. Since January 1993 we have concluded 250 trade agreements. Since 1993, the United States has succeeded in over 75 enforcement actions under our domestic trade laws and international agreements. We have filed more complaints in the WTO--35 cases to date-- than any other country. And we have prevailed on 18 of the 19 American complaints acted upon so far. We have brought good cases to the WTO and under U.S. trade laws, we have scored significant victories for U.S. industries from agriculture to intellectual property rights and manufactured goods.

During FY 1999 we expect to work toward completing WTO and NAFTA dispute settlement proceedings in many of the 41 active disputes in which the United States is either a complainant, defendant or a third party complainant. We also anticipate increased need next year to monitor implementation of settlement agreements reached with other countries as part of the WTO dispute settlement process, defending complaints brought against the United States and, of course, initiating new cases necessary to protect U.S. interests.

We will also continue to challenge aggressively market access barriers abroad using all available domestic laws (i.e., Section 301, Super 301, "Special 301" under Section 182 of the Trade Act and Section 1377) to open foreign markets and ensure fair treatment for our goods and services, to ensure nondiscrimination in foreign government procurement and to ensure compliance with telecommunications agreements.

World Trade Organization

The conclusion of the Uruguay Round did not mean the end of negotiations. Rather, it began a substantial WTO work program supplemented by decisions taken at the first WTO Ministerial in December 1996. A second WTO Ministerial scheduled for May of this year will set the stage for launching in 1999 various negotiations provided for in the "built-in agenda" and make operational other decisions taken in the WTO. This program of work includes new negotiations

to expand the liberalization of trade in agriculture and in services; negotiations to improve and extend WTO rules concerning government procurement; and negotiation of TRIPS Agreement provisions related to biotechnology, geographical indications and non-violation dispute settlement.

FY 1999 will see the launch of WTO agriculture negotiations. Following the Uruguay Round, countries agreed to continue the process of reform in agriculture. These negotiations will center around improving market access, reducing subsidies, and challenging market-distorting activities of state trading enterprises.

Let me say a particular word about agriculture. Nowhere is the link between today's economic expansion and trade more visible than in agriculture. No sector of the US economy exports more than agriculture, where our country ran a surplus of \$21 billion last year, and will do better still as we remove trade barriers. Exports are critical to the future of America's farmers and ranchers, and to our entire economy. We thus now have a Special Trade Negotiator at USTR for agriculture at the Ambassadorial level, and Secretary Dan Glickman and I have significantly improved coordination between USDA and USTR to ensure the best results.

We also will continue our work to bring countries who remain outside the WTO into it, under fair commercial conditions. Thirty-one countries are actively seeking accession to the WTO, with China and Russia's accession by far the most complex. These will set the ground rules for trade with nearly a quarter of the world's population for years to come. Thus we place great emphasis on the negotiations, both bilaterally and through WTO working parties, of the terms of accession.

Regional and Bilateral Negotiations

We will also build on regional and bilateral market access agreements seeking greater openness worldwide to our goods and services. Removing barriers to trade and opening markets will increase the opportunity to export and create jobs for Americans. Our bilateral negotiations with countries around the world continue at an extremely active pace, and 1999 will be no exception. In recent years, we have also placed heavy emphasis on regional trade relationships and regional agreements as a means of expediting more open access for US exports. Thus we have held regional trade ministerial meetings with FTAA and APEC economies. The Asian and Latin American economies have been the two fastest growing in the world, and will continue to be critical in expanding markets for American-made products and services. Other regional arrangements also emerge.

Free Trade Area of the Americas(FTAA)

Our exports to Latin America continue to grow more than twice as fast as our exports to the rest of the world. The *Free Trade Agreement of the Americas* provides the means for establishing hemisphere-wide rules that substantially expand opportunities and promote non-discrimination among all 34 FTAA countries.

Earlier this month I met with my counterparts in San Jose, Costa Rica to set the stage for the

Leaders meeting next month in Santiago, Chile. That meeting will launch formal FTAA negotiations. We have established a structure with leadership determined through the end of negotiations in 2004, with nine initial negotiating groups. We have further established a Committee on Electronic Commerce comprised of both government and private sector experts, to make recommendations on how to increase and broaden the benefits to be derived from the electronic marketplace, and a Committee on Civil Society, comprised of government representatives, which will encourage those representing business, labor, environment, academic and other interests to present their views so that the Committee can develop appropriate recommendations for the Ministers.

USTR will continue to manage the FTAA process and lead the negotiations of the FTAA, concluding interim agreements by the year 2000, in order to meet the Miami Summit directive to achieve concrete progress by the end of the century. Completing FTA negotiations with Chile also remains an Administration priority.

Asia Pacific Economic Cooperation (APEC)

We have launched a trade agenda in the Asia Pacific Economic Cooperation forum to eliminate tariffs and expand trade across \$1.5 trillion in global trade, including medical equipment, environmental services and technology, energy equipment and services, forest products and telecommunications. As with the ITA, following APEC negotiations we will use the WTO to multilateralize these sectoral agreements. Negotiations on the initial group of sectors should be completed this year.

Western Europe

The U.S.-EU alliance will be further strengthened as we look to expand areas of cooperation and achieve further market opening under the Transatlantic Agenda initiated in 1995. We will work with our counterparts from the European Union and the Transatlantic Business Dialogue to develop and implement the "building blocks" of a freer and more comprehensive bilateral economic framework. Agricultural issues will be a critical part of this. I would like to note recent interim progress in the EU on biotechnology, with member states voting to approve introduction of three American GMO varieties of corn.

Africa

During FY 1999, we will continue efforts to implement the President's "Partnership for Economic Growth and Opportunity in Africa" initiative and to support passage of the African Growth and Opportunity Act, HR 1432. USTR is responsible for implementing key elements of the President's Partnership, such as the initiatives for: GSP implementation, increased focus on African adherence to all of the WTO rules and obligations, including tariffs, intellectual property rights protections and services; more bilateral investment agreements with African countries; and increased government to government dialogue on trade and investment matters.

Middle East

In addition to bringing countries in the Middle East more fully into the multilateral trading system, we are attempting to increase the level of economic integration in the region. This will enhance productivity, allow individual countries to be more competitive in

global markets, and foster the type of economic cooperation that is central to the peace process. We took an important step in that direction earlier this month when I designated the first "qualifying industrial zone," an industrial park in the city of Irbid, Jordan, where Israeli and Jordanian companies working together and exporting from the zone will enjoy duty-free access to the United States. We look forward to building on this initiative with Israel and other countries in the region.

Japan

The trade agenda reflects the continuing importance and complexity of the U.S.- Japan trade relationship. Japan's policies are central to ensuring not only effective market access for U.S. goods and services, but also of the Asia region, particularly in light of the Asian financial crisis. Our goals for the Government of Japan remain the same -- for Japan to open its market, to achieve deregulation of its economy and to spur domestic demand. In 1997, we reached several important new bilateral agreements with Japan, resolving such issues as telecommunications procurement, discriminatory taxation, intellectual property rights violations, and civil aviation. We also initiated our new market-opening initiative on film. We will continue to monitor closely these and the many other bilateral agreements with Japan. A critically important additional goal this year is to see implementation of the Enhanced Initiative on Deregulation and Competition Policy announced last year. This deregulation agenda with Japan affects critical areas of the Japanese economy -- financial services, telecommunications, housing, medical equipment and pharmaceuticals -- where we are aiming for decisive action on the part of the Japanese government in the first half of this year. It is critical for Japan to deregulate to open up the Japanese economy.

We also look to Japan, the world's second largest economy, to play a central role in resolving the crisis in Asia. We see the need for action in three areas. First, as already noted, it is critical for Japan to deregulate and increase foreign market access. Second, we see the need for fiscal stimulus to support Japan's economy and make it a potential source of confidence for the region. Third, it is crucial for Japan to act clearly and decisively to strengthen its financial system. The US cannot be the only engine of global growth or the sole buyer of goods to absorb the tremendous productive capacity of the Asian region.

China

U.S.- China trade relations involve multilateral, regional and bilateral initiatives as well as enforcement of existing arrangements.

Our multilateral trade relations focus on China's accession to the WTO as a way to address the broad range of trade issues affecting America. Negotiations moved ahead last year at the Presidential summit in Washington, when President Jiang committed that China will join the Information Technology Agreement (ITA) as soon as possible. In Vancouver at the APEC Trade Ministers meeting and as confirmed by her President, Minister Wu made a number of proposals that form the basis for more serious negotiations on market access for goods. Talks have not, however, made significant progress in recent months. Negotiators will meet next week in Geneva, at which time we will be better able to assess the likely pace of talks on WTO accession.

Bilaterally, we are concerned about China's failure to resolve longstanding sanitary and phytosanitary issues affecting citrus, Pacific Northwest wheat, pork and poultry. We also have concerns in various services sectors. Likewise, China has periodically taken measures that adversely affect U.S. interests; we succeeded in rolling back a tariff increase on soybean oil, but remain concerned about potential regulations affecting US pharmaceuticals and direct selling, as well as the potentially discriminatory application of measures affecting distilled spirits. We are devoting substantial resources to each of these issues, as well as to textiles trade enforcement.

Nowhere is the necessity for a strong bilateral approach more evident than in intellectual property rights. Our efforts over the past four years have won results: China has closed 62 CD and CD-ROM production lines and destroyed their masters and molds; arrested more than 250 people for IPR piracy and imposed sentences up to 17 years; and seized more than 6 million CDs illegally smuggled into China. More efforts are necessary, especially in software "end-user" piracy by public and private entities. We have, however, used a forceful approach that has helped to establish the infrastructure in China that should lead to continued improvements in protection. Hong Kong and Macau are now the focus of our attention not only as production sources of copyrighted materials but also distribution centers for pirated products.

Labor Standards and Trade and Environmental Policy

We will continue building on our initiatives regarding the relationship between trade liberalization and core labor standards and environmental protection, as well as our effort to make the global trading system more open and accountable to the public.

The Clinton Administration is seeking agreement on a Declaration on Core Labor Standards at the June Labor Conference of the International Labor Organization. This Declaration should be accompanied by a follow-up mechanism. At the WTO, the U.S. has successfully advocated that the ILO and WTO Secretariats work together and conduct research on core labor standards issues. Bilaterally, we continue to use our tariff preference programs to improve internationally recognized worker rights in beneficiary countries in accordance with the authorizing statutes.

We continue our efforts to ensure that economic growth and higher standards of living go hand in hand with global environmental protection. In the WTO Committee on Trade and the Environment, we recently led an effort to identify areas where trade liberalization can make a direct and positive contribution to environmental progress; examples include agriculture, fisheries, and environmental goods and services. We also contribute USTR expertise to the negotiation of international environmental agreements affecting trade, such as the Biosafety Protocol on trade in living genetically modified organisms, to ensure that US trade and environmental policy objectives are mutually supportive.

USTR also pursues improved openness and transparency of trade institutions, to increase the opportunities for meaningful public participation. In the WTO, we are seeking less restriction of documents and to allow non-governmental representatives to observe dispute settlement panel proceedings and file comments with panels. In the FTAA, we recently won agreements to include labor, environmental and other interests in a new mechanism for civil society input to ensure a participatory role and provide for transparency.

Outreach

The growth of trade also requires us to work more closely than ever before with State and local governments. Thus, we are increasing our legal staff by about one-third, not only to handle cases under the WTO and NAFTA, but to make sure we can forcefully defend US interests challenged in WTO dispute settlement proceedings. An example is the WTO consultations initiated by the EU and Japan regarding Massachusetts' selective purchasing law.

We will also increase our coordination and consultations with state and local governments on WTO proceedings and proposed and on-going trade negotiations. I have personally met this year with the U.S. Conference of Mayors and the National Association of Counties, and our staff has briefed and consulted with the National Governors Association, the Western Governors Association, and the National Association of State Development Agencies. We are also creating a section of our Internet site solely devoted to state and local issues, and developing a State Single Point of Contact System in all 50 states to ensure that state governments are promptly informed of Administration initiatives. Altogether, these efforts will keep state and local governments better informed, and enable them to participate more fully in the process.

FY 1999 Budget Level

For FY 1999, the budget request proposes approximately 180 FTEs and \$24,836,000 in new budget authority. This represents an increase of \$1.1 million and 2 FTEs. We would use the \$1.1 million increase for 3 purposes:

- \$448,000 to meet inflation and the scheduled Federal employee pay raise;
- \$504,000 to complete an upgrade of USTR's information technology (IT). Our IT upgrade is spread over a 3-year period, with the first step taken in FY 1997 when the Congress provided \$560,000 to rewire the Winder Building with fiber optic cable. In FY 1998, we plan to ask the Committee for authority to reprogram approximately \$500,000 to purchase about one-half of the IT hardware. The \$504,000 proposed for FY1999 would complete the upgrade and help ensure that our information technology network is Year 2000 Compliant.
- \$140,000 for 2 new career negotiators in FY 1999 - one trade specialist each in our Japan and China offices.

Consistent with Congressional direction in the FY1998 appropriation, USTR is reducing the number of political appointees to no more than 25 by May 1, 1998. As part of a broader and ongoing management improvement effort to better target its resources on mission-focused objectives, USTR had started this reduction prior to enactment of the FY1998 appropriation. The agency has gradually reduced the number of political appointees from 38 in March, 1996, to

30 in September, 1997, to 26 in February 1998. We are committed to achieve the target of not more than 25 appointees by May 1, 1998.

Altogether, USTR's budget policy for FY 1999 is to sustain the record of accomplishments that the agency has achieved in the last five years, while containing overhead costs, streamlining operations and improving management effectiveness, in furtherance of the President's goal of a more responsive Federal Government.

USTR People

One last point. USTR is a small agency. But I believe we have some of the hardest-working, most dedicated people in government. Our staff is talented, works long hours, and delivers results for real people. Our career employees live up to the high expectations placed upon them. And that makes me very proud to present this budget to the Subcommittee today.

The work ahead is challenging. But I can assure you and the Members of the Subcommittee that we are ready to accept these challenges, and that we have top-quality people who are up to the task. With approval of our appropriation request and the continued support of the Subcommittee, I am confident that we can continue successfully to carry out our mission and meet the challenges before us.

This concludes my formal statement. I would be pleased to answer any questions you may have.

Ambassador Charlene Barshefsky
California Agricultural Education Foundation

April 2, 1998

Good morning. Thank you for that kind introduction. I very much appreciate Congressman Dooley and Congressman Radanovich bringing us together this morning. It's great to see you, and I can tell you that you have two fine people fighting for you in Congress. And let me give Congressman Dooley special congratulations on Stanford University's run to the Final Four.

PRINCIPLES OF TRADE POLICY

This morning I'll review the major points of our trade agenda. And although it can be a little involved, the basic principles are simple. So let me start there.

-- We believe our farmers, ranchers, businesses and workers should be able to sell their goods, services, inventions and artistic works freely and fairly -- as you should be able to sell fruit, cotton, vegetables and wheat to buyers around the world.

-- Consumers should have the advantage of the variety, high quality and low prices open trade and competition can bring. I note in yesterday's Fresno Bee that

Prepared for Delivery

**Remarks of Ambassador Charlene Barshefsky
"Asia Rising?"
U.S. Naval Academy**

April 14, 1998

Good morning. I offer my very sincere thanks to Cynthia Frederick for that kind introduction; to Admiral Larson and the U.S. Naval Academy for inviting me to speak with you today; and to all of you here today at the "Asia Rising?" conference.

US Interests in Asia

Let me begin by saying that trade policy in Asia is inextricably involved with security, and in particular with the U.S. Navy. As Alfred Thayer Mahan, who gave his name to this hall, wrote:

"the sea power of the country in peaceful commerce is the matter upon which alone, it cannot be too often insisted, a thoroughly strong navy can be based."

Those of us concerned with trade policy might put it the other way -- that the development of commerce and prosperity depend on a strong defense. And the truth is that they both depend upon one another.

That has been true for 165 years, ever since Ambassador Edmund Roberts sailed in the *USS Peacock* to negotiate our first trade agreement in Asia: the Treaty of Amity and Commerce with Thailand. Since then our trade with Asia has grown from a few wooden ships making uncertain voyages across the Pacific, to tens of thousands of containers, airplanes and electronic business deals landing at every port on our Pacific Coast and computer terminals all over the country; but the U.S. Navy remains the guarantor of peace, stability and open sea lanes in the Pacific.

That shows something important. Times may change. Politics, technology and trade may become more complex. But America's basic interests are consistent and simple. Peace and stability. Prosperity and better lives for our people. And Asia is crucial to both.

On peace and security, remember that in the past century, our country fought seven foreign wars. Five of them -- the Spanish-American War, whose centennial we will mark next week; the "Philippine Insurrection" which followed it; the Second World War; Korea; and Vietnam -- took place in part or in whole in countries affected by this year's financial crisis. And their size, proximity to sea lanes, and friendly governments make their fate as critically important to our country today as it was throughout the century.

With respect to jobs and prosperity at home, the Asian market includes half the world's people and some of its fastest-growing economies. Last year, we exported \$194 billion worth of goods - more than a quarter of all our exports -- to East Asia. Exports of services totalled over \$73 billion in 1996, the last year for which we have figures available. These exports, although limited by pervasive trade barriers in many Asian economies, supported over three and a half million U.S. jobs.

And the future -- if, as the question mark in our conference title indicates -- Asia continues to rise, could be better still. As the President said in his address to the first Asia Pacific Economic Cooperation leaders summit in Seattle, in November of 1993:

"Imagine an Asia-Pacific region in which robust and open economic competition is a source of jobs and opportunity without becoming a source of hostility and instability, a source of resentment or unfairness. Imagine a region in which the diversity of our economies remains a source of dynamism and enrichment, just as the diversity of our own people in America makes our nation more vibrant and resilient. Imagine this region in which newly emerging economic freedoms are matched by greater individual freedoms, political freedoms and human rights."

That is the opportunity before us: a Pacific Community. Stretching from

China's Western Desert to the Atlantic shores here in Annapolis, and from New Zealand and Australia across the equator to the Arctic Ocean, this community would join the world's three largest economies; half the world's people; some of its fastest-growing traders; and some of its most advanced scientific and technological powers. It would be an enormous source of wealth and creativity for the entire world, and an unmatched guarantor of peace. And today I would like to speak about how our trade policy will help make this vision reality.

Asian Financial Crisis

We must begin with our approach to the immediate challenge to stability and prosperity in the Pacific: the Asian financial crisis.

For the past two decades, Asia was the world's fastest-growing economic region. But after last July, when Asian currency values began to fall, Asian economies began to slip into recession. Unemployment has grown rapidly. Indonesia, for example, expects that 20 million of its 90 million workers will be unemployed this year. And it is not impossible that prolonged recession and high unemployment could lead to social and political instability.

In our own country, an Asian recession combined with lower currency values, will hurt American exporters. We cannot sell to the region if consumers are out of work, companies go bankrupt, and governments out of revenue. Already we note that our goods exports to Korea last January, for example, fell by nearly a billion dollars from the level they reached in January of 1997. At the local level, we see stories about a Dresser Industries plant on Maryland laying off 50 people because of lost exports. Semitool in Montana laying off 85. Boeing calculating on selling 60 fewer planes in 1999 and 2000. Motorola losing cellular phone sales and debating whether to cut jobs or shorten work weeks. And as the year goes on, we expect to more of this -- slipping exports, higher trade deficits, and potentially lower rates of growth and job creation.

And so, in addition to its importance for political stability and a peaceful Pacific, the international effort to restore economic and financial stability to the region is the single most important trade policy objective we have today.

Trade Provisions of IMF Programs

The causes of the Asian financial crisis are complex, and are not identical in every country. But across Asia the basics are often similar. They begin with excessively close ties between governments, banks and corporations; which led to inadequate supervision of financial institutions; and as a result, speculative real estate and equity booms. The process was quite similar, although in Asia on a much larger scale, to that which created our own savings and loan crisis ten years ago. In some countries, a deep-seated resistance to competition and free trade and investment added another dimension which further worsened the situation.

The reform programs and emergency loans proposed by the International Monetary Fund offer these countries a chance to restore short-term confidence. They will address the long-term causes of the crisis through fundamental economic reforms which can lead to greater transparent and competitive economies. And they will help these countries become more open to trade.

Thailand will restructure public enterprises and speed up privatization of energy, transportation, utilities and communications. In Korea, the restructuring of the financial and corporate systems to make them more sound, transparent, and efficient already will address the systemic problem of government-prompted loans to non-economic uses, including those to the *chaebols*. Korea will also speed elimination of trade-related subsidies; accept a binding World Trade Organization commitment on financial services reform; and reform its import licensing and certification, which should ease entry and distribution for agricultural commodities, food, distilled spirits, autos, pharmaceuticals, and cosmetics.

Both of these countries have worked very hard to implement the reforms, and are seeing good results as market confidence and investors return. The financial situation remains precarious and we are not out of the woods. But some economists already predict a shorter, less severe recession in these countries than they had expected just a few months ago. And as Thailand celebrated its New Year festival yesterday, its people had the right to look ahead with hope.

Indonesia has agreed to eliminate special tax, customs and credit privileges granted to the "National Car" project, abolish any budgetary and extra-budgetary support and credit privileges for the "strategic" national aircraft project, reduce tariffs and border non-tariff measures on both imports and exports, including agricultural and food products, deregulate its domestic sugar, wheat, wheat flour, soybeans and garlic markets, and abolish cartels in a number of other industries.

We anticipate that as Indonesia implements these reforms and the other provisions of its new agreement with the IMF, it will also see good results.

We at the U.S. Trade Representative's office, along with the Treasury Department, the Commerce Department, the IMF and the World Trade Organization, will monitor these reforms closely as well as pursuing our bilateral trade agenda.

But stopping the crisis and establishing the conditions under which stable exchange rates can be maintained is the foundation, as is ensuring continued US participation in IMF funding. We are very pleased by the 84-16 vote in the Senate in support of the US contribution to the IMF, and hope to see the House act on it soon without attaching unrelated issues.

Japan

Neither we in America nor the affected countries, however, can solve this crisis alone. Others also have responsibilities, and I would like to cite Japan in particular.

The US cannot be the only engine of global growth or the sole buyer of goods to absorb the tremendous productive capacity of Asia. While we expect our trade deficit to increase as a consequence of the lower currency values in Southeast Asia and Korea, it is neither fair nor politically acceptable for the United States to be the only country buying their exports. So we look to Japan, the world's second largest economy, to play a central role in resolving this crisis.

Japan's policies must ensure not only effective market access for US goods and services, but also for the goods and services of the Asia-Pacific region. We need action in three areas, and Japan's own business leaders agree that it must come soon.

First, Japan must aggressively deregulate its economy and increase market access for foreign goods and services. Second, Japan must enact meaningful fiscal stimulus to support Japan's economy and make Japanese growth a source of confidence rather than gloom for the region. Third, it is crucial for Japan to act clearly and decisively to strengthen its financial system.

Last week, Prime Minister Hashimoto announced steps to stimulate the

Japanese economy, including public works spending and tax cuts. We look forward to seeing the details. What is crucial is that Japan move quickly to put in place a strong and meaningful program.

At the same time, we will continue to enforce our thirty-four bilateral trade agreements with Japan, including our agreements on telecommunications procurement, autos and auto parts, insurance and glass. We will also monitor market access for photographic film and paper. And we will push for meaningful progress under the Enhanced Initiative on Deregulation and Competition Policy we and Japan announced last year.

This initiative addresses deregulation of financial services, telecommunications, housing, medical devices and pharmaceuticals. Decisive action on the part of Japan's government is needed, but we have not seen it yet. Japan's recent announcement of a new three-year deregulation program represents some progress, but is too vague on key issues and often delays implementation for several years. Japan can and must do better. It should fulfill its responsibility as the world's second largest economy, to open its markets for Americans and the world, and help to ensure the economic health of the Pacific.

China

Let me now turn to the largest Pacific nation: China.

China also has an important role to play in the Asian crisis. We welcome the commitment, both by China and the government of the Hong Kong Special Administrative Region, not to devalue their currencies. That is immensely important and has had good effects.

Looking further ahead, we face the enormous challenge of finding common ground and building a permanent, stable working relationship with China after the Cold War. In the long term, this is the most important task in our effort to ensure peace and prosperity in the region, and ultimately to build the President's vision of Pacific Community.

What we hope to see, in the coming decades, is a China fully integrated into the modern world. That helps to ensure peace and security, by working with us on the Korean peninsula, in Cambodia, and in other regional conflicts. That supports

and augments the world's effort to prevent the spread of weapons of mass destruction. That accepts and helps to promote basic concepts of human rights. And that plays its rightful part in building prosperity for its own people and its neighbors.

It is fair to say that, since President Nixon's opening to China in 1972, we have come a long way toward that goal. Once a sponsor of revolutionary armies in Southeast Asia, China now seeks investment from Southeast Asian business magnates and contributes to the IMF rescue packages. Once racked at home by vast and destructive ideological campaigns, China now allows citizens at least the freedom to find their own jobs and careers. And once a great enemy of the free market, China is now negotiating to join the World Trade Organization -- the international symbol of free markets governed by the rule of law.

It is also fair to say that the journey is far from complete. We have serious concerns in a number of security areas. We seek a full commitment to international standards of human rights, and adherence to internationally accepted core labor standards. We hope to see a commitment to environmentally sustainable development. And we -- especially those of us concerned with trade policy -- recognize that China's economic system today keeps much of the Chinese economy closed to the world and to us.

The President's policy aims to help China complete its vast transition. The Defense Department, and the Navy in particular, have opened a long-term program aimed at creating dialogue on military issues and finding confidence-building measures especially in the naval field. We continue vigorous advocacy of human rights. And we have a very ambitious, long-term approach to trade.

From China's point of view, the benefits of trade with the United States are enormous. China's \$60 billion in exports to the United States, combined with direct U.S. investment in China -- have fueled modernization along China's coast, providing countless jobs, new technologies, and opportunities for ordinary Chinese to live better lives.

For the United States, the ability of such industries as telecommunications, aviation, the services trades and professions, our manufacturing industries and agriculture to reach their full potential depends on access to China -- a market

that by 2010 may be the largest in the world.

United States policy in trade with China is to build on these mutual interests and encourage China's continued opening to the world through trade. Our agreements with China on market access and intellectual property rights are founded in specific and critically important American economic interests. But embedded in them are broader international standards. Transparency of laws and procedures. Access to administrative or judicial decision making. Curbs on the arbitrary power of the state. And the negotiations we are carrying out now, whether bilateral or on membership in the World Trade Organization, are also grounded in international norms, practices, rules and law.

The goal is neither simple nor easily reached. The WTO is a comprehensive arrangement covering most areas of modern trade. It includes traditional tariff and non-tariff barriers to trade. It also covers agriculture, intellectual property rights, and other areas including our most recent agreements on information technology, telecommunications and financial services. We expect China to live up to acceptable commercial standards in each of these areas and all the others - just as we do.

And thus it is a slow, deliberate process. But the result will be worth the work. A fully normal trade relationship between two of the world's three largest economies. Direct benefits, in the form of job opportunities and new exports, for Americans; and new economic opportunities for Chinese. Growing personal contacts between ordinary Chinese and ordinary Americans. And as China completes its journey from isolation to full integration with the world, an enormous contribution to peace and stability in the 21st century.

Asia Pacific Economic Cooperation (APEC)

And that brings me back to where I began: the effort, begun by the President in 1993, to build a Pacific Community.

As we work to end the Asian financial crisis; as we push for openness, deregulation and growth in Japan; as we work with China on its WTO accession and all the other items on our agenda; we are working toward that larger goal. Step by step, issue by issue, toward stability, shared prosperity and better lives.

This goal is not easily achieved. But it must remain our vision, and inform our policies.

This year, our agenda -- agreed upon in principle by the APEC Ministers -- is to eliminate tariffs and expand trade across \$1.5 trillion in global trade, including medical equipment, environmental services and technology, energy equipment and services, forest products and telecommunications.

All this may sound arcane if you don't operate a sawmill or make medical equipment for a living. So let me give you an example of what it means in the real world.

Last month we at USTR got a letter from a seventeen-year-old American student on a Rotary Club exchange program in Peru. She wrote:

"the Rotary Clubs here in Arequipa were given a million dollars worth of kidney dialysis equipment. The equipment will be given to the state-run hospital. Customs Officials are demanding an import tax due of \$200,000 to release the equipment. Rotary of course does not have that kind of money available.... The equipment has been here long enough now that Rotary is afraid it may be sent back. They are desperate."

Of course we want to help her by solving this specific case. But by completing the APEC agreement on medical equipment, and then making it universal through the WTO, we may be able to make sure no such case ever happens again. So as the medical equipment agreement creates sales abroad and jobs at home for Americans, it will also mean better-equipped hospitals, healthier children and better lives in places like Arequipa and everywhere else in the world.

Every other agreement has benefits to rival this one. The agreement on environmental services and technology, for example, will mean cheaper waste-water treatment plants and better health for developing Asian countries; along with more American sales in one of the world's fastest-growing market sectors.

And as we look ahead, with these agreements and more in the future, we can imagine a future in which all the Pacific nations are more prosperous. In which the quality of life for ordinary people rises along with the Gross Domestic

Product of nations. In which peace, anchored as always by our commitment to a strong defense and a strong U.S. Navy; but also by strong ties of mutual interest, is more stable than ever before.

Conclusion

That is by no means guaranteed. The Naval Academy's conference title -- "Asia Rising?" -- has a question mark, and for good reason. This year has seen a wave of pessimism and doubt about Asia. And while the pessimism may be exaggerated -- as were earlier claims of a superior "Asian model" of economics -- there is no doubt that this year's financial crisis is serious; it is severe; it is the greatest immediate challenge to our hopes for the future.

But we know what we need to do. As you may know, though, the Chinese character for "crisis" combines the terms for "danger" and "opportunity." And that is the case with the Asian crisis. It poses real dangers to the affected countries and to American interests. But it also offers Asia, and us, an opportunity. With the right reforms, Asian countries will rise from this crisis with economies that are stronger, more open and more stable.

And as we look ahead, with a focused, determined effort led by the United States to continue to open up Japan, to bring China into the trading system on the right terms, and to work with the Asian countries bilaterally and through APEC to our mutual benefit, we can see a future that is better for us all.

A more prosperous region.

A more secure peace.

A growing Pacific Community.

And, as Alfred Thayer Mahan would point out, a stronger America.

Thank you.

REMARKS OF THE HONORABLE
CHARLENE BARSHEFSKY
U.S. TRADE REPRESENTATIVE
BEFORE THE
AMERICAN CHAMBER OF COMMERCE IN BEIJING, CHINA
April 23, 1998

I want to thank you for the opportunity to meet and speak with you today. The American Chamber has played an active and valued role in providing the Administration with information and advice on developments in China and the multitude of trade issues that are an important element of our agenda with China. Thank you for your that advice and assistance. I am here today seeking more of that advice and to let you know more of where we stand today.

The U.S.-China relationship is as complex as it is important. U.S. interests in China run the full gamut from non-proliferation and human rights to trade and most recently the response to Asian financial crisis.

Just to touch on this last issue briefly, let me reiterate what President Clinton has said about the Asian financial crisis. The countries of Asia are our major customers; they are our strategic partners. Their stability bolsters our security and our domestic economic health. The economies of Asia must reform or recovery is impossible. The United States must be in a position to do our part. In addition, Japan must play a more active and meaningful role in helping to bring Asia out of its

current economic crisis.

China has a role in this process as well, and we welcome very much China's commitments to exchange rate stability and economic reform. China has played a very constructive role in the current situation.

China's leaders have initiated a major program of structural reform of the government and rationalization of state-owned enterprises that will affect every segment of China's economy. Reform of China's debt-burdened banking system is a key element of that reform program. These reforms represent an ambitious and formidable task, but one that needs to be accomplished if China is to move into the 21st century in condition to continue its growth and evolution into a modern economy.

The United States encourages those reforms that lead to increased openness and China's integration into the international economic community. It is in both our countries' interest for China to choose a path of reform that establishes the rule of law, opens its economy, and provides economic growth and stability in Asia.

Our most fundamental trade policy toward China is to encourage reform, the rule of law and integration into the global economy. The United States has pursued these goals through a trade policy that combines bilateral, regional (APEC) and multilateral initiatives. Our bilateral trade agreements cover specific segments of U.S. trade, and but have also served to

build the foundation for progress in China's WTO accession negotiations. China's accession to the WTO is critical to creating an effective framework for a continuing and growing trade relationship.

Our bilateral initiatives and the WTO accession process add greater incentives for reforms of China's legal system, enactment of new laws and regulations and enhanced notions of due process and transparency. These reforms will build a better trade relationship, but, more importantly, will affect the system as a whole. Each of our agreements or ongoing negotiations--IPR, market access or the WTO accession negotiations--are grounded in international norms and practices and in the necessity of adherence to a rules-based regime.

If we look at the IPR agreements, we see most obviously a case of clear U.S. economic interest: eliminating theft through piracy of our most creative industries. But the IPR agreements did more than simply establish an advantageous environment for U.S. business. Embedded in the agreements are the seeds of important American ideals: the development and publication of laws; consistent application of those laws; recourse to law enforcement; administrative and judicial proceedings; and transparency in the process of government.

The foundation of our bilateral agreements have laid the basis on which the negotiations on China's accession to the WTO and integration into the international trading system will

advance.

Over the past year, we have achieved progress in the accession negotiations, particularly in the areas of IPR protection, transparency and judicial review. This progress owes its genesis to our bilateral agreements. Other areas where we have made progress related to key rules and principles of the WTO.

--Non-discrimination--China has agreed to eliminate practices that discriminate against goods produced by foreign invested firms such as dual pricing of inputs such as energy and transportation. I understand that China is already taking steps to implement this commitment.

--Uniform application of all laws affecting trade in goods and services, such as licensing requirements

-- Trading rights--China has agreed to progressively liberalize the number of enterprises in China with the right to import and export goods so that at the end of 3 years all Chinese enterprises and all foreign individuals and enterprises will be permitted to import and export and have access to the existing distribution system on the basis of national treatment.

We realize that trading rights are only half of the package. The right for U.S. companies to establish their own distribution systems, and by this I mean all of the activities normally associated with distribution including wholesaling, retailing, transportation, and after sales service and repair, must also be

part of this package. Without distribution rights, low tariffs and removal of non-tariff measures lose much of their value.

Having achieved some progress on China's commitments to implement key WTO rules and principles, our negotiators have turned to the issue of market access for U.S. industrial and agricultural goods and U.S. services and service providers. Progress began on this important topic at the Presidential summit in Washington and later at the APEC Trade Ministers meeting and at the two Presidents' bilateral meeting in Vancouver.

At the Summit, President Jiang announced China's intention to join the Information Technology Agreement (ITA) as soon as possible. The ITA calls for the elimination of tariffs on all information technology products, such as computers, semiconductors, telecommunications and related equipment generally by the year 2000. China tabled its first ITA offer to participants at the Working Party in Geneva this month. We and other ITA participants reviewed the offer and asked for revisions consistent with the rules that all other ITA participants follow. China's participation in the ITA is not linked to WTO accession and we would welcome a revised offer so that China can become a member as soon as possible in line with President Jiang's statement.

In Vancouver, further progress was achieved when President Jiang confirmed then MOFTEC Minister Wu's proposals that form the basis for more serious negotiations on market access for goods

and services. She proposed:

- to significantly reduce tariffs for agricultural and manufactured products, ~~generally by the year 2000~~, and to sharply limit the number and range of tariff peaks;
- to participate fully in some zero-for-zero sectoral arrangements;
- to eliminate all non-tariff measures affecting manufactured products ~~generally by the year 2000~~ and no later than 2005, and to provide substantial import growth during the phase out period, and.
- to intensify negotiations on services, beginning with a new services offer in December.

While we have many issues to resolve on this critical part of the negotiations, we have begun for the first time to discuss the details of market access for services and service providers. This includes key issues such as the form of establishment, i.e., as wholly-owned enterprises, branches or joint ventures, comprehensive coverage of services sectors, and elimination of geographic and numerical restrictions.

The challenge is now to build on the Vancouver initiative and achieve strong market access commitments. Our negotiators have been working hard and have been here in Beijing discussing

these complex issues.

We have made progress on tariffs and non-tariff measures, but more work remains. Key services issues remain to be resolved, including distribution, telecommunications, and financial services, including insurance. In addition, negotiations on agricultural market access, a traditionally contentious area of negotiations with every country, have only just begun.

On rules, we have yet to address critical areas such as technical standards, technology transfer, trade related investment measures and adequate safeguards. The substantial role of China's state-owned enterprises in the economy gives rise to a number of significant issues which must also be addressed.

It will take hard work and political commitment to achieve a commercially meaningful agreement. We are prepared to do the work, if China demonstrates the political will. While the task ahead of us is considerable, the progress made to date is both important and encouraging.

The trade deficit, which has more than doubled over the last four years, further complicates the situation. ~~Buying missions, like the one that preceded the Washington Summit, are welcome but do not address the limitations on market access for U.S. goods, services and investments. WTO accession negotiations provide an opportunity to do this.~~

Conclusion

News Conference by Ambassador Barshefsky
Beijing, China
April 23, 1998

file

I happen to be here on the nicest day of the year. Let me talk briefly about the WTO process and then I want to touch on three bilateral issues. With respect to WTO, we have held broad, in-depth and very substantive meetings with Minister Shi as well as with State Counselor Wu Ye. These meetings were designed to take stock of progress on the WTO accession negotiations as directed by President Clinton and President Jiang Zemin when the two leaders meet in Vancouver last November. At that time, the leaders told then Trade Minister Wu Ye and me that we should -- at the end of March or early April -- sit down and take stock of where we were. Our meetings here have been very constructive and I believe we have put the negotiations back on track.

The discussions covered a very broad range of WTO issues including tariffs - both industrial and agricultural; non-tariff measures such as quotas and licensing requirements; services including professional services such as accounting, legal and architectural services; distribution such as wholesaling and retailing, and ancillary distribution services, for example courier services, transportation, maintenance repair and so on; telecommunication including basic and value added services, banking, securities and insurance. These were among some of the issues discussed. As I said the discussions were quite in-depth. The purpose of these meeting were to determine how best to proceed with negotiations, and from the point of view of the United States, the purpose also was to better gage China's intentions with respect to WTO accession. As many of you may know, we felt that we had received rather mixed signals following the good November Vancouver meetings. Our experts will now be meeting -- as they have been -- to look one-by-one at the individual issues. WTO accession, for any applicant to the WTO, is a very complex, very lengthy process. But I am quite pleased with the overall tone and seriousness displayed by my Chinese colleagues and fully believed that we have reestablished momentum.

The three bilateral issues that I would like to address are first agriculture. Ambassador Scher, my agricultural negotiator, and the U.S. Department of Agriculture will be coming out here in about two weeks to discuss a range of agricultural issues which will bear not only on WTO accession but also on a series of bilateral disputes that have remained unresolved for too long. These include the removal by China of sanitary and phytosanitary restrictions on US exports of citrus, of wheat, of meat, of stone fruit, and of other agricultural products. The meetings Ambassador Scher will have were established long

before my meetings today but WTO also will be among the subjects covered.

The second bilateral issue was Intellectual Property Rights (IPR). Two years ago, China was the unquestioned global leader in the export of pirated products, particularly pirated CDS, CD-ROM and software. The situation has dramatically reversed over these last two years. In 1996, when the Intellectual Property Rights Enforcement Agreement was finalized, China had closed fifteen factories, they have since closed 64, including 54 of which were underground factories that are not licensed in any respect by the state, and 10 which were improperly registered, discovered and then shut down entirely. We are very pleased by this progress. This is very impressive. However, as I discussed with my counterparts we want to ensure that China continues to strengthen its enforcement of Intellectual Property Rights in this regard and user piracy of software is a particular concern as is the substantial increase in trademark counterfeiting. Our next round of bilateral IPR consultations will be held in early June and we will send out our chief negotiators on that.

The third bilateral issue which arose quite suddenly has to do with the recent ban on direct selling in China. This ban effects US companies such as Amway, Avon, Mary Kay and others. The ban has effectively shut down the legitimate operation of these and other US companies in China. These companies have invested over \$120 million dollars in China and provide income to over 2 million Chinese. They are companies that have kept the interest of consumers in the forefront, providing money back guarantees if consumers are dissatisfied along with a cooling off period under which consumers can change their mind with respect to any purchases they may have contemplated. In addition, these companies, because of very substantial distribution networks in China, are completely accountable to the Chinese authorities. These operations, therefore, are quite readily distinguishable from pyramid sales, piracy schemes, and other chain selling operations that have caused concern on the part of the Chinese government and have created something of a consumer fraud problem in China. We've raised these issues over the last several days and State Counsel Wu Ye will be meeting with the US companies involved next week and we will be watching the progress of these meetings. Obviously, the goal here is to reestablish these companies operations as soon as possible. With that, I am happy to take questions.

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