

**Testimony of Ambassador Charlene Barshefsky  
U.S. Trade Representative**

**Renewal of Normal Trade Relations with China  
Senate Committee on Finance**

**July 9, 1998**

Thank you, Mr. Chairman, for calling this hearing and inviting the Administration's comments on normal trade relations with China.

**ENGAGEMENT WITH CHINA**

Normal trade relations are the standard tariff rates, now averaging less than 4%, which we accord virtually all our trade partners. As the Finance Committee has noted, the term now used to describe normal trade relations -- Most Favored Nation status -- is a misnomer, since virtually all our trade partners now enjoy it.

Under the Jackson-Vanik Amendment, however, certain economies including China are ineligible for these rates unless the President grants an annual waiver. On June 3rd, 1998, President Clinton sent to Congress this waiver, extending normal trade relations to China for a year.

This decision reflects the President's broad strategy of engagement with China on the full range of issues our China policy must address. As the world's most populous country, and for the past decade its fastest-growing major economy, China will play a crucial role in the major international issues our country will face in the decades to come. In his address at the National Geographic Society last month, and during his State Visit to China, the President noted that these issues range from maintaining the peace in Korea; a united international approach to the nuclear tests in South Asia; controls on proliferation of nuclear, chemical and biological weapons and ballistic missiles; international crime and drug trafficking; pollution and climate change; human rights and religious freedom; a solution to the Asian financial crisis; and a more open trade relationship between our countries.

The United States' interest in these issues is best served by a secure, stable and open China. And the President believes, as have all Presidents since the 1970s, that we can best guarantee the evolution of a secure, stable and open China through comprehensive engagement. Engagement does not mean endorsement of Chinese policies. It is, instead, the best way to further our interests across this broad range of issues.

**NORMAL TRADE RELATIONS**

Normal trade relations are a fundamental part of engagement. Every President since the initial grant of normal trade relations in 1980 has renewed normal trade relations each year. And

the Clinton Administration is committed to working with Congress to make sure they are extended once again this year.

The renewal of normal trade relations is in our economic interest, since trade with China supports jobs and farm income in America. While significant trade barriers continue to hamper our exports to China, since we opened normal trade relations, our exports of goods to China have grown from an insignificant level to \$12.8 billion. China has become our sixth largest agricultural market. And together, exports to China and Hong Kong now support over 400,000 American jobs.

Normal trade relations, by helping to integrate China into the Pacific trading world, are also in our broader strategic interest. One example is China's response to the Asian financial crisis. Trade with the United States has helped to spur investment in China from Hong Kong, Taiwanese and Southeast Asian companies. This has given China a stake in economic stability throughout the region. Thus, China, for reasons of its own national interest, contributed to the IMF recovery packages for Thailand and Indonesia; and still more important, has resisted pressure to devalue its currency. President Jiang Zemin repeated China's commitment not to devalue during his summit meeting with President Clinton.

And normal trade relations serve American values as well as interests. By enabling us to trade with China, normal trade relations promotes human contacts, exchange of ideas, and the rule of law. Computers, fax machines, television satellites, cell phones, books, music and movies are more than goods and services crossing oceans and borders -- they are the exchange of ideas. They already allow Chinese university students to debate US-China relations and economic reform on university bulletin boards, contributing to grass-roots inquiry and debate. And trade agreements themselves are expressions of broader international values which we seek to promote worldwide: transparency, peaceful settlement of disputes and limits on the arbitrary power of the state.

#### **EFFECTS OF REVOKING NORMAL TRADE RELATIONS: TRADE**

By contrast, failing to renew normal trade relations would severely damage American interests and lessen our ability to promote basic values.

With respect to jobs and growth in America, the effects of ending normal trade relations would be severe. It would, in fact, amount to the severing of our trade relationship and our strategic political relationship. Technically, revoking MFN would raise tariffs on Chinese products from less than 4% today to a trade-weighted average of 44%. This would make American consumers pay approximately \$590 million more each year for goods such as shoes, clothing and small appliances. Manufacturers would see the cost of goods made with Chinese components rise sharply, reducing the competitiveness of our goods in domestic and international markets.

China would likely retaliate against US exports by increasing tariffs and other measures, endangering direct U.S. goods exports valued at \$12.8 billion last year, and services exports valued at \$3 billion in 1996 (the last year for which we have figures). This would threaten the jobs of manufacturing workers, the income of farmers, the employment of young workers in retailing, software engineers and workers in every other walk of life. Their jobs and the export opportunities of their employers would go to Japan, Europe and other competitors.

Ending normal trade relations would also derail our bilateral and multilateral negotiations. China could, for example, reduce or end its efforts to enforce our intellectual property agreements, reversing our successful effort to build an infrastructure of laws and law enforcement in this crucial field. Negotiation on WTO accession would stop, creating uncertainty about the future evolution of China's markets. And much of the human contact between Americans and Chinese would end, limiting the exchange of ideas and values across the Pacific.

### **EFFECTS OF REVOKING NORMAL TRADE RELATIONS: BROADER ISSUES**

The effects of ending normal trade relations with China would, however, go well beyond trade. Let me mention three areas of strategic concern to the United States.

First, ending normal trade relations would likely endanger cooperation with China in areas outside trade. It would call into question our recently developed good working relationship against drugs and international crime. It would make progress on human rights, as symbolized by the recent release of several well-known Chinese dissidents, very difficult or even impossible. And it could threaten cooperation in national security questions such as the four-party talks on Korea and missile sales in the Middle East.

Second, ending normal trade relations would badly damage Hong Kong. Hong Kong's economy is based on trade and services. As much as three quarters of US-China trade goes through its port. Hong Kong authorities estimate that ending normal trade relations would slash its trade volume by up to \$34 billion, and income by \$4.5 billion.

This would cause immediate suffering and long-term uncertainty among Hong Kong people about the territory's economic future, and lessen international business confidence in Hong Kong as a trade and financial center. And it would come at the worst possible time -- when Hong Kong's growth has slowed and its unemployment rate is at a fifteen-year high, and just after it conducted its first election as the Hong Kong Special Administrative Region, with the highest voter turnout ever in any Hong Kong election. That is why all leading Hong Kong figures, including Chief Executive C.H. Tung, Civil Service Chief Secretary Anson Chan, and Democratic Party leader Martin Lee, support normal trade relations.

Third, ending normal trade relations would deal a severe blow to our larger efforts to solve the Asian financial crisis. This crisis already affects our own economy, as we can see through a drop in exports to the Asian region and layoffs at companies which export to Asia. The

stability of the Chinese economy during this difficult period, and the efforts of both the central Chinese government and the government of Hong Kong to avoid devaluing their currencies, have helped prevent further deterioration. A disruption of the magnitude of revoking normal trade relations would introduce new financial and economic instability to Asia, with unpredictable but likely very negative effects in the region and on the American economy.

Altogether, then, the vote on trade with China is not on whether to endorse Chinese policies, but on whether to protect fundamental U.S. interests. The Administration thus strongly supports renewal of normal trade relations.

### **US-CHINA TRADE RELATIONS**

As we look to the future, normal trade relations allows us to conduct a strategic trade policy aimed at ensuring that Americans can achieve the full potential benefits of trade with China.

These benefits are substantial. China's economy is already among the largest in the world, and such leading American industries as telecommunications, aviation, the services trades and professions, high-tech manufacturing and agriculture would benefit from better access to China.

At present, however, our exports are limited. The \$75.4 billion in bilateral US-China trade last year represents \$62.6 billion in goods imports from China and \$12.8 billion in goods exports from the United States to China. Service export figures are not yet available for 1997, but are quite small; in 1996 we exported \$3.1 billion in services to China while importing \$2.0 billion, resulting in a small surplus. The total trade deficit -- nearly \$50 billion in 1997 and on a trajectory for \$60 billion by the end of 1998 -- has many causes, most important among them shifts of production among the Asian economies and the strength of the U.S. economy. But trade barriers are also a factor.

China restricts imports through means including high tariffs and taxes, non-tariff measures, limitations on which enterprises can import, and other barriers. The result is a pervasive and multilayered web of trade barriers in China. And we use all the tools at our disposal -- our own trade laws, bilateral talks, regional and multilateral negotiations -- to eliminate them.

### **TRADE BARRIERS IN CHINA**

Due to limitations of space and time, I will cite only some of the major types of obstacles we encounter in China. They fall into two main areas.

The first are broad structural impediments. These include transparency, where while we have seen improvements, publication of laws and regulations is still incomplete, and sometimes offset by opaque customs procedures, administrative guidance and other procedures. Another is trading rights, where China restricts the right of individuals and companies to import and export. State-owned enterprises produce about 40% of China's industrial output, raising the question of

subsidies and conflicts of interest for government bodies which both own and regulate enterprises. And government procurement presents a large set of issues, beginning with the fact that China has no laws or regulations on the subject.

The second area is that of more formal and familiar trade barriers. Tariffs, though reduced from an average of 42.1% in 1992 to 17% today, remain high. Non-tariff measures include non-transparent and WTO-inconsistent import licensing, quotas and other barriers. China's market for services remains largely closed. Agricultural tariffs remain very high, and in cases like meat can be prohibitive. China's phytosanitary and veterinary import quarantine standards (for example, regulations affecting citrus products and Pacific Northwest wheat) are often not based on science, unevenly applied and not backed up by modern laboratory testing techniques.

Our aim is, over time, to eliminate these barriers. In some cases we have found bilateral talks, including threatening or imposing sanctions when necessary, an effective way to address them. Let me discuss two particular instances: intellectual property rights and textiles.

#### **U.S. TRADE POLICY: THE CASE OF INTELLECTUAL PROPERTY RIGHTS**

In the past, pirated works have been common in China. Since our IPR Agreement in 1996, however, the scale of piracy has been significantly reduced. In 1995, American copyright firms reported losses of over \$2 billion from piracy of software, CDS and CD-ROMs, books, audio and videocassettes in China. They faced further losses in third markets caused by exports from Chinese pirates. Long and intense negotiations won agreements in 1995 and 1996 committing China to pass and enforce copyright and patent laws and shut down pirate operations. Since then:

- China has closed over 64 CD and CD-ROM production lines and the Chinese have destroyed the masters and molds being used to produce these products.
- China has arrested more than 800 people for IPR piracy.
- China has seized more than fifteen million pirated CDS and CD-ROMs, including those illegally smuggled into China.
- China issued 114,000 patents and 121,000 trademarks in 1997, many of which went to U.S. companies.
- Last month, the government of Guangdong Province announced that it had seized and destroyed 2.8 million pirate video compact discs. Guangzhou has been one of the key transit points for VCDs smuggled into mainland China from Hong Kong and Macao.

The work is not at an end. Pirated retail CDS, CD-ROMs, and VCDs remain available in some Chinese cities. Chinese Customs and local anti-piracy officials must be more vigilant in

enforcement. Unauthorized use of software in Chinese government ministries is a problem, and we are urging the Government of China to issue a State Council Directive prohibiting "end-user" piracy. Protection of well-known trademarks is inadequate in China, and trademark counterfeiting remains widespread. And while the 1992 bilateral agreement permits U.S. pharmaceutical companies to obtain up to seven years of "marketing exclusivity" for products still under patent in the United States, China's Ministry of Public Health may be cutting back the benefits of this agreement by granting overly broad marketing approvals to competing Chinese pharmaceutical companies as U.S. applications for marketing exclusivity are pending.

We also have concerns about protection of intellectual property rights in Hong Kong and Macau. This year we noted an increase in piracy in Hong Kong, and placed Macau on the Priority Watch List of our annual Special 301 report. An IPR team from our office is working with Hong Kong and Macau, and both governments are taking steps to address our concerns.

### **U.S. TRADE POLICY: THE CASE OF TEXTILES**

The second example is textiles.

In 1994, and in February of 1997, the Administration reached bilateral agreements with China to achieve fair trade in textile products. In 1997, for the first time, our bilateral agreement provides for market access for U.S. textiles and apparel into China's market. China has also agreed to ensure that non-tariff barriers do not impede the achievement of real and effective access for US textile and apparel exports into China's market. Following on cutbacks in China's textile quota growth rates under the 1994 agreement, the 1997 agreement further reduced the overall quota to address enforcement issues. China, having once been our largest source of textiles and apparel, is now our fourth.

Illegal transshipments of textiles from China has been a significant concern. We remain resolved to act against such imports. In 1994 and 1995, the Administration found and charged transshipped products against China's quotas. In 1996 we triple-charged China's quotas, and we did so again this year to account for such illegal transshipment. We will continue to be vigilant to prevent transshipment.

### **BILATERAL PROBLEMS REMAIN**

In both of these cases, we have advanced concrete American commercial interests and our broader interests in the rule of law and acceptance of international standards in China. However, significant bilateral trade problems remain.

Several of these are in agriculture. China has not resolved sanitary and phytosanitary issues with respect to citrus, Pacific Northwest wheat and meat. And at times China has taken unpredictable measures which reverse our progress. Last October, for example, China raised the tariff on soybean oil to 20%, just as U.S. soybean oil products were entering world markets.

Through quick action we were able to reverse this.

Services are another problem area. Last spring, for example, China issued a decree requiring foreign financial information services to pay royalties to the Chinese government news agency. Again, we have prevented the implementation of this requirement.

And just last April, China announced an arbitrary ban on direct sales, intended to block scam schemes but also affecting well-regarded, law-abiding foreign operations. We are working with U.S. industry and Chinese authorities to address this issue.

### COMMERCIAL PRINCIPLES OF WTO ACCESSION

On a broader scale, China's accession to the World Trade Organization, on a commercially meaningful basis, presents us with a comprehensive means to address the broad range of official and unofficial barriers to the Chinese market.

China's application to join the WTO is, of course, an historic event in itself. For decades, China -- together with Russia -- was one of the great antagonists of the principles the WTO embodies: open and transparent markets, the rule of law, and peaceful settlement of disputes. Thus the United States welcomes and supports China's application to join the WTO. However, we and other WTO members believe accession must be on commercially meaningful grounds.

The WTO is a contractual set of commitments, deepened continuously since the establishment of the GATT after the Second World War. These have developed from tariffs -- and our negotiations with China address tariff rates on more than 6,000 individual tariff lines -- to rules on nondiscrimination, national treatment, transparency, judicial review, uniform application of laws, customs procedures and other topics. And the sectors covered by the WTO have expanded from industrial goods to agriculture and services including basic telecommunications and financial services. All applicants, including China, must make commercially meaningful commitments in these areas.

### STATUS OF WTO NEGOTIATIONS

This week I returned from China where I had a number of meetings with Ministers and other Chinese leaders on China's accession to the WTO. As many of you will have observed, the negotiations on WTO accession have proceeded slowly and sometimes unevenly. But the trajectory of those negotiations have been positive, especially when viewed over the last eighteen months.

During that period, China has made commitments on a number of critical issues related to rules of the WTO. For example, China committed to WTO obligations related to transparency, judicial review of administrative decisions, and nondiscrimination. China also agreed to phase in trading rights over three years, and to implement its obligations on Trade Related Intellectual

Property Rights (TRIPs) upon accession.

During the last few weeks, negotiations progressed further. We made some headway on the critically important issues of distribution, but the coverage still remains too narrow. China, for the first time, presented an offer on basic telecommunications services and for the first time put forward an offer on financial services that included securities. However, the gaps are significant. In addition, little progress has been made on agriculture which is one of our key export sectors.

Much work remains ahead on all these issues. We also have more to do on the protocol and working party report which address many of the rules-related obligations. And we will take as long as necessary to get this right, beginning when negotiators meet again this month to continue the talks held in China prior to the President's visit.

In conclusion, let me emphasize three points.

First, we are asking nothing of China that China cannot do or that other countries throughout the world have not done.

Second, there are no shortcuts. Neither we nor any other WTO member can afford a political accession for China or any other country. We will continue to push ahead in these negotiations because it is in China's interest, in the United States' interest, and in the world's interest to see China in the WTO on commercially meaningful terms.

And third, China would do well to speed up its decisions on the WTO, because as time passes a commercially meaningful offer will require more than it does today. China first indicated an interest in GATT membership in 1986. By 1994, as negotiations continued, we had completed the Uruguay Round, deepening coverage of agriculture, subsidies, government procurement, investment intellectual property; binding tariffs; and requiring binding dispute settlements. By the beginning of this year, the WTO had advanced through the Information Technology Agreement, the Agreement on Basic Telecommunications and the Financial Services Agreement. Next year we will open negotiations through the WTO's "built-in agenda" on agriculture, services, intellectual property and other issues as well. In the future lie yet further talks. Thus, the longer China delays making a commercially meaningful offer, the more comprehensive a commercially meaningful offer must become.

#### **CONCLUSION: NORMAL TRADE RELATIONS AND BROADER VALUES**

One final point. Trade policy, in its narrowest sense, is about market access and fairness. Our negotiations and our discrete policy objectives focus on the details: tariff lines, copyright enforcement, phytosanitary inspections and so on. And our basic goal is opportunity and fair treatment for American companies, workers, consumers, farmers and ranchers. That is what we seek to achieve in our trade negotiations, and it is why we support renewal of normal trade relations.

But the effects of both trade policy generally and normal trade relations in particular extend beyond commerce to fundamental national interests, values and ideals. We already see that in the contribution of our trade relationship to personal opportunity for Chinese citizens; the development of intellectual property rights and the rule of law more broadly; China's growing stake in a stable, peaceful, prosperous Pacific; and China's willingness most recently to broadcast nationwide the President's news conference in Beijing and his address at Beijing University.

And that brings me back to the broader point of engagement with China. Our discussions of China policy, including trade, concentrate on the problems. Rightly so. But on occasions like this hearing, we should also remember to step back and take the long view.

Just twenty years ago, when we made the initial decision to open normal trade relations, we did very little business in China. Very few Americans visited the country. Very few Chinese read foreign books, saw foreign news or traveled abroad. Few foreign firms -- indeed, few private businesses -- operated in China. China remained among the world's most closed societies, and the prospect of a public discussion of human rights between our Presidents would have been absolutely unthinkable.

Today, with all the problems that remain, we see American business operating in China. The share of the state in the economy has fallen. The range of political debate has widened. And Chinese citizens have seen the President of the United States on live television, speaking of human rights and democracy.

These trends are not only good for China; they are good for America. And they show that the engagement policy, with normal trade relations at its foundation, is working. So again, the Administration strongly supports normal trade relations with China, and looks forward to working with the Committee to ensure its renewal this year.

Thank you, Mr. Chairman. I look forward to your questions and those of the Committee.

**Testimony of Ambassador Charlene Barshefsky  
U.S. Trade Representative  
Before the House Ways and Means Committee  
on Trade Relations with the European Union**

**July 28, 1998**

Good morning, Mr. Chairman. Thank you very much for calling this hearing on American trade relations with the European Union.

**POLICY GOALS**

Taken as a single market, the European Union is the largest economy in the world outside our own. America's trade and investment relationship with the European Union is the largest in the world. For the past fifty years the United States and Western Europe have helped create and develop the rules and institutions which have promoted peace and prosperity throughout the world: NATO, the United Nations, the Bretton Woods institutions, the GATT and now the World Trade Organization. And in the future, as the European Union expands, this relationship will become still deeper and still more important.

Our economic relationship with Europe is thus of fundamental importance to American workers, businesses and agricultural producers, to world prosperity, and beyond that to a stable peace in the next century. In this relationship, U.S. trade policy seeks to achieve the following goals:

- The maintenance of a close strategic economic relationship with Europe.
- Fair market access in Europe for American businesses, farmers and ranchers, with the use of all the tools available to us to ensure that we have that access.
- Removal of impediments to mutually beneficial trade and investment.
- Ensuring that the growth and deepening of the European Union does not lead to exclusion of American businesses from important European markets.
- Supporting integration of new market democracies in Central Europe, Southeastern Europe and the former Soviet Union into international economic institutions.
- Joint development of the multilateral trading system, where possible.
- Promotion of shared values.

## DIMENSIONS OF US-EUROPEAN TRADE RELATIONS

The economic importance of this policy alone is immense. The European Union, as the world's largest economy outside the U.S., is in total America's largest trade and investment partner, the largest source of foreign direct investment in the United States and the largest destination for our own foreign direct investment.

In 1997, our goods exports alone to the European Union were \$141 billion, supporting 1.3 million jobs in America. Our services exports to the EU were \$77 billion -- nearly a third of our services exports worldwide.

Despite the perception of Europe as a mature market, our future export growth opportunities are high. Even if Europe continues to grow at recent modest rates, its economy expands by about \$200 billion each year -- the equivalent of three new economies the size of Ireland. Thus, in 1997 our goods exports to the EU grew by \$13 billion over the \$128 billion level we reached in 1996. This \$13 billion increase is a figure larger than the total of all our goods exports to China in 1997.

Our economic relationship with the EU is even more significantly marked by the extent of bilateral investment ties. Our direct investment in each other's economies together exceeds \$750 billion dollars. One in every 12 U.S. factory workers is now employed by a European firm. And three million U.S. jobs directly depend on European direct investment in America.

## BROADER IMPLICATIONS

But our economic relationship with Europe is more important than even these figures show. It is the necessary complement to strong political and security ties with Europe, creating an overall strategic partnership which is the world's most important guarantor of peace, security and prosperity.

History shows this very clearly. Our disengagement from Europe after World War I, in both security and trade, helped to deepen the Depression and weaken the foundations of world peace. After the Second World War, our military presence in Western Europe helped ensure that neither the Cold War nor older political rivalries developed into open conflict. Our cooperation with the European democracies in the Marshall Plan, the World Bank and IMF, and the creation of the General Agreement on Tariffs and Trade resulted in an era of prosperity, democracy and peace in Western Europe.

After the Cold War, in the absence of a great common threat to Europe and the United States and in the presence of a number of trade disputes, it is possible to lose sight of our vast common interests and responsibilities. And the Clinton Administration is determined to make sure that will not happen. We plan to make our partnership with Europe in the next century as fruitful for Americans, and as important to world peace and prosperity, as it has been since 1945.

Thus, for example, the President has bolstered our security partnership with the European democracies through NATO expansion. He has encouraged the expansion of the European Union. And he has led our effort to reinvigorate our economic partnership with the European Union.

## TRANSATLANTIC ECONOMIC PARTNERSHIP

This is the context in which, three years ago, we initiated the New Transatlantic Agenda. That launched an effort to deepen and broaden our transatlantic cooperation on a wide range of issues, covering not only trade but diplomatic and global challenges -- such as crime and the environment -- about which Europe and the United States share common concerns. Beyond the government-to-government discussions, the New Transatlantic Agenda also led to the creation of the Transatlantic Business Dialogue (TABD) to bring American and European business leaders together to identify common interests and goals:

These processes helped bring about the successful conclusion of a Mutual Recognition Agreement (MRA) that will reduce regulatory barriers facing sectors worth \$60 billion of annual two-way trade, including medical devices, pharmaceuticals and telecommunications equipment. We also concluded agreements on customs cooperation and equivalency in veterinary standards and procedures. And at the US-EU Summit in London last May, President Clinton, Prime Minister Blair in his capacity as then head of the EU Presidency, and EU Commissioner Jacques Santer launched an effort that will bring this process to a new level: the Transatlantic Economic Partnership.

In the Transatlantic Economic Partnership (TEP) we engage the EU pragmatically and constructively to realize the remaining untapped potential of transatlantic markets; head off disagreements before they become crises; and enter the next century with a further strengthened and mutually beneficial trade relationship. Through it we hope to find the areas of mutual interest, remove barriers to our trade, and lay the groundwork for cooperation in multilateral issues. We have identified seven key areas to focus our efforts:

**Technical Standards** -- We are examining ways to reduce mutual barriers in standards, while maintaining our high levels of health and safety protection. This would be worth tens of billions of dollars in reduced costs for American firms. For example, the duplicative regulations, unnecessary paperwork, and other problems identified by the Trans-Atlantic Business Dialogue reduce the value of exports to Europe by up to 2%, meaning a loss to American exporters of \$3 billion last year. Some of the sectors industry has proposed that we consider for action in this area include automotive, cosmetics, non-road heavy equipment and tires. The Administration will ensure that any action we might propose to the EU would maintain our high health, safety and environmental standards.

**Agriculture** -- Regulatory barriers currently pose real and present obstacles to our agricultural exports. EU treatment of the products of biotechnology offers a notable example of

such regulatory barriers and is an area we plan to address as part of TEP. Greater cooperation in food safety is another area from which both the U.S. and Europe can benefit.

Let me here say a few words about agriculture in the larger context beyond the TEP. The President emphasized the importance of agricultural trade in his address to the Geneva WTO Ministerial Conference in May. As we approach the WTO negotiations in 1999, issues including implementation of existing WTO commitments, State Trading Enterprises, eliminating export subsidies, ensuring that farmers and ranchers can use safe advanced scientific techniques including biotechnology, transparency in regulatory policy in biotechnology and other areas, and further market access commitments clearly need attention. The EU's Common Agricultural Policy presents a major challenge in several of these areas, including extensive import protection; direct, commodity-specific price support policies; and an export subsidy budget of approximately \$6.1 billion in Fiscal Year 1997.

**Government Procurement** -- The TEP also provides us the chance to find ways in which to cooperate in government procurement to improve market access for US small and medium sized firms to a \$200 billion EU procurement market.

**Services** -- We are also exploring together ways to expand our market opportunities for services and provide a boost to the upcoming WTO negotiations on services, in which we will have many common interests, and common positions, where possible, will help us achieve them.

**Intellectual Property** -- We have already worked together to strengthen enforcement for intellectual property rights protection around the world and particularly in Europe. EU pressure also brought Cyprus' patent regime into compliance with the WTO. The TEP will build on and formalize this cooperation, leading to the reduction of barriers within the EU and in third markets for our intellectual property-intensive producers.

**Electronic Commerce** -- Finally, the TEP will also enable the US and EU to build on our December 1997 joint statement on electronic commerce, which is projected to grow to a \$300 billion market in the U.S. alone by 2001.

**Public Participation and Promotion of Shared Values** -- The public in both Europe and the United States is increasingly interested in trade policy. Therefore we are working on a joint effort to expand the dialogue within our societies on trade to include labor, environmentalists, consumers, and other important interests, much as the TABD has improved US-European trade dialogue with business. The initiative also seeks to develop common approaches to trade and the environment and the international promotion of core labor standards, as well as transparency at the WTO.

In the months to come, we and the EU will discuss a specific action plan to achieve the Transatlantic Economic Partnership's goals, including commitments to specific negotiations on individual subjects and areas for multilateral cooperation, including in the World Trade

Organization. We and other relevant agencies will undertake broad consultations with Congress, as well as business, labor and non-government organizations to further refine U.S. negotiating objectives.

## EUROPEAN UNION EXPANSION

Beginning these efforts now is especially important, since the EU is both deepening its single market through adoption of the "euro" and further regulatory harmonization, and expanding to take in new members.

With respect to the "euro," the United States has a strong economic and security interest in a stable and prosperous Europe. This gives us a strong stake in a European Economic and Monetary Union that gives the region the strength and confidence it needs to move ahead with reform and continue to integrate its economy more fully with the rest of the world. The more the single currency helps Europe develop a robust and healthy economy, open to world markets and in which we can compete as efficiently as possible, the more welcome the project will be.

The E.U. now includes fifteen countries: Austria, Belgium, Britain, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and Sweden. This list will grow in the future, as the EU has identified Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia as the next candidates for membership. Numerous other countries, including Bulgaria, Latvia, Lithuania, Romania and Slovakia are also readying themselves for eventual membership. Turkey has already joined a customs union with the EU and expressed an interest in full membership.

Just as we supported European integration at its beginning in the 1950s, we continue to support it now as a force for stability on the European continent. As a general principle we also strongly support the integration of the new democracies into the political and economic institutions of the West. And with respect to Central and Eastern European countries that actually hope to join the EU, business prospects for our firms in these markets should in most instances improve once EU accession is completed.

We do not, however, take this for granted. Through the TEP, we will be in close and continuous contact with the European Union as these integration efforts move ahead. We are also engaging Central European governments in separate bilateral consultations. We will thus closely monitor their accession negotiations with the EU, and ensure that these do not damage U.S. interests. To assist us in this, we have asked the International Trade Commission to do a study of the impacts of EU enlargement, which we expect to be completed next spring. Thus, we will minimize the chance that this generally beneficial process from developing in ways which could reduce American market access or otherwise work against American economic interests.

## DISPUTES

At the same time, our present relationship with the EU is by no means free of disputes. And in these disputes we will use all the tools at our disposal to assert the rights of American industries, service providers and agricultural producers.

This includes use of our own domestic trade laws. We have recently cited the European Union as a whole, and several member countries, under the Special 301 law to ensure full protection of U.S. intellectual property rights. Italy, for example, was placed on the Priority Watch List last May for failure to enact effective anti-piracy legislation including penalties consistent with WTO TRIPs provisions. Italy's Senate has since passed the legislation, and we are awaiting action from the Chamber of Deputies.

Most of our disputes, however, are now resolved at the WTO. The WTO system was designed to help put, to the extent possible, potentially explosive trade problems into a rules-based context. The fact that we have so many WTO cases involving the EU reflects, in part, the diversity of transatlantic economic activity. It also reflects the fact that we will not tolerate non-compliance with trade agreements or WTO rules, and we will exercise our rights vigorously to ensure that American trade interests are respected.

Active complaints against the European Union which are still in the dispute settlement process involve income tax subsidies in five EU member countries and intellectual property rights in four member states.

We also have two cases involving agricultural policy, specifically the EU banana import regime and the EU ban on beef from cattle grown with bovine growth hormone. In both of these cases, WTO dispute settlement panels and the Appellate Body have ruled in favor of the United States. The European Union has an obligation to respect WTO panel results, and we will insist on timely and full implementation of these rulings.

The European Union has likewise initiated WTO dispute settlement procedures against the US on several issues. Consultations to date have involved the sanctions invoked by the Commonwealth of Massachusetts against companies invested in or doing business with Burma; the Foreign Sales Corporation rules of the Internal Revenue Code; harbor maintenance fees; the 1916 Antidumping Act; and countervailing duties imposed against imports of certain lead and bismuth steel products from the United Kingdom.

We will defend our interests vigorously in all dispute settlement procedures filed against the U.S., and let me offer the EU's challenge to our FSC tax provisions as an example. This is an extremely troubling development: the FSC rules were enacted over 14 years ago with the express purpose of settling a dispute with the EU and conforming U.S. tax rules to our international obligations. In addition, there appears to be no commercial harm to the EU. We are firmly convinced of the legality of our tax system and will defend that view vigorously should a panel ultimately be established.

We have also cooperated constructively with the EU on a number of WTO dispute settlement cases challenging the actions of third countries.

### **RELATIONS IN THIRD MARKETS**

Finally, let me say a few words about our relationship with the European Union in third markets. Here, too, we can gain much by increased bilateral cooperation but we must also bear in mind that the EU will in many cases be a serious competitor whose interests do not always coincide with ours.

We have had good cooperation thus far with the EU on ensuring the accession of China and Russia to the WTO on commercially meaningful terms. However, US and EU interests during the accession of future prospective WTO members might not always coincide, and we will ensure that our rights and interests are respected.

We are also concerned that the EU's process of negotiating its free trade agreements with more than twenty countries and regions could have a negative impact on the commercial interests of U.S. firms in those markets. We are closely monitoring these agreements to ensure that they do not create new barriers to American goods, services and agricultural products.

### **CONCLUSION**

In conclusion, our trade relationship with Europe is already one of the major forces for prosperity in America, Europe and worldwide. However, much untap

## Services in America's Trade Agenda

Ambassador Charlene Barshefsky  
United States Trade Representative

Coalition of Service Industries  
Washington, D.C.  
September 24, 1998

Good morning, everyone. Thank you for coming. And thank you, Dean, for that introduction, and for inviting me to speak here today.

### U.S. AGENDA ON TRADE IN SERVICES

We have a full agenda on trade in services in the next few years. At the World Trade Organization, we are considering the accession of 32 economies; when complete, this will make the coverage of the General Agreement on Trade in Services, for all practical purposes, universal. The GATS 2000 negotiations have the potential to open world markets to a wide array of service sectors. We have an opportunity to ensure that Global Electronic Commerce remains unfettered by tariffs and nontariff trade barriers. We have regional negotiations with the European Union in the Transatlantic Economic Partnership, with our neighbors toward a Free Trade Area of the Americas, and in Asia and Africa as well; and bilateral talks, for example the Enhanced Initiative on Deregulation with Japan; all of which have implications for trade in services.

I will touch upon each of these this morning, and in the months to come, I hope to hear your thoughts and advice. But my purpose today is to place our negotiating agenda in broader context. And let me begin at home.

### THE WORLD ECONOMY TODAY

We believe in personal freedom; rewards for hard work and innovation; and open markets under the rule of law. These principles -- together with a balanced budget and investment in education -- have given us prosperity and stable growth. And they are the principles we have sought to promote abroad for fifty years, through the continuous development of the world trading system, with remarkable success.

The GATT and WTO have reduced tariffs alone by an average of 90%. They have created a contractual set of rules which promote fairness, the rule of law, and peaceful resolution of disputes.

As a result, trade has grown fifteen-fold, and world per capita income doubled since 1960. Regions of the world once known for wars and poverty -- Southeast Asia, Latin America, most recently Africa -- have developed at astonishing speed. China and Russia, great nations which once sought to overthrow the market system, now aspire to join. America's highest-skilled,

highest-wage industries have boomed, with exports rising from \$617 billion to \$938 billion just since the Clinton Administration took office. And the effects are visible in every walk of life. As the novelist A.S. Byatt writes, these are years when:

"men and women hurtle through the air on metal wings, when they wear webbed feet and walk on the bottom of the oceans ... when folk in Norway and Tasmania in dead of winter could dream of fresh strawberries, dates, guavas and passion fruits and find them spread next morning on their tables."

These blessings have extended from the world's richest to its poorest. The dissemination of new medicines has helped raise life expectancy from 48 years in 1955 to 65 today, and cut infant mortality from 148 per thousand to 59. With the growth in agricultural trade, famine has receded from all but the most remote corners of the world. New telecommunications and the Internet open worlds of information and opportunity to anyone with a computer terminal.

And yet the accomplishment is incomplete. That has never been more clear than this year, when the Asian financial crisis has shown how rapidly growth overseas can come to a halt. How quickly our overseas markets can shrink. And how profoundly disruptions in the banks of Thailand or Mexico can affect the income of farm families in Kansas and North Dakota; the jobs of factory workers in Washington and St. Louis; and the balance sheets of companies everywhere.

#### DANGERS OF CLOSED SERVICES MARKETS

One of our principal tasks, then, is to create a world economy less volatile and vulnerable to crisis. And that brings us to our goals in services -- because closed services markets are an important factor in this volatility.

In our economy, sectors like financial services, telecommunications, transport, legal services, information and distribution create most of our jobs and much of our economic growth. And with some notable exceptions -- as Bob Vastine can tell you from his days at the Resolution Trust Corporation -- we have developed transparent and impartial regulations which promote competition, keep these sectors relatively free of imbalances and cronyism, and in the end create highly competitive industries.

Internationally, however, the situation is quite different. Particularly in developing and newly industrialized countries, many service markets remained relatively closed. This is also true of the reforming communist economies. In some cases this inhibited both modernization of service industries and development of effective regulation. As former Korean Finance Minister Han Seung-Soo noted earlier this year, speaking about the causes of the spread of the Asian financial crisis:

"In contrast to the developing industrial sector, the financial sector has been closed to foreign competition, with limited integration of the international market. As a consequence, the financial sector remained large and inefficient, creating a structural imbalance in the Korean economy."

Thus we have seen repeated financial crises, with this year's by far the largest and most dangerous. And closed markets in services create other risks. Inefficient, pollution-prone power and transport reduce efficiency, worsen the quality of life and waste investment. Telecommunications markets reserved for government monopolies make service worse for consumers and business more difficult for firms. Monopolies in express delivery reduce the efficiency not only of the service sector but farms, fisheries and manufacturers.

### OPPORTUNITIES IN MORE OPEN SERVICES MARKETS

All Americans thus have an interest in the more stable, sustainable growth and higher productivity that open services markets can create worldwide. And service firms will of course benefit directly, as Americans lead the world in high-technology, health, education, express delivery, professional services and many other areas. Our performance in a relatively closed world -- \$265 billion in services exports last year, supporting four million jobs -- shows how much we can achieve in an open market.

More open services will also support eased exports of goods. To quote the classical Chinese historian Ssu-ma Ch'ien, writing in the second century B.C., for an economy to function:

"There must be farmers to produce food, men to extract the wealth of mountains and marshes, artisans to process these things, and merchants to circulate them. There is no need to wait for government orders: each man will do his part as he gets what he desires. So cheap goods will go where they fetch more, while expensive goods will make men search for cheap ones. When all work willingly at their trades, just as water flows ceaselessly downhill day and night, things will appear unsought and people will produce them without being asked."

In our own day, to use Ms. Byatt's examples, plants which make aircraft require computer software and design to get their "metal wings" off the ground, and strawberries will not get from growers in the San Fernando Valley to consumers in Norway without efficient transport. Likewise, exports of cars to Japan are inseparable from freedom to establish auto dealerships; and without open distribution in China, our exports of goods will suffer even if tariffs and quotas relax.

### UNIQUE PROBLEMS

As we look to the future, then, we have the opportunity to create a safer and more stable international economy, which promotes more rapid development and offers Americans greater opportunity. Thus our goal in the coming services negotiations is to obtain broad commitments for significantly improved market access from other countries, achieving maximum liberalization and improved transparency in a wide range of sectors.

We seek this goal in the GATS 2000, in accessions to the WTO, in regional negotiations like the Free Trade Area of the Americas and the Transatlantic Economic Partnership, and in bilateral talks with some of our major trade partners. In each case we will seek to open more

service sectors, ensure that countries are more open to US providers on a nondiscriminatory basis; prevent discrimination against particular methods of delivering services (in particular electronic transmissions and rights of establishment); and promote high standards of honesty, transparency and consumer protection in regulation.

But in these efforts we face challenges often more complex than those presented by trade in goods. Barriers to banking, legal practice or distribution rights are generally not tariffs or quotas. Some are regulatory or licensing standards, which may have legitimate goals like consumer protection. These standards, including in America, may be established not by national governments but by state governments or even private professional associations. There are often very good reasons for this, and trade policy must respect and work with the relevant bodies, while ensuring that the standards fulfill a legitimate purpose rather than simply restricting trade.

Likewise, rules for trade in services must anticipate the development of new technologies. Examples are obvious in almost every field, from colleges which can teach, hold examinations and grant degrees over great distances; home entertainment products delivered by satellite; and advanced health care delivered directly to the home or to rural clinics via telemedicine. We must take care to ensure that trade agreements do not quickly become obsolete.

And finally, trade in services is simply a new and highly complicated issue for many countries. The National Statements circulated by many of the developing countries at the WTO Ministerial Conference in May, for example, showed a widely shared concern that domestic regulatory agencies are having trouble meeting even existing WTO commitments.

#### PROGRESS SO FAR

These are formidable obstacles; but we are nonetheless optimistic, and the record of the past five years shows why.

First, as recently as 1993, when the Clinton Administration took office, there were virtually no international standards for trade in services. With the introduction of the General Agreement on Trade in Services in January of 1995, we created an overall framework which -- like our domestic standards -- promotes competition, openness and transparency. The GATS deters discrimination against foreign providers; helps ensure that governments treat their trade partners equally; promotes the principle that regulation of services should be transparent and done for valid policy reasons rather than to exclude foreigners; and makes public lists of exemptions from basic principles.

Second, in some sectors we have given content to these rules through concrete liberalization and market access. By the end of 1997, these included concrete commitments in two of the highest-value services sectors: basic telecommunications and financial services.

-- The Agreement on Basic Telecommunications includes 70 countries and over 95% of world telecom revenue in a \$750-billion industry. 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. In doing so, it replaces a 60-year tradition of national telecommunications monopolies and closed markets with market opening, deregulation and competition.

-- The Agreement on Global Financial Services includes banking, securities, insurance and financial data services. It covers 95% of the global financial services market, and 102 WTO members now have market-opening commitments in the financial services sectors. They encompass \$18 trillion in global securities assets; \$38 trillion in global (domestic) bank lending; and \$2 trillion in worldwide insurance premiums.

Third, new applicants to the WTO are making commitments that go well beyond these accomplishments. Several of them have taken commitments in broader ranges of service sectors, recognizing the value to consumers and producers of comprehensive, predictable rules. Taiwan is one. Kyrgyzstan, the Baltic states, Georgia and Armenia are others. These accession agreements include commitments in areas many other countries have avoided -- professional services, distribution, construction and more. They set baselines for future accessions, including larger economies like China and Russia, and an example for improving the commitments of today's WTO members.

And fourth, we are building consensus on crucial issues for the future. At the WTO Ministerial Conference last May, we won a "standstill" on tariffs applied to electronic transmissions. We are now moving on to an electronic commerce work program at the WTO to achieve a permanent agreement to avoid tariffs and open markets for Internet service providers; and which links these commitments to open markets in express delivery, which is crucial to the efficiency and rapid service for customers electronic commerce can promote.

#### THE WORK AHEAD

Thus, in financial services and basic telecom, while we can achieve more, we have already done a lot. In a few other sectors, like travel services and tourism, service markets are quite open and many countries have made binding commitments. But these are the exceptions, and so we have a long way to go.

In most service sectors we see few specific commitments. Only fourteen WTO members have made commitments in audiovisual services. No developing countries or economies in transition have made commitments on gathering and dissemination of news -- some in fact have tried to go backward, as China recently did by attempting to give its state agency Xinhua a monopoly on financial information. Less than a third of the WTO have made commitments in distribution.

#### PREPARING FOR GATS 2000

Therefore our goal in the coming services negotiations is to obtain broad commitments for market access, including maximum liberalization and improved transparency, in a range of sectors.

The negotiating structure best suited to this goal is still undetermined. Should negotiations be conducted sector by sector? Are "horizontal" negotiations across all sectors more likely to win the best result? Would a "formula" approach to liberalization be possible?

We must begin with a sector-by-sector review of the issues raised by GATS principles like "market access," "MFN" and "national treatment." We must also discuss whether, and if so how, today's classification of service sectors can be improved. And we must address the question of classifying newly developed services and ensuring that GATS principles can be applied to them.

At the same time, we will review our existing agreements and the lessons we can draw from them. In the Agreement on Basic Telecommunications, GATS principles led to fundamental questions of regulatory policy, transparency and rule of law. To give these principles meaning, governments needed to provide guarantees to prevent anti-competitive behavior, maintain open and transparent licensing, and ensure the impartiality of government regulation. Financial services raised similar questions.

But while each of these agreements may offer lessons for GATS 2000, each sector is unique. As an old Chinese saying has it, "a dog resembles a baboon, and a baboon resembles an ape, and an ape resembles a man; but a man is very far from a dog." Thus we must accept the possibility that each may require a different approach.

## REGIONAL NEGOTIATIONS

We also expect to draw a great deal from the regional negotiations we have underway. These can help us set precedents and establish standards for the GATS 2000 and beyond, find quick agreement on areas of less controversy, and allow us to serve our interests in sectors where we are competitive but in which international consensus is difficult to achieve.

For example, in the Transatlantic Economic Partnership (TEP) with the European Union, we will seek to find areas where liberalization will benefit both of us, develop joint positions in areas of mutual interest for WTO 2000, and to reduce conflicts in areas which have the potential to make the broader multilateral talks more difficult.

In the Asia-Pacific Economic Cooperation forum (APEC) we are discussing liberalization of services including energy, environmental services and telecommunications. These can push GATS 2000 forward, just as APEC's agreement on information technology two years ago was the catalyst for the ITA. APEC can also help us on questions of classifying services, particularly in the energy and environmental service sectors.

In Japan, our bilateral agenda with the world's second largest economy addresses both market opening and implementation of agreements in individual sectors like insurance, civil aviation and distribution, and broad questions of regulatory policy and transparency.

And in Latin America, we have already begun formal negotiations toward the establishment of a Free Trade Area of the Americas, with a Negotiating Group entirely devoted to

trade in services. CSI has already offered very helpful comments, and the schedule calls for the services Negotiating Group to produce an "annotated outline" of an FTAA services chapter by September of 1999 -- that is, eleven months from now. Thus, assuming the working group stays on schedule, we have an opportunity to begin the GATS 2000 with a well-developed model of what we can achieve on a world scale.

### CSI AND THE NEXT GATS NEGOTIATIONS

This is an ambitious agenda which will require detailed and complex negotiations, and we need your help and advice. So in the next months, I look forward to your thoughts on the proper form of negotiations and the specific objectives we should set in particular sectors. I expect that you will also be speaking with your counterparts in services industries overseas, to build a private sector consensus for a successful negotiation. CSI's commitment and hard work was essential to the success of the services talks in the Uruguay Round, as well as to the Basic Telecom and Financial Services agreements. You will be still more important in the GATS 2000.

We will also need to work together here at home, as the United States prepares to host the next WTO Ministerial; and on institutional reforms at the WTO beyond the substantive services negotiations. As services negotiations proceed, the public will expect and deserve a full explanation of their implications for our economy. And as the WTO's coverage expands, the public will naturally expect the WTO to become more open and accessible. Thus I hope you will work with us in our effort, for example, to open dispute panels to the public.

### CONCLUSION

And let me remind you that the consequences will be profound.

For fifty years, beginning with the establishment of the GATT after the end of the Second World War, we have worked toward a world which is made wealthier, more peaceful and more vital through respect for freedom, rewards for hard work and creativity, and the rule of law. In our negotiations on trade in services, we can bring this achievement toward completion.

A more stable and productive world economy, as competition brings both innovation and transparency to world financial systems, and efficient power and transport reduce costs and allow faster growth together with a cleaner environment.

Better health and a higher quality of life, as telemedicine brings the world's most advanced health care to rural clinics and isolated villages; and information becomes more freely available everywhere.

And the advance of American values, as new forms of communication and information promote freedom of speech and freedom of thought.

It is an inspiring task. And we are lucky to be here together as it begins.

**Ambassador Charlene Barshefsky  
CQ/BusinessWeek CEO Summit**

**September 25, 1998**

Good morning. Thank you very much for inviting me to speak with you today.

The topic you have set for me -- in the present crisis atmosphere, do we expect the world to turn away from free markets and free trade and toward protectionism and regulation -- recognizes an unwelcome but obvious point. That is, the last few months have brought us quite a bit of bad news. So before I address our agenda, let me begin with some perspective.

**A RECORD OF ACCOMPLISHMENT**

In the past six years, the Clinton Administration has negotiated 260 separate trade agreements, and including five of truly historic significance: the Uruguay Round, NAFTA, and last year's agreements on financial services, basic telecommunications and information technology.

These agreements in turn build upon a fifty-year legacy of opening markets worldwide, beginning with the establishment of the GATT in 1947. This policy has not only helped our companies and entrepreneurs find markets but advanced basic American values: personal freedom; rewards for hard work and innovation; and open markets under the rule of law.

As a result, since 1960 trade has grown fifteen-fold, and world per capita income doubled. Regions of the world once known for wars and poverty -- Southeast Asia, Latin America, most recently Africa -- have developed at astonishing speed. China and Russia, great nations which once sought to overthrow the market system, now aspire to join. America's highest-skilled, highest-wage industries have boomed, with exports rising from \$617 billion to \$938 billion just since the Clinton Administration took office.

These blessings have extended from the world's richest to its poorest. The dissemination of new medicines has helped raise life expectancy from 48 years in 1955 to 65 today, and cut infant mortality from 148 per thousand to 59. With the growth in agricultural trade, famine has receded from all but the most remote corners of the world. New telecommunications and the Internet open worlds of information and opportunity to anyone with a computer terminal.

**RESPONSE TO THE FINANCIAL CRISIS**

At the same time, however, we can all clearly see the challenges we must face: with the open international market and all its blessings have come new sources of instability and risk.

As President Clinton has said, the events which began as a currency crisis in Southeast

Asia last year have become the most dangerous financial crisis the world has faced in fifty years.

Its effects are obvious in our own export figures. Compared to last year, our exports to the Asia-Pacific region fell \$14 billion in the first six months of 1998. That includes a loss of \$4 billion, or 12%, in exports to Japan alone, and a loss of fully 70% of our exports to Indonesia. The result has been a drop of 2.5% in GDP growth for us this year, instability in financial markets, declining farm incomes, and the specter of job losses in manufacturing industry.

This is quite likely to intensify public concerns about the international economy in the long run. But before we take up that question, we must address the crisis itself. Therefore, our top priority is to work with the IMF and affected countries to restore currency stability and promote economic recovery. We are monitoring the conditionality of IMF programs closely, and in cases such as Thailand where the programs are being implemented, we see good signs. However, resources at the IMF are at historic lows. Every day Congress does not approve the President's request for IMF funding increases our vulnerability to a crisis, and decreases confidence in global markets. The Senate has now approved full IMF funding by large bipartisan majorities twice, but there is a serious bottleneck in the House. At a time when the markets are looking to see if the international community has the capacity to deal with these crises, passage of IMF funding is critically important. The Congress needs to act immediately.

Equally important, Japan as the world's second-largest economy must act immediately, because economic stagnation in Japan makes recovery far more difficult for all of Asia. For example, as Thailand's exports to the United States rose by \$600 million in the first six months of 1997, Thai exports to Japan shrank from by nearly \$800 million. Indonesian exports to Japan have dropped by a third. We thus believe Japan must use fiscal stimulus to spur demand-led growth, address problems in the financial system, open its markets and deregulate its economy.

I have just returned myself from the President's meeting with Prime Minister Obuchi. This followed a visit to Tokyo, where I discussed both the financial crisis and our Enhanced Deregulation Initiative, including open distribution systems, transparent regulation and rule-making, and deregulation of telecommunications, financial services, housing, medical devices and pharmaceuticals. We will closely monitor Japan's implementation of these commitments and of our earlier agreements; as we continue to push for sustained fiscal stimulus to prevent recession, and urgent attention to the problems in the financial system.

And we are committed to an open market policy at home. We expect a very high trade deficit this year, including perhaps a record with Japan. As this happens, we will of course continue to enforce our domestic laws against unfair foreign export practices, and we will adopt sensible policies in the case of import surges. But we will remember the lesson of the 1930s, and -- as we ensure that countries like China, Argentina, Chile and Brazil do not respond by reverting to protectionism -- we will refuse to panic and shut off trade ourselves. That would only hurt our trade partners and worsen the crisis.

## WHERE TO NOW?

Where, then, should we go next? Does this experience mean we should change directions on trade? We can begin to answer these questions by reminding ourselves of the role exports and trade play in our economy.

Think of growth: Between 1992 and 1997, our economy expanded from about \$7.2 trillion to \$8.1 trillion. Exports accounted for over one third, or \$320 billion, of that growth.

Think of jobs: Over 12 million American jobs -- just under one in ten -- now depend on exports. That proportion is growing, as between 1992 and 1997, exports accounted for one in every six of the 15 million new jobs created during the Clinton Administration.

Think of wages: That in turn means higher living standards, as jobs supported by goods exports are more productive and pay an average of 13% to 16% higher than the U.S. national average. It is no accident that in the last two years, average wages have risen from \$394 to \$424 per week.

And think of the future: About one in every twenty-five people in the world is American. And our economy is about a fifth of world consumption. The other 96% of world population and 78% of world consumption is outside our borders. We have to sell there to succeed.

To our Administration, the right course is clear. Avoid responses which -- as in the extreme case, a reversion to protectionism -- could worsen the crisis; instead work toward a more open, stable world economy.

## FUTURE AGENDA

And that brings me to our agenda for the future.

In the past decade -- through multilateral agreements, 35 separate bilateral agreements with Japan, 15 with the European Union, 15 with Canada, 15 with China -- we have brought down tariffs and other trade barriers substantially.

Through the Uruguay Round, in addition to these lower barriers, we created basic international rules for trade in agriculture and services and an effective dispute settlement mechanism, in which the United States has filed and won more complaints than any other nation.

And we have cemented our trade relationship with our immediate neighbors through NAFTA. Incidentally, this agreement has helped us immensely during the crisis -- as our exports to Asian countries dropped by \$14 billion in the first six months of this year, our exports to Mexico and Canada grew by \$11 billion, saving jobs and farm incomes all over the country.

However, we have more work ahead. We still face high trade barriers in several fields, most of all in agriculture and services where the US is the world leader. The end of the Cold War and the revolution in science and technology have also changed the trade landscape. And as trade has grown, the American public naturally is more concerned and interested in trade policy. Our strategy thus addresses four fundamental challenges.

## MARKET-OPENING AGENDA

The first is what we might call our traditional agenda: further opening the markets of our major trade partners, creating new and more open markets through regional negotiations, and improving the rules of the multilateral trade system.

### 1. Regional Initiatives

-- Looking at our own hemisphere, before the NAFTA Mexico's tariffs before the agreement averaged 10% while ours averaged 4%. The discrepancies we will address in the much broader Free Trade Area of the Americas -- negotiations began in earnest this month in Miami and are set to produce detailed outlines of a final agreement within a year -- are equally great.

-- This is even more evident in Asia, where we face complex and informal barriers as well as formal tariffs and quotas. I already mentioned our 35 agreements with Japan; these are now being augmented by our Enhanced Initiative on Deregulation, covering both critical industrial sectors and broad regulatory and competitive issues that stretch across the economy.

-- More broadly in Asia, we have targeted fifteen industrial sectors for liberalization in Asia-Pacific Economic Cooperation (APEC) this year. We are scheduled to reach agreement on nine, which together account for \$1.5 trillion in trade, by November this year.

-- In Africa our trade relations are only beginning to develop. But we are working to expand exports by organizing more frequent trade missions, negotiating bilateral agreements and more fully integrating African nations into the World Trade Organization.

-- We are working to remove barriers and strengthen trade relations with the European Union. Technical trade barriers -- for example, the duplicative regulations, unnecessary paperwork, and other problems the Trans-Atlantic Business Dialogue has identified -- reduce the value of our exports to Europe by up to 2%, or \$3 billion last year. Through the Transatlantic Economic Partnership we began in London last May, we hope to find mutually acceptable ways to increase many of these issues, as well as problem areas like agriculture. And we will ensure that the expansion of the EU to Central Europe, which we support, will not endanger American economic interests.

WTO Agenda

We will also launch negotiations next year at the WTO, when the United States hosts the Third WTO Ministerial Conference. We are now beginning to discuss specific objectives in various sectors and I would welcome your comments today or in the months to come, but among our initial thoughts are --

- In agriculture, we look for broad reductions in tariffs, combined with improved rules for tariff rate quotas and assurances against use of unduly restrictive administrative procedures as substitutes for such barriers. We hope to reduce and eventually eliminate export subsidies, and address domestic supports linked to production. And we will seek transparency and improved disciplines on state trading enterprises.
- Services -- We will seek broad commitments for significantly improved market access from other countries, achieving maximum liberalization and improved transparency in a wide range of sectors. This will not only help ensure market access for competitive U.S. firms, but openness, transparency, and impartial regulation in service markets worldwide.
- Government procurement, a market totalling over \$3 trillion a year, where we hope to bring more countries under WTO disciplines while creating a more transparent bidding environment worldwide.
- And issues like bribery and corruption, which comprehensively undermine the principles of markets and the rule of law which allow the trading system to function.

### END OF THE COLD WAR

The second great challenge we face is that raised by the end of the Cold War. This is the integration of our former adversaries -- Russia and China; Ukraine, Vietnam and other economies in transition as well -- into the trading system.

For decades these countries operated economies divorced from the world and antithetical to WTO principles. They were somewhat different -- the Soviet economy ran on a very stable system of planned production, while China shifted from the Soviet model to the communes and then to the reform model. But their major features were quite similar.

They allowed virtually no private business other than a few foreign factories and small-scale private farms. They had no independent judicial system, and consequently regulated industries by arbitrary command rather than transparent law. They did very little trade with the capitalist world; and they thus little stake in peace and stability beyond their borders.

In their own ways, Russia and China -- along with Vietnam, Ukraine, Kazakhstan and many other nations -- have broken with this legacy. They are trying to create markets. Enter world trade. And in the largest sense, replace the rule of man with the rule of law. For the post-Cold War world, this is a task no less important than the reintegration, through the GATT and the

other Bretton Woods agreements, of Japan and Germany after the Second World War.

Accession to the WTO, under commercially meaningful terms, will bring them a long way toward the goal. The negotiations we conduct on this question are vastly complex, involving everything from thousands of individual tariffs to copyright law enforcement and scientific food inspection standards. They are often slower than we would like. But the results, as years go by and you complete the job we have begun, will be profound: freer markets; openness to the world; transparency; peaceful settlement of disputes; the rule of law. And thus greater prosperity and a more secure peace.

### THE 21ST CENTURY ECONOMY

The third strategic challenge is the scientific and technological revolution.

Science is moving ahead, in every field from the Internet and Electronic Commerce; to pharmaceuticals and medical equipment; agriculture; environmental technologies; and information technology. These are fields in which the US leads the world and can gain immensely from open trade; and they are ways to raise living standards, advance the principles of open society, reduce hunger and improve health worldwide.

Our trade policy thus seeks to fulfill the promise of new technology for better lives as it advances our concrete commercial interest. This is the basis of last year's three landmark trade agreements on information technology, telecommunications, and financial services -- agreements so significant that the WTO's Director General, Renato Ruggiero, calls them the equivalent of a major trade Round.

The Information Technology Agreement (ITA) will eliminate tariffs on a wide range of global information technology products over the next several years; products that even today make up about one in every thirty dollars of world GDP. And we are moving forward with negotiations for an ITA II for expanded product and country coverage.

The Agreement on Basic Telecommunications includes 70 countries and over 95% of world telecom revenue in a \$750-billion industry. 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. In doing so, it replaces a 60-year tradition of national telecommunications monopolies and closed markets with market opening, deregulation and competition, reflecting American values of free competition, fair rules and effective enforcement.

And last December, we secured the multilateral Agreement on Global Financial Services, including banking, securities, insurance and financial data services. It covers 95% of the global financial services market, and 102 WTO members now have market-opening commitments in the financial services sectors. They encompass \$18 trillion in global securities assets; \$38 trillion in

global (domestic) bank lending; and \$2 trillion in worldwide insurance premiums.

These agreements can be models for sectors identified in APEC -- environmental goods and services, energy, and medical equipment -- as possible areas for trade liberalization, and as guides for some of the coming negotiations under the WTO.

For example, the "built-in agenda" confirmed at the WTO Ministerial last May is an opportunity to extend protection of IPR beyond basic laws and enforcement to protect new technologies -- everything from genetically engineered plant varieties to digital video discs and newly developed computer software programs.

Likewise, we must build on the agreement to a "standstill" for tariffs on electronic transmissions, to make sure global electronic commerce can reach its full potential.

And we must make sure farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make farms and ranches both more productive and friendly to the environment, without fear of encountering trade discrimination.

### **THE SUPPORT OF CITIZENS FOR TRADE**

All this amounts to an ambitious agenda; and I believe one that will do an immense amount of good for Americans and for the world.

And that brings me back to the fourth great challenge -- and with it, to the original question CQ and Businessweek posed to me. That is, will the public continue to support an agenda of open trade and open markets; or will we slip backward?

The answer depends on many things:

- A continuing effective response to this crisis.
- A more focused effort to ensure that the public has the facts about trade: the importance of exports in our current national prosperity; the high wages that export jobs pay; the role of the trade system in advancing the values of freedom, transparency and the rule of law.
- And a response to the fears and anxieties many Americans have about trade.

We have to address, addressing in a serious way, the links between trade and labor standards, and trade and the environment. Our citizens must know that growing trade will not mean a declining quality of life.

We must address some very legitimate concerns about the institutions of trade. We believe in open government; our citizens expect to be able to watch Congressional debates; and

our judicial proceedings are open to the public unless there is a compelling reason to close them. That is why our government, whatever its faults, has succeeded for two hundred years. And as trade grows, its rules and institutions must adopt the same principles of openness and accessibility to the citizen if the trade system is to retain public support.

For example, the World Trade Organization does not let people sit in to watch arguments before dispute settlement panels. That is wrong in itself, and is a natural breeding ground for rumors and misinformation. So I am very proud that President Clinton was the first world leader to offer to open up all the disputes in which we participate; and I hope you will help us make this the policy of the entire WTO.

Finally, we need an improved education system and domestic safety net. Schools must ensure that our young people can compete and succeed in a world far more competitive than the one in which you and I grew up. And health insurance, unemployment compensation and job training are there when any worker loses a job.

### CONCLUSION

These are serious, difficult questions. But the ability of the United States to shape the 21st-century world depends upon them.

So the answer to the question is really -- it's up to us.

**Remarks of Ambassador Charlene Barshefsky  
Chicago Council on Foreign Relations**

**September 28, 1998**

Good afternoon. Thank you, John, and thank you all for coming.

I am of course a Chicago native, and I can tell you that some things never change. When I left for college, Chicago was the "City that Works," and Daley was the Mayor. Today -- well, you get the idea.

I am very happy to be here with the Council this afternoon, to discuss the trade agenda we have set for the next few years. And I am particularly pleased because I came directly from a visit to my old high school, Von Steuben High.

If anybody ever complains to you about kids today, don't believe them. Whenever I am able to talk with young people, I am very impressed. They are sophisticated. They know a lot about the world. As I've heard from the teachers and administrators at Von Steuben, they have the advantage of local governments and school systems that are creative and determined to provide not only the world's best substantive education, but through programs like Chicago's Service Requirement, to make sure they grow up understanding their responsibilities to their families and their neighborhoods.

**VALUE OF U.S. LEADERSHIP**

That is a quality our next generation will need very badly. Because more than ever before, nations around the world are looking to us for leadership.

To ensure the world's prosperity and growth, both now in the face of the financial crisis and as we look further ahead.

To keep the peace, in regions as far away and as different as Kosovo, Cambodia and Central Africa.

To address the world's environmental problems, from climate change to the loss of species.

To promote basic values -- freedom; human rights; open society.

And while trade policy is, of course, an economic policy whose foundation is the national economic interest of the United States, it also touches upon each of these greater issues. And today I will discuss the record on which we build in trade policy, and the challenges we will face in the years ahead.

## THE POSTWAR RECORD

Our modern trade policy begins fifty years ago, with the establishment of the GATT after World War II. In that half-century, we have reduced the world's tariffs by an average of 90%; eliminated many non-tariff trade barriers as well; created commonly accepted rules governing trade in goods, agriculture and services; and established a framework for peaceful resolution of disputes. In doing so, we have also advanced basic American values: personal freedom; rewards for hard work and innovation; and open markets under the rule of law.

And the results have vindicated these values in practice. Since 1960, trade has grown fifteen-fold, and world per capita income doubled. Regions of the world once known for wars and poverty -- Southeast Asia, Latin America, most recently Africa -- have developed at astonishing speed. China and Russia, great nations which once sought to overthrow the market system, now aspire to join. America's highest-skilled, highest-wage industries have boomed, with exports rising from \$617 billion to \$938 billion just since the Clinton Administration took office.

These blessings have extended from the world's richest to its poorest. The dissemination of new medicines has helped raise life expectancy from 48 years in 1955 to 65 today, and cut infant mortality from 148 per thousand to 59. With the growth in agricultural trade, famine has receded from all but the most remote corners of the world. New telecommunications and the Internet open worlds of information and opportunity to anyone with a computer terminal.

## TRADE IN THE U.S. ECONOMY

Our leadership in trade has thus benefited the whole world. But it has also meant jobs, growth and living standards at home.

Between 1992 and 1997, our economy expanded from about \$7.2 trillion to \$8.1 trillion in real terms. Exports accounted for over one third, or about \$320 billion, of that growth; and for more than 2 million of the 15 million new jobs created under the Clinton Administration. That in turn means higher living standards, as jobs supported by goods exports are more productive and pay an average of 13% to 16% higher than the U.S. national average. It is no accident that in the last two years, average wages have risen from \$394 to \$438 per week.

Illinois has helped to lead the way. Our state's \$37 billion in goods exports last year nearly doubled the \$21 billion in goods we exported in 1992. One hundred and twenty-seven thousand Illinois workers, including nearly one in five manufacturing workers, are now employed because of exports, and the incomes of downstate soybean farmers and grain growers depend on nearly \$4 billion in farm exports.

In the future, exports will be still more important to Chicagoans and all Americans. Nearly 80% of world economic consumption, and 96% of world population, are beyond our borders. These are the firms, governments and people who buy American wheat, aircraft, and

Michael Jordan gear. If we can't sell to them, we will find ourselves poorer and less able to lead the world than we are today.

## ASIAN FINANCIAL CRISIS

Where, then, do we go from here?

Well, we must begin with the issue immediately before us. As President Clinton has said, the events which began as a currency crisis in Southeast Asia last year have become the most dangerous financial crisis the world has faced in fifty years.

Its effects are obvious in our own export figures. Compared to last year, our exports to the Asia-Pacific region fell \$14 billion in the first six months of 1998. That includes a loss of \$4 billion, or 12%, in exports to Japan alone, and a loss of fully 70% of our exports to Indonesia. The result has been a drop of 2.5% in GDP growth for us this year, instability in financial markets, declining farm incomes, and the specter of job losses in manufacturing industry.

Therefore, our top priority is to work with the IMF and affected countries to restore currency stability and promote economic recovery. These IMF programs provide money conditioned on reform, and we monitoring the conditionality closely. In cases such as Thailand where the programs are being implemented, we see good signs.

However, resources at the IMF are at historic lows. Every day Congress does not approve the President's request for IMF funding increases our vulnerability to a crisis, and decreases confidence in global markets. The Senate has now approved full IMF funding by large bipartisan majorities twice, but there is a serious bottleneck in the House. At a time when the markets are looking to see if the international community has the capacity to deal with these crises, passage of IMF funding is critically important. The Congress needs to act immediately.

Equally important, Japan as the world's second-largest economy must act immediately, because economic stagnation in Japan makes recovery far more difficult for all of Asia. For example, as Thailand's exports to the United States rose by \$600 million in the first six months of 1997, Thai exports to Japan shrank from by nearly \$800 million. Indonesian exports to Japan have dropped by a third. We thus believe Japan must use fiscal stimulus to spur demand-led growth, address problems in the financial system, open its markets and deregulate its economy.

I have just returned myself from the President's meeting with Prime Minister Obuchi. This followed a visit to Tokyo, where I discussed both the financial crisis and our Enhanced Deregulation Initiative, including open distribution systems, transparent regulation and rule-making, and deregulation of telecommunications, financial services, housing, medical devices and pharmaceuticals. We will closely monitor Japan's implementation of these commitments and of our earlier agreements; as we continue to push for sustained fiscal stimulus to prevent recession, and urgent attention to the problems in the financial system.

And we are committed to an open market policy at home. We expect a very high trade deficit this year, including perhaps a record with Japan. As this happens, we will of course continue to enforce our domestic laws against unfair foreign export practices, and we will adopt sensible policies in the case of import surges. But we will remember the lesson of the 1930s, and -- as we ensure that countries like China, Argentina, Chile and Brazil do not respond by reverting to protectionism -- we will refuse to panic and shut off trade ourselves. That would only hurt our trade partners and worsen the crisis.

## I. OPEN MARKETS

First, we need open markets. Today, foreign trade barriers, even today, remain higher -- much higher -- than ours. And it is only fair to expect others to give us the same access we offer to them. This is obvious, and it is at the foundation of almost all our trade negotiations, with particular countries, regions and multilaterally.

To be specific, during the Clinton Administration we have negotiated 260 trade agreements, from A for Albania to Z for Zimbabwe. These include 35 separate agreements with Japan, 13 with Canada and another 13 with the European Union, which altogether have helped raise our exports to these trade partners by more than \$115 billion.

We have also created five landmark multilateral trade agreements. Two -- the Uruguay Round Agreement, which established the World Trade Organization; and the NAFTA, which has ensured that our immediate neighbors are open to our products -- are very well known. But the other three, which we completed in 1997, are equally significant: the Financial Services Agreement, which creates open market commitments in financial sectors totalling more than \$33 trillion dollars; the Information Technology Agreement, removing tariffs and other barriers on more than \$1.5 trillion worth of trade in computers, semiconductors, computer equipment and other goods; and the Agreement on Basic Telecommunications, including 70 countries and over 95% of world telecom revenue in a \$750-billion industry. Together, they radically reduce barriers to information, communications, and finance; and thus lay a new foundation for a more open, progressive world economy in the next century.

Equally important to us is the enforcement of our agreements. Among the virtues of the World Trade Organization and the NAFTA are much improved dispute settlement mechanisms, which allow us to hold our partners more effectively to their commitments than we could in the past. The United States has been the most active country by far at the WTO: we have filed forty-one complaints. We have prevailed in 17 cases so far, winning in eight cases that have completed the panel process and successfully settling nine others. Likewise, we use domestic trade laws -- Section 301, Special 301 and others -- to ensure that we are treated fairly.

However, we have more work ahead. We still face high trade barriers in several fields, most of all in agriculture and services where the US is the world leader. The end of the Cold War and the revolution in science and technology have also changed the trade landscape. And as trade

has grown, the American public naturally is more concerned and interested in trade policy. Our strategy thus addresses four fundamental challenges.

## MARKET-OPENING AGENDA

The first is further market-opening, with an emphasis on new regional arrangements but also by improving the rules of the world trade system. Let me briefly review the agenda:

### 1. Regional Initiatives

-- Our own hemisphere, before the NAFTA Mexico's tariffs averaged 10% while ours averaged 4%. The discrepancies we will address in the much broader Free Trade Area of the Americas -- negotiations began in earnest this month in Miami -- are even greater.

-- Asia, where through the Asia-Pacific Economic Cooperation forum we are looking toward free and open trade in the Pacific. This effort began with the Information Technology Agreement, and now is addressing nine different industrial sectors such as telecommunications, energy, environmental goods and services, which together account for \$1.5 trillion in trade, by November this year.

-- Africa, where our trade relations are only beginning to develop. But we are working to expand exports by organizing more frequent trade missions, negotiating bilateral agreements and more fully integrating African nations into the World Trade Organization.

-- Europe, where we are working to remove barriers and strengthen trade relations with the European Union. Technical trade barriers -- for example, the duplicative regulations, unnecessary paperwork, and other problems the Trans-Atlantic Business Dialogue has identified -- reduce the value of our exports to Europe by up to 2%, or \$3 billion last year. Through the Transatlantic Economic Partnership we began in London last May, we hope to address a number of remaining impediments to trans-Atlantic trade, as well as problem areas like agriculture. And we will ensure that the expansion of the EU to include Poland and other Central European countries -- which we support -- will not endanger American economic interests.

-- And the Middle East, where we have inaugurated a special program to increase inter-regional trade, starting with Israel and Jordan, so as to help the Middle Eastern countries find common interests and thereby support the peace process.

### WTO Agenda

We will also launch negotiations next year at the WTO, when the United States hosts the third conference of the world's Trade Ministers. This meeting, at the end of 1999, will set the global trade agenda for the first decade of the new century. And we are preparing an ambitious and foresighted agenda.

Global services and agriculture negotiations are already scheduled to resume, but we need to look ahead to other complex issues as well. These include government procurement, improved intellectual property protection, global electronic commerce, regulatory reform and bribery and corruption.

### END OF THE COLD WAR

The second great challenge our trade policy must face is that created by the end of the Cold War.

When the World War II allies created the WTO's predecessor, the GATT, their work represented a real triumph in technical trade negotiations. It also represented a triumph of vision, because they ultimately decided to include Japan and Germany.

The reintegration of these two countries into world commerce helped cement peace, both in Western Europe and in the Pacific. And today we face an equally profound challenge, with equally great implications for peace in the next century. That is the reintegration of our former Cold War adversaries -- Russia and China; Ukraine, Vietnam and other economies in transition as well -- into the world's rules-based trading system.

For decades these countries operated economies divorced from the world and antithetical to WTO principles. They were somewhat different -- the Soviet economy ran on a very stable system of planned production, while China shifted from the Soviet model to the communes and then to the reform model. But their major features were quite similar. They allowed virtually no private business other than a few foreign factories and small-scale private farms. They had no independent judicial system, and consequently regulated industries by arbitrary command rather than transparent law. They did very little trade with the capitalist world; and they thus little stake in peace and stability beyond their borders.

To return to the market, in the words of a former Central European dissident is like "taking fish soup and making it into an aquarium." It is an immensely difficult task, as we see in Russia and elsewhere. But it is also a possible task, as we have seen in the case of Poland, Hungary, the Czech Republic and other Central European nations. They have built the aquarium, and their ability to conform to the rules of the trading system has helped. As Poland's Trade Minister said last May in Geneva:

"Poland's accession to GATT in 1967 helped us to retain institutional links with the international marketplace ... when my country was still subjected to a political and economic system alien to the aspirations and entrepreneurial spirit of its people. However, it has been only after the transformation process was launched at the turn of the present decade that Poland could assume her full rights and obligations within the system. Our participation in the GATT/WTO framework has helped to consolidate the reform."

Accession to the WTO, under commercially meaningful terms, will thus help these

countries reach the goal. The negotiations we conduct on this question are vastly complex, involving everything from thousands of individual tariffs to copyright law enforcement and scientific food inspection standards. They are often slower than we would like. But the results, as years go by, will be profound: freer markets; openness to the world; transparency; peaceful settlement of disputes; the rule of law. And thus greater prosperity and a more secure peace.

## THE 21ST CENTURY ECONOMY

The third challenge is that posed by the scientific and technological revolution.

Science is moving ahead, in every field from the Internet and Electronic Commerce; to pharmaceuticals and medical equipment; agriculture; environmental technologies; and information technology. These are fields in which the US leads the world and can gain immensely from open trade; and they are ways to raise living standards, advance the principles of open society, reduce hunger and improve health worldwide.

Our trade policy thus seeks to fulfill the promise of new technology for better lives as it advances our concrete commercial interest. This is the basis of last year's three landmark trade agreements on information technology, telecommunications, and financial services -- agreements so significant that the WTO's Director General calls them the equivalent of a major trade Round.

The Information Technology Agreement (ITA) will eliminate tariffs on a wide range of global information technology products over the next several years; products that even today make up about one in every thirty dollars of world GDP. And we are moving forward with negotiations for an ITA II for expanded product and country coverage.

The Agreement on Basic Telecommunications includes 70 countries and over 95% of world telecom revenue in a \$750-billion industry. It provides U.S. and foreign companies access to local, long-distance and international service through any network technology, and ensures that U.S. companies can acquire, establish or hold a significant stake in telecom companies around the world. In doing so, it replaces a 60-year tradition of national telecommunications monopolies and closed markets with market opening, deregulation and competition.

Last December, we secured the multilateral Agreement on Global Financial Services, including banking, securities, insurance and financial data services. It covers 95% of the global financial services market, and 102 WTO members now have market-opening commitments in the financial services sectors. They encompass \$18 trillion in global securities assets; \$38 trillion in global (domestic) bank lending; and \$2 trillion in worldwide insurance premiums.

This is only a beginning.

We must extend protection of intellectual property rights beyond basic laws and enforcement to protect new technologies → everything from genetically engineered plant varieties

to digital video discs and newly developed computer software programs.

We must preserve Internet trade as a duty-free zone. We recently won agreement to a "standstill" for tariffs on electronic transmissions, to make sure global electronic commerce can reach its full potential. That agreement has to be made permanent.

And we must make sure farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination.

### THE SUPPORT OF CITIZENS

These challenges take our trade agenda to every part of the world and out into cyberspace. But just as our trade policy begins with our own national interest, so our last great challenge is not abroad but at home. That is, ensuring that as trade grows and becomes more important to our economy and daily lives, that the public will continue to support trade policy.

As everyone here knows, I am sure, trade has become a more controversial and hotly debated topic each year. That is as it should be: we are a democracy, and the public has both the right and responsibility to judge our policies based on principle and on results. And it is up to those of us who support open trade to respond to public concerns.

That means a continuing effective response to this year's financial crisis.

It means a better effort to ensure that the public has the facts about trade: the importance of exports in our current national prosperity; the high wages that export jobs pay; the role of the trade system in advancing the values of freedom, transparency and the rule of law.

And it means a response to the fears and anxieties many Americans have about trade. Will growing international competition mean a "race to the bottom" that worsens the quality of life by forcing countries to lower environmental standards or labor conditions. We have to address these issues in a serious way.

We must also address some very legitimate concerns about the institutions of trade. As trade grows, its rules and institutions must be open and accessible and responsive to citizens. For example, the World Trade Organization does not let people sit in to watch arguments before dispute settlement panels. That is wrong in itself, and is a natural breeding ground for rumors and misinformation. And the solution is simple -- open it up.

Finally, we need an improved social safety net and an education system which is up to the challenge of a more competitive world. Health insurance, unemployment compensation and job training are there when any worker loses a job. And schools have to make sure kids are ready for demanding, high-skill jobs.

## CONCLUSION

None of this will be easy. But let me also say that I am very optimistic about our ability to meet them.

We have a record of success, stretching back fifty years, which has made our country more prosperous; improved our lives; and helped create a more peaceful world.

We have an agenda which I believe will serve our country well.

And -- as I learned this morning at Von Steuben High School -- we have young people who are ready for the challenge.

Thank you very much. And now I will take your questions.

## **"The Hemisphere United"**

**Ambassador Charlene Barshefsky  
United States Trade Representative  
New York, NY**

**October 1, 1998**

Thank you all very much, and thank you for that introduction.

I am very pleased to be here today. But let me say that the truly important day was yesterday, when the nine Negotiating Groups in Miami completed the first month of detailed negotiations on the future Free Trade Area of the Americas.

The next six years will bring their work to conclusion. And the result will be the largest Free Trade Area in the world, stretching from Nome to Ushuaia and from Easter Island to Nova Scotia; uniting two continents; joining 34 countries and 800 million people in shared interests and shared values.

Over the past four weeks, trade negotiators from each FTAA country began their discussions of everything from market access to competition policy, electronic commerce, government procurement, tariffs and phytosanitary procedures. And as the talks on these often complex or controversial issues intensify, the details may obscure the genuinely astonishing dimensions of the total effort.

So as the work begins in earnest, I would like to put it in perspective by addressing four questions: the reason we have taken up this challenge; the obstacles which remain ahead; our plans for a successful negotiation; and the results we expect to see on its conclusion.

### **SHARED INTERESTS**

The first question is the most basic. Why have we, in the United States, embarked on this effort? To this there are three, mutually supporting, answers.

The first two of them have always been there.

One is geography. The countries of the Western Hemisphere are our neighbors. They will always be our neighbors. And it is plainly in our permanent national interest to have the best possible trading relationship with our neighbors.

The other is the interests of American citizens. When the talks conclude by 2005, we will see the emergence of an integrated and united hemisphere: a free trade area open to all the democracies of the Americas. It will open trade in goods and services. Ensure fair treatment for farmers and ranchers. Guarantee peaceful resolution of disputes under the rule of law. Protect intellectual

property rights. Reduce the risk of financial crisis through open, transparent markets in services. And set an example in all these fields to the world trading system. These are the conditions under which American workers, businesses and entrepreneurs will succeed.

## EARLIER EFFORTS

Thus, the FTAA has a clear foundation in the national interest. This applies to our neighbors as much as it does to us. And so it should come as no surprise that others have come up with the idea before us.

The Liberal vision shared by the leaders of Latin America's independence movements implied precisely such a step. Simon Bolivar himself was the first American leader to propose a hemispheric trade conference. And the idea, in one form or another, was revived on several subsequent occasions. Benito Juarez proposed a free trade agreement between the United States and Mexico in the 1850s. In 1889, U.S. Secretary of State James Blaine actually convened a hemispheric conference in Washington, whose goal was hemispheric free trade.

But all of these efforts failed. And they failed not because of the the complexity of the task -- a trade agreement in 1889, when the only issues were customs procedures and tariffs on agricultural products and manufactured goods, would in technical terms have been far easier than the task before the nine Negotiating Groups in 1998. Rather, they failed because the third answer was missing -- because of a conflict of perceptions and ideas.

Latin American intellectuals often viewed the U.S. as an interfering, hegemonic power; saw trade with the U.S. as exploitation; and concluded that the proper course was protection. Likewise, people in the United States at times looked south and saw only caudillos, guerrillas, and opportunistic politicians denouncing the *Yanqui* to mask inefficiency and corruption at home; and drew the same conclusion about hemispheric trade.

Thus, the separation of the Americas by trade barriers was perhaps a lesser obstacle than the separation by barriers of psychology, perception and ideas. As Jose Marti said, commenting on Blaine's conference in an 1890 address just a few blocks from here:

"Barriers of ideas are stronger than barricades of stone."

## SHARED VALUES

Today, many of these barriers of ideas have come down. Since the end of the Cold War, the two permanent factors of geography and national interest which make the FTAA logical have been joined by a third, which makes it possible -- a consensus on values and ideas.

-- Peace: The ability of shared prosperity to reduce conflict and promote peaceful resolution of disputes, within and among nations.

- Freedom and opportunity: the modern concepts of open markets and universal education, which are the keys to growth everywhere and which, almost everywhere in our hemisphere, have replaced the sterile battle between statist right and statist left.
- Social justice: the conviction that fair working conditions, a clean environment, protection for our natural heritage, and investments in education can and must go together with economic growth;
- The rule of law: a set of impartial standards that protects human rights, promotes honest and effective government, and ensures the peaceful settlement of disputes;
- Democracy: the right of the citizen to contribute to the decisions of government.

Through these principles, in the space of a decade, the Americas have been transformed. In Central America, the sounds of politics are no longer gunshots, but campaign speeches and parliamentary debate. Throughout South America, soldiers have left Presidential palaces and returned to quarters. Growth has resumed and living standards are rising. Trade has flourished, as each part of the hemisphere has taken crucial steps toward integration; and as each of these steps vindicated and strengthened the values we share.

## **THE CARIBBEAN**

In trade terms, the first step was the Caribbean Basin Initiative, begun in 1983 as a set of unilateral American trade concessions and strengthened in 1986 and 1990.

CBI was, in its origins, a political policy, aimed at helping to end the wars of the 1980s by giving the people of the Caribbean and Central America economic opportunity. In this it succeeded: as CBI's trade and tax benefits created jobs in all the 24 beneficiary countries, the economic and social frustrations which lay at the roots of conflict diminished.

But CBI also succeeded as trade policy, with both the U.S. and the Caribbean benefiting from closer trade relations. CBI countries' production often complements U.S. production, or is in partnership with American firms. The major CBI exporters are also the leading markets for U.S. products in their region. Since 1989, US goods exports to CBI countries have more than doubled from \$9 billion to \$18.5 billion, supporting an estimated 360,000 jobs in the U.S.. To put this in context, last year we exported only \$13 billion to China. And the confidence the CBI beneficiaries have gained from this experience has helped them move forward on their own, through the Caribbean organization CARICOM and the Central American Common Market.

## **CFTA AND NAFTA**

The second, far more ambitious, step was the the North American Free Trade Agreement, joining the U.S., Canada and Mexico in fully open trade.

The first move -- the US-Canada Free Trade Agreement -- is now taken for granted. But let me remind you of something -- our trade relationship with Canada is the largest bilateral trade relationship anywhere in the world. We trade more with Canada than with the entire European Union, or with Japan and China combined. The agreement, therefore, was a technical triumph and a demonstration to the hemisphere that full-scale trade integration is possible.

This achievement was deepened and broadened in 1993, when Mexico joined to create the North American Free Trade Agreement. As NAFTA approaches its fifth anniversary, bilateral trade with Mexico has grown from \$80 billion to \$170 billion. This includes growth in American exports from \$41 billion in 1993 to likely \$85 billion this year, putting Mexico ahead of Japan for the second consecutive year, and behind only Canada as our second largest export market.

NAFTA also proved its value in both the peso crisis of 1995 and the current Asian financial crisis. In 1995, its helped make Mexico's recession shorter and milder than that of 1982, and also to withstand the political pressures to restrict trade which ultimately worsened the crisis of the early 1980s in Mexico. In the first six months of 1998, as our exports to Asia dropped \$14 billion from last year's levels, our \$11 billion increase in exports to Canada and Mexico helped us preserve jobs and growth. In fact, Mexico is our fastest-growing large export market.

## **SOUTH AMERICAN INTEGRATION**

The same process is well underway in South America, with Chile's trade agreements with its neighbors, the Andean Community and the development of Mercosur. Again, these both justified and strengthened the hemispheric consensus.

Chile's market opening, combined with its trade agreements with its neighbors, stimulated economic growth of over 8% a year; brought more than a million people out of poverty since 1993; and more than doubled per capita GDP. Its economic integration with the world brought in \$8 billion in foreign investment last year, and increased Chile's exports by over 9%. And throughout this period, its commitment to democracy and reconciliation has become an example to the world.

Likewise, the integration of Mercosur has benefited all its participants and the outside world as well. Since the Treaty of Asuncion in 1991, intra-Mercosur trade has increased by over 400%. As intra-Mercosur trade has boomed, Mercosur's exports to the rest of the world have increased by over \$20 billion. And the larger, simpler market Mercosur creates has allowed our own exports to the member countries to grow from less than \$9 billion in 1991 to more than \$23 billion last year.

## **THE LESSONS**

The lessons of this experience are entirely clear.

Trade integration has created jobs, growth and mutual benefit in North America, in the Caribbean Basin, and in South America.

And trade integration has both benefited from and strengthened peace, freedom, democracy and the rule of law throughout the hemisphere.

## **THE OBSTACLES**

Based on geographic reality; based on U.S. interests; based on American values; I believe the case for the FTAA is entirely clear. And that leads me to my second question: what then are the obstacles?

For one thing, the barriers of ideas are not entirely down. That is clear here in the United States in the emotional opposition of both right and left to the North American Free Trade Agreement, and in the debate over fast track. But day by day, as U.S. entrepreneurs invest and sell into or import from Latin America, as U.S. students meet their Latin counterparts, as popular culture grows closer and commerce more interlinked, they will continue to fall. As we proceed, we will be making our case to the public for the FTAA, and for fast track authority. It is my hope that you, as Council members, academics and businesses, will help us in the effort.

At the same time, the public -- in the United States and elsewhere -- clearly expects trade policy to respond more effectively than it has in the past to the concerns of citizens. This is natural, as trade has grown and more deeply affected daily life everywhere. And it is right, as fundamental policy decisions in democracies absolutely should be made in consultation with the public. That means our FTAA negotiations must pay appropriate attention to substantive issues like the relationship of trade to core labor standards, and to the environment. Just as important, they must achieve openness and citizen contribution if the results are to be credible.

Finally, the FTAA negotiations have begun during what President Clinton has rightly called the most dangerous financial crisis in fifty years. This may intensify traditional fears about trade liberalization. Some may well attribute the crisis to the more open trading world of today.

But the fact is, the problems evident at the outset of the crisis were caused by the opposite of open markets: lack of transparency, politically directed loans, weak rule of law, and consequently debilitated financial institutions. Latin Americans understand this truth perhaps better than most, since these were some of the problems at the heart of the Latin American debt crisis of the early 1980s. And now as then, our efforts to make crises less likely must involve greater competition, more openness and transparency, and the continued application of the rule of law -- that is, precisely the goals the FTAA will promote.

## **FTAA NEGOTIATIONS**

And where do we go from here?

In the next few years, our work must draw from the lessons of all the hemispheric trade initiatives as we approach the details of an FTAA. It must address both misperceptions and legitimate concerns about the negotiations and the agreements thus far. And we have designed a negotiating process, I believe, which will do both.

The nine Negotiating Groups address every issue crucial to a hemispheric trade agreement. And they will ensure that the result serves the interest of the hemisphere by promoting the use of new technologies and methods of trade across the span of these talks, through the creation of a special Advisory Committee to ensure that the FTAA promotes electronic commerce, Internet readiness and other innovations.

At the same time, we have attempted to erase any lingering suspicions among the participants by assigning significant responsibility to each region -- in fact, to each country. Every country will, at some point, lead one of the discussions, from Nicaragua as Chair of Services in the Miami talks this month, to the US and Brazil as Co-Chairs of the entire process during the last two years.

And we have recognized the fundamental importance of citizen contribution to trade policy through the establishment of a committee of government officials from all FTAA countries to listen to civil society -- business, labor, consumers, environmentalists, academics and others -- and present their advice to the Trade Ministers.

## **FTAA RESULTS**

Finally, the most important question -- what results do we expect from all this?

First, as directed by the Miami Summit, we will see "concrete progress by the end of the century." Most immediately, we plan to reach agreements on common sense, concrete business facilitation measures. These could include a code of conduct for customs integrity; improved customs procedures for express shipments; transparency and due process in government procurement; or mutual recognition agreements in the licensed professions.

And by 2005, at the end of the talks, we will see a rigorous, comprehensive trade agreement. All the trade barriers of the hemisphere are up for negotiation in Miami, in industrial goods, agriculture and services. This will create the world's largest free trade area, expanding trade, accelerating growth, attracting investment from all over the world and cementing our strategic position in the hemisphere. And we can aspire to results well beyond trade.

-- The FTAA will create jobs and growth through larger, simpler and fairer markets. It will raise the standard of living, as families benefit from better quality and lower prices. It has the potential to make growth more stable, as open markets in services encourage competition, transparency, and impartial regulation of financial systems, telecommunications, insurance and other industries basic to a modern economy. And it can improve the quality of life, as improved

intellectual property protection offers access to new medicines, artistic works and forms of entertainment; an open market in environmental goods and services helps reduce and prevent pollution; and integration promotes deeper cultural exchange.

-- The FTAA can also help us reach our trade goals outside the hemisphere. As early as next September, the nine FTAA Negotiating Groups are scheduled to produce "annotated outlines" of the FTAA chapters in each area. These outlines will help us reach consensus on such difficult issues as subsidies and other trade distorting practices in agriculture; market access and liberalization in services; effective copyright protection in emerging technologies; and transparency in government procurement. Thus, as negotiations on all these topics begin at the WTO next fall, we will move toward a cohesive Western Hemisphere position that enables us to promote our shared interests more effectively worldwide.

-- The FTAA also has the potential to improve governance within and among nations. Open and fair procurement practices can raise standards of honesty and transparency. The higher growth rates created by trade can raise revenue for schools, environmental protection, law enforcement and other essential services. And new dispute settlement procedures will enhance our ability to peacefully and fairly resolve economic disagreements through the rule of law.

-- Most important, both the negotiations and the FTAA, if done in the spirit envisioned at the Summits, can further strengthen the values of openness, accountability, and democracy which the hemi

## **"Four Views of the Trading System"**

Ambassador Charlene Barshefsky  
U.S. Trade Representative  
New York Council on Foreign Relations

October 1, 1998

Good evening, everyone. Thank you, Bob for that introduction; and thanks to the Council for inviting me here today.

Next year, the United States will host the 3rd Ministerial Conference of the World Trade Organization. The Ministerial will highlight to the world our strengths -- everything from agriculture and high technology to entertainment -- and open negotiations of great importance to the United States on agriculture, services, and more. As we choose a site, and begin to plan the organization of these negotiations and their contents, we will focus intently on a vast range of issues that will form the global trade agenda for the turn of the century and the decade beyond.

So as we begin, I plan this evening to place the effort in a broader context: the critical importance of the trading system to our aspirations for prosperity and for peace today; and some thoughts as to where it might go from here. And let me begin with a look backward.

### **THE ACCOMPLISHMENT**

The multilateral trading system today dates back to the establishment of the General Agreement on Trade and Tariffs in 1948: a date which marked both an historic low and a new beginning. Twenty years of rising protectionism after World War I had cut trade by nearly 70%. Russia and China had seceded from the world economy; Japan and Germany, the former Axis powers had not yet returned to it. Even the Allied nations separated themselves from one another by high tariff walls.

Today most of the mistakes of the 1920s and 1930s have been repaired. The development of the GATT and now WTO, led by the United States through eight negotiating Rounds has created a contractual set of rules accepted by more than two-thirds of the world. They have reduced tariffs on merchandise trade by an average of 90%, and more recently led to rules on intellectual property, investment, services and dispute settlement. And their results have been remarkable.

Since 1960, global trade has grown fifteen-fold; world production quadrupled; and world per capita income doubled. Regions of the world once known for poverty and wars -- Southeast Asia, Latin America, most recently Africa -- have developed at astonishing speed. China and Russia, which once sought to overthrow the market system, have applied to join it. And America's highest-skilled, highest-wage industries have boomed, with exports rising over 50% in the last five years.

All this means prosperity and better lives. The spread of new medicines and medical equipment helped world life expectancy grow from 48 years in 1955 to 65 years today, and infant mortality fall from 148 to 59 per thousand. Growing agricultural trade has made famine recede from all but the most remote or misgoverned corners of the world. And daily life is enriched in perhaps small but remarkable ways. As the novelist A.S. Byatt writes, these are years when:

"men and women hurtle through the air on metal wings, when they wear webbed feet and walk on the bottom of the oceans ... when folk in Norway and Tasmania in dead of winter could dream of fresh strawberries, dates, guavas and passion fruits and find them spread next morning on their tables."

The question, of course, is whether this is enough. It is not; and I will support that by offering four ways to look at the trading system.

## I. A SET OF RULES

First, the trading system is a contractual set of rules that spur growth. These have advanced from industrial tariff cuts in 1948 to regulation of non-tariff barriers, technical standards, intellectual property, agricultural subsidies, services and more. But they can still be much better.

### 1. Market Access for Agriculture and Industry

Improved market access is a must -- because trade barriers remain, and from a purely American perspective, some of them are highest where we are at our best.

Agriculture is the classic example, and a field where the next WTO negotiations offer immense potential for direct, concrete benefits to Americans. Here we envision negotiations for broad reductions in tariffs, the elimination of export subsidies, and further reductions in domestic supports linked to production. We must seek transparency and improved disciplines on state trading enterprises, and ensure that the world's agricultural producers can use safe, beneficial scientific techniques like biotechnology without fear of trade discrimination.

Government procurement is another example. Worldwide, government purchases are over \$3.1 trillion per year. Much is in sectors where America sets the world standard: high technology, telecommunications, construction, engineering, aerospace and so forth. At present, however, only 26 of the 132 WTO Members belong to the plurilateral WTO Government Procurement Agreement; and procurement is notoriously liable to insider deals and favoritism, bribery and corruption.

Thus we aim both to bring more countries under existing disciplines, and to seek interim agreement on transparency in procurement to create more predictable and competitive bidding throughout the world. This would help our firms; promote accountability in government expenditures; and complement international efforts against corruption.

## 2. Openness and Transparency in Services

Still more important, improved rules can help create a less volatile international economy with reduced risk of economic crises.

The extraordinary growth of world-wide capital markets, some of which lack the stable economic and regulatory foundations of well-established markets, has brought with it new sources of instability and risk. And that has never been more clear than this year.

The Asian financial crisis has been devastating to the countries most affected, destabilizing to others and dangerous even for us. And it has shown how us rapidly growth overseas can come to a halt. How quickly our overseas markets can shrink. And how profoundly this can affect the income of farm families in North Dakota; the jobs of factory workers in California; and the health of financial markets here in New York. And if the trading system cannot help address these problems, quite a few people will see it as part of the problem.

Trade liberalization did not cause the financial crisis and must not become its victim. One part of the solution will come not only through market opening in general, but in services in particular. At the root of the first phase of the Asian financial crisis were weak and protected financial sectors, insider deals in construction and properties, lack of competition and transparency, and inadequate professional legal and accounting services.

The GATS rules established in 1994, and last year's global Financial Services Agreement, are a foundation. And we can build upon it for broader transparency and liberalization in a range of services sectors. This means binding open more sectors, opening markets on a nondiscriminatory basis; preventing discrimination against particular methods of delivering services; and promoting fair competition, honesty, transparency and consumer protection in regulation. Success will mean a more open and transparent world as well as concrete benefits for important American industries; and this is also likely to contribute to a less volatile, less risky world for everyone.

## 3. Membership in Spirit as Well as Letter

We must also ensure that rules are enforced in spirit as well as letter.

Several countries -- in particular Japan and its emulators -- have been members of the GATT system for almost 50 years but maintained home markets essentially hostile to foreign competition. While successive negotiating Rounds lowered formal barriers, their markets remained opaque and driven more by informal cliques than by laws, rules and contracts. As we approach new negotiations, we must ask how the WTO can correct these problems, and prevent similar ones from arising in the future.

## 4. Transparent and Honest Markets

Linked to this is our approach to competition policy, and bribery and corruption.

Competitive market structures and sound antitrust law enforcement are crucial to most national economies. They can also be fundamental to healthy trade. And as more companies operate in many different countries, we face the need for greater international cooperation -- and ultimately, the question of the feasibility of an international regime in these areas.

Such a regime cannot be created quickly or simply. WTO members have very different antitrust policies, both in the substance of laws and in enforcement. Almost half have no competition laws at all. What is critical, however, is that we develop an international culture of competition and sound antitrust enforcement, built on shared experience, bilateral cooperation and technical assistance. From that base we should focus on the most egregious practices -- e.g. hard-core cartels. And over the long run that will provide a foundation for a more comprehensive regulatory framework for competition policy.

With respect to bribery and corruption, our main efforts have thus far come in the OECD. Here, two years ago we won a recommendation to prohibit the tax deductibility of bribes in international business transactions, and last year a 34-nation Convention requiring governments to make such bribery a criminal offense. The WTO can also play a role, for example in customs valuation as well as in the government procurement talks. As we gain more experience, the WTO can ultimately build upon the work of the OECD to establish a truly world-wide regime against bribery and corruption.

## II. A SET OF MEMBERS

That is one way to look at the trading system: as a set of rules to spur sustainable growth. In a second sense, the trading system is a contributor to peace.

Since 1947, the GATT system has grown from 23 mostly Latin American and Western countries to 132 nations from every region of the world. And here the remaining work is clear: the integration of the 1.5 billion people who remain outside the system, most of them in China, Russia, Vietnam and other reforming communist nations.

This is an extraordinarily important task in trade terms alone -- the new applicants are among the world's largest countries and most active traders. And still more important are its implications for a stable peace in the 21st century, because peace is less secure when major countries are outside the rules of the world economy. Completing the rules-based system, then, is the equivalent after the Cold War to the reintegration of Japan and Germany after World War II.

But while the goal may be clear, the path to it is difficult. The continuing advances in rules mean that WTO standards are progressively more difficult for new members to meet. And these countries arguably began further from those standards than any previous group of admissions.

For decades they operated economies divorced from the capitalist world and antithetical to WTO principles. They were not identical -- the Soviet economy ran on a very stable planning system, while China shifted rapidly from Soviet planning to communes and then the reform model

-- but their major features were similar. They allowed no private business other than a few small farms and foreign factories. They had no independent judicial system, and consequently no rule of law. They did little trade; and thus had little stake in peace and stability beyond their borders.

To move from this to a market system is an immensely difficult task. In the words of a former Central European dissident, it is "like taking fish soup and turning it into an aquarium." We see that in Russia and we see it in China. But Central Europe has built the aquarium, and its experience teaches us that WTO disciplines are a great contributor to reform. At the most recent WTO Ministerial, Minister Steinhoff of Poland said:

"Poland's accession to GATT in 1967 helped us to retain institutional links with the international marketplace ... when my country was still subjected to a political and economic system alien to the aspirations and entrepreneurial spirit of its people. However, it has been only after the transformation process was launched at the turn of the present decade that Poland could assume her full rights and obligations within the system. Our participation in the GATT/WTO framework has helped to consolidate the reform."

Thus, to support rather than undermine both domestic reform in the former communist countries and the rules of the trading system, these countries must be brought in on the right terms. The result must be enforceable commitments to open markets; transparent, non-discriminatory regulatory systems; and effective national treatment at the border and in the domestic economy.

This requires patience, as we have said many times. And it will require transition periods in a number of areas. But the reward -- the integration of the last great countries outside the trading system; a stronger peace in the next century -- will be worth the effort.

### III. A SPUR TO PROGRESS

In a third sense, the trading system is a spur to scientific and technological progress.

In medicine, environmental protection, agriculture, entertainment, transportation, materials science, information and more, science is advancing at extraordinary speed. This offers the world tremendous potential to increase wealth, raise productivity, improve health care, reduce hunger, protect the environment and promote education. And in pursuit of these goals, trade policy must aim, consistent with national security, to ease, rather than impede, the development and commercialization of new technologies.

To succeed, we must improve the system's institutions and negotiating methods. In a world where successive generations of new products arise in a matter of months, and both information and money move instantaneously, we can no longer take seven years to finish a negotiating Round, or let decades pass between identifying and acting on trade barriers. We will have to move faster and more efficiently.

We must also make the WTO rules more effective in facilitating the advance of science

and the commercialization of new technologies. This begins with intellectual property. Here, the system can be improved both in terms of patents, particular for biotechnology products, and in terms of the copyright treatment of new information technologies, computer software and the Internet.

And we must ensure that the system is open to new methods of trade. Our particular focus here is global electronic commerce. This can bring consumers a vast range of benefits in everything from arts and entertainment to improved health care through telemedicine to easier and safer travel. It can also help trade by allowing individuals to become entrepreneurs more easily, and by applications to technical trade issues such as customs procedures.

Today, the world of electronic transmissions is, in trade terms, pristine. No WTO member considers electronic transmissions as imports subject to customs duties. There are no customs duties on cross-border telephone calls, fax messages or computer data links. We want to keep the Internet that way. Thus, in May we won world agreement on a "standstill" on customs duties on electronic transmissions, as a first step to make sure electronic commerce remains a catalyst for expansion of trade, and consequently prosperity, choice and the quality of life.

#### IV. A SERVICE TO CITIZENS

The fourth -- and to me most important -- way to look at the trading system is as an institution which serves ordinary people. And thus our most important task is to ensure that as trade grows, trade policy and institutions like the WTO continue to meet the concerns of citizens.

##### 1. Environment and Labor Issues

In one sense, this means responding to the substantive concern that economic growth must go together with a rising quality of life.

For example, creation of prosperity through open trade, protection of the environment and public health, and the rights of workers, should be basic goals of all WTO members. These goals need not conflict. In fact, if we are sensible and foresighted, they can be mutually supportive.

Our first task in trade and the environment is to find areas in which elimination of trade barriers will itself mean a cleaner environment and the conservation of natural resources. The negotiations in APEC to eliminate barriers to trade in environmental goods and services, for example, can help countries monitor, clean up and prevent pollution.

At the same time, as the trading system ensures that members do not use environmental standards to disguise protectionism, we must be sure that elimination of trade barriers does not compromise high levels of protection for the environment and for health and safety. And the system must work together with multilateral environmental agreements..

This has been a top priority ever since the Uruguay Round, when we insisted on creation of a Committee on Trade and the Environment as a very important initial step. But progress in

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the Committee has been slow. We are thus proposing to the WTO to schedule a high-level meeting on trade and environment, which can offer direction and new energy in advance of the 1999 Ministerial.

Likewise, the public must be confident that trade contributes to, rather than undermines, the well-being of working people. Thus, core labor standards -- banning forced labor and exploitive child labor, guaranteeing the freedom to associate and bargain collectively, eliminating discrimination in the workplace -- must be actively pursued. These are fundamental human rights and common concerns. Just as the WTO can work more effectively with international financial institutions, it can work more closely with the International Labor Organization to promote them.

## 2. Democratic Values

Responding to the concerns of citizens also, however, means reforming the institutions of trade. These institutions must be open and accountable if they are to succeed in decades to come. For example, the World Trade Organization should let people watch arguments before dispute settlement panels. The fact that it does not is wrong in itself and a breeding ground for misinformation. The United States, as the leader in establishing the WTO and the dispute settlement system's most active user -- we have initiated and won more cases than any other member -- will lead by example in the solution. Thus, President Clinton was the first world leader to offer to open all the disputes in which we participate to public observers.

## CONCLUSION

Our challenge, then, is clear.

For fifty years, beginning with the establishment of the GATT, we have helped to make the world wealthier and more peaceful through freedom, open markets and the rule of law. As we look ahead, the task we see is nothing less than the completion of this achievement.

A set of rules which fit the more open, integrated modern world; which help both to spread the blessings of prosperity, and prevent or minimize the crises to which we are now all too vulnerable.

Integration, on the right terms, of great nations once our bitter enemies and now seeking to join the World Trade Organization and the system of open markets under law it represents.

A higher quality of life, as new technologies improve schools and hospitals while they foster artistic expression and freedom of speech.

And a trading system which better reflects the basic values of American governance: openness, accountability, the right of the citizen to speak to the policies of nations.

It is a large responsibility; but history gives us every reason to be confident of success.

**Remarks of Ambassador Charlene Barshefsky  
National Association of Business Economists**

**October 7, 1998**

Good afternoon. Thank you all for coming.

It is my great pleasure to share with you some thoughts about our trade policy agenda. Whether it is enforcement of agreements, development of the multilateral trade system, or our regional and bilateral negotiations, we have a busy schedule ahead.

My remarks today will touch on each of these topics. But I would like to put the agenda in the context of a few broader challenges I believe our country must address. And let me begin with a look at the record of the past.

### **THE POSTWAR RECORD**

Our modern trade policy began with the establishment of the GATT in 1948: a date which marked both an historic low and a new beginning. Twenty years of rising protectionism after World War I had cut trade by nearly 70%. Russia and China had seceded from the world economy. Japan and Germany, the former Axis powers, had not yet returned to it. Much of what we now call the "developing world" was shut off from trade by "colonial preference" systems. Even the Allied nations separated themselves from one another by high tariff walls.

Today, after fifty years of work, most of the mistakes of the 1920s and 1930s have been repaired. The development of the GATT and now WTO, led by the United States through eight negotiating Rounds has created a contractual set of rules accepted by more than two-thirds of the world. They have reduced tariffs on merchandise trade by an average of 90%, and more recently led to rules on intellectual property, investment, agriculture, services and dispute settlement. Our bilateral negotiations, and regional integration efforts such as that begun with the establishment of the European Union's predecessor organization in 1950, have further contributed to open trade.

### **ITS RESULTS**

These efforts are based on a recognition of mutual economic benefit, and on fundamental American values: personal freedom; rewards for hard work and innovation; and open markets under the rule of law. And the results have vindicated these values in practice.

Since 1960, trade has grown fifteen-fold, and world per capita income doubled. Regions of the world once known for wars and poverty -- Southeast Asia, Latin America, most recently Africa -- have developed at astonishing speed. China and Russia, great nations which once sought to overthrow the market system, now aspire to join. America's highest-skilled, highest-wage industries have boomed, with exports rising 50% since the Clinton Administration took office.

These blessings have extended from the world's richest to its poorest. The dissemination of new medicines has helped raise life expectancy from 48 years in 1955 to 65 today, and cut infant mortality from 148 per thousand to 59. With the growth in agricultural trade, famine has receded from all but the most remote corners of the world.

### **TRADE IN THE U.S. ECONOMY**

And our ability to sell to the larger market trade policy has created means jobs, growth and living standards here in America.

Between 1992 and 1997, our economy expanded from about \$7.2 trillion to \$8.1 trillion in real terms. Exports accounted for over one third, or about \$320 billion, of that growth; and for more than 2 million of the 15 million new jobs created under the Clinton Administration. That in turn means higher living standards, as jobs supported by goods exports are more productive and pay an average of 13% to 16% higher than the U.S. national average. It is no accident that in the last two years, average wages have risen from \$394 to \$438 per week.

And if exports are important to us today, they will be more so in the future. Nearly 80% of world economic consumption, and 96% of world population, are beyond our borders. These are the firms, governments and people who buy American wheat, aircraft and entertainment. If we can't sell to them, we will find ourselves poorer and less able to lead the world in the next century than we are today.

### **ASIAN FINANCIAL CRISIS**

Where, then, do we go from here? I would say that we must address five fundamental issues. One is an immediate emergency, and so let me begin with that.

As President Clinton has said, the events which began as a set of currency devaluations in Southeast Asia last year have become the most dangerous financial crisis the world has faced in fifty years. It has been devastating to the affected countries; to cite just one especially painful effect, the Thai Ministry of Education announced last week that 250,000 Thai children have left school because their parents can no longer pay tuition fees. It has threatened emerging markets all over the world, and it is leaving a mark on us.

Today, two in five containers leave the port of Los Angeles empty. That is an index to a sheer drop in exports affecting manufacturers and farmers all over America. Compared to last year, our exports to the Asia-Pacific region were down \$14 billion in the first six months of 1998. That includes a loss of \$4 billion, or 12%, in exports to Japan alone, and a loss of fully 70% of our exports to Indonesia. The result has been a drop of 2.5% in GDP growth for us this year, instability in financial markets, declining farm incomes, and the specter of job losses in manufacturing industry.

Therefore, our top priority is to work with the IMF and affected countries to restore currency stability and promote economic recovery. These IMF programs provide money conditioned on reform, and we monitoring the conditionality closely. In cases such as Thailand where the programs are being implemented, we see good signs.

However, resources at the IMF are at historic lows. Every day Congress does not approve the President's request for IMF funding increases our vulnerability to a crisis, and decreases confidence in global markets. The Senate has now approved full IMF funding by large bipartisan majorities twice, but with only days left in the Congressional session the House has yet to act. At a time when the markets are looking to see if the international community has the capacity to deal with these crises, passage of IMF funding is critically important.

Equally important, Japan as the world's second-largest economy must act immediately -- for Japan's own self-interest, and because economic stagnation in Japan makes recovery far more difficult for all of Asia. Every Asian country affected by the crisis -- Korea, Thailand, the Philippines, Malaysia, China -- has seen their exports to Japan drop this year. The longer this continues, the more serious Asia's economic problems will become; the more we risk protectionist pressures here in America; and the more difficult will be the world's task in addressing this crisis. We thus believe Japan must use fiscal stimulus to spur demand-led growth, reform its financial system, open its markets and deregulate its economy.

And we are committed to an open market policy at home. We will, of course, enforce our laws against unfair foreign export practices, and adopt sensible policies in case of import surges. But we will remember the lesson of the 1930s, and -- as we ensure that countries like China, Argentina, Chile and Brazil do not respond by reverting to protectionism -- we will refuse to panic and shut off trade ourselves. That would only hurt our trade partners and worsen the crisis.

## FOUR CHALLENGES

Let me now turn to our four longer-term challenges. In years ahead, trade policy must:

- further open world markets;
- respond to the economic and trade implications of the end of the Cold War;
- ensure that the United States can take advantage of and continue to lead the scientific and technological revolution; and
- retain the support of citizens as trade continues to grow.

### I. OPEN MARKETS

Let me begin with the first of these: open markets. Foreign trade barriers, even today,

remain higher -- much higher -- than ours. And it is only fair to expect others to give us the same access we offer to them. This is obvious, and it is at the foundation of almost all our trade negotiations, with particular countries, regions and multilaterally.

To be specific, during the Clinton Administration we have negotiated 260 trade agreements, from A for Albania to Z for Zimbabwe. These include 35 separate agreements with Japan, 13 with Canada and another 15 with the European Union, which altogether have helped raise our exports to these trade partners by more than \$115 billion.

We have also created five landmark multilateral trade agreements. Two -- the Uruguay Round Agreement, which established the World Trade Organization; and the NAFTA, which has ensured that our immediate neighbors are open to our products -- are very well known. But the other three, which we completed in 1997, are equally significant: the Financial Services Agreement, which opens markets in financial sectors totalling more than \$58 trillion dollars; the Information Technology Agreement, removing tariffs and other barriers on over \$1.5 trillion in trade in computers, semiconductors, computer equipment and other goods; and the Agreement on Basic Telecommunications, including 70 countries and over 95% of world telecom revenue in a \$750-billion industry. Together, they radically reduce barriers to information, communications, and finance; and thus lay the foundation for the 21st-century economy.

Equally important to us is enforcement. Agreements mean something to us only in so far as our trade partners live up to them. The improved dispute settlement mechanisms of the WTO and NAFTA let us make the most of our work, and we use them vigorously. The United States filed 41 WTO complaints so far, more than any other country. And we have already prevailed in 17 cases, winning eight through the panel process and successfully settling nine others.

However, we have more work ahead. We still face high trade barriers in several fields, most of all in agriculture and services where the US is the world leader. The end of the Cold War and the revolution in science and technology have also changed the trade landscape. And as trade has grown, the American public naturally is more concerned and interested in trade policy. Our strategy thus addresses four fundamental challenges.

## **MARKET-OPENING AGENDA**

The first is further market-opening, with an emphasis on new regional arrangements but also by improving the rules of the world trade system. Let me briefly review the agenda:

### **1. Regional Initiatives**

-- Our own hemisphere, before the NAFTA Mexico's tariffs averaged 10% while ours averaged 4%. The discrepancies we will address in the much broader Free Trade Area of the Americas -- negotiations began in earnest this month in Miami -- are even greater.

-- Asia, where through the Asia-Pacific Economic Cooperation forum we are looking toward free and open trade in the Pacific. This effort began with the Information Technology Agreement, and now addresses nine industrial sectors such as telecommunications, energy, environmental goods and services, which together account for \$1.5 trillion in trade, by November this year.

-- Africa, where our trade relations are only beginning to develop. But we are working to expand exports by organizing more frequent trade missions, negotiating bilateral agreements and more fully integrating African nations into the World Trade Organization.

-- Europe, where we are working to remove barriers and strengthen trade relations with the European Union. Technical trade barriers -- for example, the duplicative regulations, unnecessary paperwork, and other problems the Trans-Atlantic Business Dialogue has identified -- reduce the value of our exports to Europe by up to 2%, or \$3 billion last year. Through the Transatlantic Economic Partnership we began in London last May, we hope to address a number of remaining impediments to trans-Atlantic trade, as well as problem areas like agriculture. And we will ensure that the expansion of the EU to include Poland and other Central European countries -- which we support -- will not endanger American economic interests.

-- And the Middle East, where we have inaugurated a special program to increase inter-regional trade, starting with Israel and Jordan, so as to help the Middle Eastern countries find common interests and thereby support the peace process.

#### WTO Agenda

We will also launch negotiations next year at the WTO, when the United States hosts the third conference of the world's Trade Ministers. This meeting, at the end of 1999, will set the global trade agenda for the first decade of the new century. And we are preparing an ambitious and foresighted agenda.

Global services and agriculture negotiations are already scheduled to resume, but we need to look ahead to other complex issues as well, including government procurement, improved intellectual property protection and global electronic commerce.

#### END OF THE COLD WAR

The second great challenge is that created by the end of the Cold War.

When the World War II allies created the GATT, their work represented more than a triumph of technical trade negotiations -- it also represented a triumph of vision, because they ultimately decided to include Japan and Germany. The reintegration of these two countries into world commerce helped cement peace in Western Europe and the Pacific.

Today we face an equally profound challenge, with equally great implications for peace in

the next century. That is the reintegration of our former Cold War adversaries -- Russia and China; Ukraine, Vietnam and other economies in transition as well -- into the WTO.

For decades these countries operated economies divorced from the world and antithetical to WTO principles. They were somewhat different -- the Soviet economy ran on a very stable system of planned production, while China shifted from the Soviet model to the communes and then to the reform model. But their major features were quite similar. They allowed virtually no private business other than a few foreign factories and small-scale private farms. They had no independent judicial system, and consequently regulated industries by arbitrary command rather than transparent law. They did very little trade with the capitalist world; and they thus little stake in peace and stability beyond their borders.

To return to the market, in the words of a former Central European dissident, is like "taking fish soup and making it into an aquarium." It is immensely difficult, as we see in Russia and elsewhere. But it is also possible; we know that because Poland, Hungary, the Czech Republic and other Central European nation have done it. They have built the aquarium, and the disciplines of membership in the WTO, as Poland's Trade Minister pointed out last May in Geneva, have helped them do it.

Accession to the WTO, under commercially meaningful terms, will thus help the transition economies achieve their own goals as well as improve market access for Americans. And while the negotiations are slow and complex, the results will be profound as years go by: freer markets; openness to the world; transparency; peaceful settlement of disputes; the rule of law. And thus greater prosperity and a more secure peace.

### **THE 21ST CENTURY ECONOMY**

The third challenge is that posed by the scientific and technological revolution.

Science is moving ahead, in every field from the Internet and Electronic Commerce; to pharmaceuticals and medical equipment; agriculture; environmental technologies; and information technology. These are fields in which the US leads the world and can gain immensely from open trade; and they are ways to raise living standards, advance the principles of open society, reduce hunger and improve health worldwide.

Our trade policy thus seeks to fulfill the promise of new technology for better lives as it advances our concrete commercial interest. This is the basis of last year's three landmark trade agreements on information technology, telecommunications, and financial services. And they are only a beginning. In the next few years, we have an opportunity both to open new high-tech industrial sectors, and to address three broader issues:

**Intellectual Property Rights --** We must extend protection of intellectual property rights beyond basic laws and enforcement to protect new technologies like genetically engineered plant

varieties to digital video discs and newly developed computer software programs.

Global Electronic Commerce -- We must preserve Internet trade as a duty-free zone. We recently won agreement to a "standstill" for tariffs on electronic transmissions, to help global electronic commerce reach its full potential. That agreement has to be made permanent.

Biotechnology -- And we must make sure farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination.

### THE SUPPORT OF CITIZENS

These challenges take our trade agenda to every part of the world and out into cyberspace. But just as our trade policy begins with our own national interest, so our last great challenge is not abroad but at home. That is, ensuring that as trade grows and becomes more important to our economy and daily lives, that the public will continue to support trade policy.

As everyone here knows, I am sure, trade has become a more controversial and hotly debated topic each year. That is as it should be: we are a democracy, and the public has both the right and responsibility to judge our policies based on principle and on results. And it is up to those of us who support open trade to respond to public concerns.

That means a continuing effective response to this year's financial crisis.

It means a better effort to ensure that the public has the facts about trade: the importance of exports in our current national prosperity; the high wages that export jobs pay; the role of the trade system in advancing the values of freedom, transparency and the rule of law.

And it means a respon

As Delivered

**"Manufacturing and America's Trade Agenda"**

**Ambassador Charlene Barshefsky  
United States Trade Representative**

**National Association of Manufacturers  
Washington, D.C.  
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Good morning, everyone.

We are preparing for a busy 1999: from our role as chair of the Third WTO Ministerial Conference, to new multilateral talks and regional and bilateral initiatives in each part of the world. Today I will touch upon each of these topics. But my main purpose is to put the agenda in the broader perspective of American manufacturing: its importance to our economy; the possibilities open trade offers to its future; the challenges we face in realizing those possibilities; and the policies which can meet those challenges.

**U.S. MANUFACTURING INDUSTRY**

I begin with the fundamental point. A strong manufacturing sector is essential to a strong American economy. This is not a theory or a slogan; it is a fact. And the American economy is strong today in large part because manufacturing is strong.

Last year's \$1.4 trillion in U.S. manufacturing production made up one dollar in thirty of the total world economy. Our 230,000 manufacturing companies directly support nearly twenty million jobs, and indirectly many more in high-wage service fields. Our manufacturing workers are the world's most productive, and our plants the most technologically advanced, creating the most sophisticated products everywhere from steel to satellites and surgical equipment.

This is a record of remarkable success -- one we must extend into the future to remain the world's most prosperous, competitive and dynamic economy.

**THE SECULAR TRENDS**

To do so, however, we must recognize the broad trends around us:

- The world is more peaceful, as the end of the Cold War has reduced the threat of war among big powers and likewise reduced internal tensions in Asia, Africa and Latin America.
- Science and technology are surging ahead, everywhere from agriculture to aerospace, information technology and the life sciences.

-- The world economy has become more open, in trade through the development of the GATT, WTO, NAFTA and other arrangements; and in finance through open capital markets and new information technologies.

-- And the world is more prosperous. World economic production has grown from \$9 trillion to \$36 trillion since 1960; world per capita income doubled; and regions once known for wars and poverty have developed at astonishing speed.

These trends make today's world far more integrated than ever before. We benefit from larger markets and greater economies of scale. But our companies, workers and young people face more competition. And the ripples of faraway events, from reforms in Africa to disruptions in the Bangkok real estate market, reach our shores with unprecedented speed and force. This has affected every part of our economy, but manufacturing most of all.

### OUR RESPONSE

The Clinton Administration has responded with a three-part economic strategy.

First, we have followed a sound fiscal policy, which has reduced interest rates and freed resources for capital investment. In the 1992 campaign, President Clinton pledged to cut the budget deficit -- then \$290 billion -- in half by 1997. With the 1993 budget, he reached the goal three years early; and two weeks ago, announced our first budget surplus since 1969.

Second, we have promoted top-quality education for a 21st-century workforce, including voluntary national education standards, hiring 100,000 new teachers, linking every school to the Internet and offering lifelong learning programs and fundamentally improved job training.

And third, we have sought a world more open to our goods and services.

### TRADE POLICY RECORD

In the past five years, we completed 260 trade agreements. We have given special attention to our largest trade partners through 86 separate agreements with Canada, China, the EU, Japan and Mexico. And the 260 include five truly historic agreements:

-- The Uruguay Round, which lowered trade barriers worldwide, created international rules for trade in agriculture and services, and established an effective dispute settlement mechanism, in which the United States has filed and won more complaints than any other nation.

-- NAFTA, which cemented our strategic trade relationship with our immediate neighbors.

-- And the three agreements of 1997: the Financial Services Agreement, opening banking, securities and insurance markets totaling more than \$58 trillion dollars; the Information

Technology Agreement, removing tariffs and other barriers on more than \$1.5 trillion of trade in high-tech manufactures; and the Agreement on Basic Telecommunications, with 70 countries and over 95% of revenue in a \$750-billion industry.

## TRADE POLICY RESULTS

Thus our exports have grown 50%, and manufacturing exports have grown fastest of all. And the results bear out the arguments NAM has made about the importance of exports:

Growth -- from 1992 to 1997, our economy grew from \$7.2 trillion to \$8.1 trillion. Exports accounted for over one third, or \$320 billion, of that growth. Manufacturing in particular benefited, with 61% export growth helping to create a 28% rise in real industrial production.

Jobs -- Since 1992, unemployment has fallen from 6.9% to 4.6%, and total employment grown from 104 to 119 million jobs. Exports accounted for one in every six of these 15 million new jobs, and one in five of our new manufacturing jobs.

Living standards -- Jobs supported by goods exports pay 13%-16% above US averages. As exports have risen, average real wages are up from \$394 per week in 1996 to \$424 today.

## WHERE TO NOW?

In the future, exports will be even more important than they are today. Nearly four fifths of world consumption, and 96% of world population, are beyond our borders. We must be able to sell to them to succeed in the next century.

And we have identified a set of strategic issues we must solve to do so. One -- the Asian financial crisis -- is a short- to medium-term emergency. The other four are long-term challenges: further opening world markets; addressing the trade implications of the end of the Cold War; responding to the scientific and technological revolution; and ensuring that trade policy retains the support of citizens. Let me take up each of these in turn.

## ASIAN FINANCIAL CRISIS

First, the Asian financial crisis.

As President Clinton has said, the events which began with the devaluation of the Thai baht in July last year are now the most dangerous financial crisis the world has faced in fifty years. It has devastated the affected countries. Indonesians are threatened with hunger. The Thai Education Ministry reports that 250,000 Thai children have left school. In Russia eight years of reform are threatened. It is a monumental tragedy; and it has hit us very hard as well.

These days about two in five containers leave the port of Los Angeles empty. That is a

graphic illustration of the facts: our goods exports to Japan are projected to drop \$8 billion this year; to China, Hong Kong and Taiwan \$3 billion; and to the rest of Asia perhaps \$20 billion. Our trade with Latin America is suffering as well -- the Port of Miami reports a 12% drop in two-way trade this year.

That threatens jobs and growth all over the country. Therefore, our top priority is to work with the IMF and affected countries for currency stability and economic recovery. The IMF programs provide loans conditioned on reform -- for example in ending policy loans in Korea. We monitor the conditionality closely; in cases such as Thailand which are making reforms, we see good signs.

We are also committed to open markets at home. We will of course enforce our laws against unfair trade practices, and ask Japan and the EU to take their fair share of the burden. But we will remember the lesson of the 1930s, and -- as we ensure that others do not respond with protectionism -- we will refuse to panic and shut off trade ourselves. That would only hurt our trade partners and worsen the crisis.

And we are pushing Japan for fiscal stimulus, financial reform and deregulation, because Japan's recession has hit all the affected countries very hard. As Thailand's exports to the United States rose \$600 million in the first six months of 1997, Thai exports to Japan shrank nearly \$800 million. Indonesian exports to Japan are down a third, and Chinese exports by \$2 billion. Without urgent, immediate action from Japan, including full implementation of banking reform and other measures, we cannot get the job done.

## I: OPEN MARKETS

I will now turn to our longer-term challenges, beginning with the further opening of markets abroad.

With respect to market access, fifty years of trade policy has accomplished a lot for manufacturing. We have created widely accepted rules, and eliminated many of the barriers which existed when the GATT was founded in 1948. Since then, tariffs, for example, have declined by an average of 90%. But we still face considerable obstacles, in both our industrial trade partners and in developing countries.

Thus, we have active bilateral market-opening approaches -- for example in Japan including comprehensive deregulation; and in China -- which proceed in parallel with our emphasis on new regional arrangements and improving the rules of the world trading system. Let me take each in turn.

### 1. Regional Initiatives

-- Our own hemisphere. Before the NAFTA Mexico's tariffs before the agreement averaged

10% while ours averaged 4%. The discrepancies we will address in the much broader Free Trade Area of the Americas -- negotiations began in earnest this month in Miami -- are even greater.

-- Asia, where under the Asia-Pacific Economic Cooperation forum (APEC) we are looking long-term toward free and open trade in the region, starting with last year's Information Technology Agreement and now in nine sectors, such as telecommunications, energy and environmental goods and services.

-- Africa, where our trade relations are only beginning to develop, and we are working to expand exports by organizing more frequent trade missions, negotiating bilateral agreements and more fully integrating African nations into the World Trade Organization.

-- Europe, where we are working to remove barriers and strengthen trade relations with the EU. Technical trade barriers -- for example, the duplicative regulations, unnecessary paperwork, and other problems the Trans-Atlantic Business Dialogue has identified -- reduce the value of our exports to Europe by up to 2%, or \$3 billion last year. Through the Transatlantic Economic Partnership we began in London last May, we hope to remove remaining barriers to transatlantic trade these issues, as well as addressing problem areas like agriculture. And we will ensure that the expansion of the EU to Central Europe, which we support, will not endanger American economic interests.

-- And the Middle East, where we have inaugurated a special program to increase inter-regional trade, starting with Israel and Jordan, so as to help the Middle Eastern countries find common interests and thereby support the peace process.

## WTO Agenda

Multilaterally, we will launch negotiations next year at the WTO, when the United States chairs the Third WTO Ministerial Conference. Global services and agricultural negotiations are already scheduled to resume, but we need to be ambitious, forward-leaning, and look ahead to other complex issues; e.g. government procurement; next-generation intellectual property rules; the effects of regulation on trade; and bribery and corruption. This meeting, at the end of 1999, will set the global trade agenda for the first decade of the next century.

## II: END OF THE COLD WAR

The second great challenge is that raised by the end of the Cold War. That is, the integration of our former adversaries -- Russia, China, Ukraine, Vietnam and other economies in transition -- into the global, rules-based trading system.

For decades these countries operated economies divorced from the world and antithetical to WTO principles. They were somewhat different -- the Soviet economy ran on a very stable system of planned production, while China shifted from the Soviet model to the communes and

then the reform model. But their major features were quite similar.

They allowed virtually no private business other than a few foreign factories and small-scale private farms. They had no independent judicial system, and consequently regulated industries by arbitrary command rather than transparent law. They did very little trade with the capitalist world; and they thus had little stake in peace and stability beyond their borders.

In their own ways, Russia and China -- along with Vietnam, Ukraine, Kazakhstan and many other nations -- have begun to break with this legacy. They are trying to create markets. Enter world trade. And, in the largest sense, begin to replace the rule of man with the rule of law. For the post-Cold War world, integrating these economies into the market-based system of the WTO -- and in a larger sense, the system of laws, contracts and mutual benefit which helps build prosperity and political stability -- is a task no less important than the reintegration, through the GATT and the Bretton Woods agreements, of Germany and Japan after the Second World War.

Accession to the WTO, under commercially meaningful terms, will bring these countries a long way toward the goal. The negotiations we conduct on this question are vastly complex, involving everything from thousands of individual tariffs to copyright law enforcement and scientific food inspection standards. They are often slower than we would like. But the results will be profound: freer markets; openness to the world; transparency, peaceful settlement of disputes; the rule of law. And thus greater prosperity and a more secure peace.

### III. THE 21ST CENTURY ECONOMY

The third strategic challenge that posed by is the scientific and technological revolution.

Science is moving ahead, in every field from the Internet and Electronic Commerce to pharmaceuticals and medical equipment; materials science; aerospace; agriculture; environmental technologies; and information technology. These are fields in which the U.S. leads the world and can gain immensely from open trade; and they are ways to raise living standards, advance the principles of open society, reduce hunger and improve health worldwide.

Our trade policy thus seeks to fulfill the promise of new technologies for better lives, as it advances our concrete commercial interests. This is the basis of last year's three agreements -- which I cited earlier for their tremendous present economic value, but which have a still deeper importance for the areas they cover: information technology, telecommunications and financial services -- the foundation of the 21st century economy.

The Information Technology Agreement (ITA) will eliminate tariffs on a wide range of global information technology products over the next several years; products that even today make up about one in every thirty dollars of world GDP. And we are moving forward with negotiations for an ITA II for expanded product and country coverage.

The Agreement on Basic Telecommunications includes 70 countries and over 95% of world telecom revenue in a \$750-billion industry. It provides U.S. and foreign countries 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. In doing so, it replaces a 60-year tradition of national telecommunications monopolies and closed markets with market opening, deregulation and competition.

And last December, we secured the multilateral Agreement on Global Financial Services, including banking, securities, insurance and financial data services. It covers 95% of the global financial services market, and 102 members now have market-opening commitments in the financial services sector.

But we must keep up, as the scientific and technological revolution proceeds:

Intellectual property rights is an example. American manufacturing is at the leading edge of technology; thus much of our production derives its value from innovation. And to make innovation worthwhile, we must make sure our products, and often the methods which make them, are not illegally pirated. We must extend protection of IPR beyond basic laws and enforcement, to protect new technologies -- everything from genetically engineered plant varieties to digital video discs and newly developed computer software.

Second, we must preserve Internet trade as a duty-free zone. We recently won a "standstill" preventing the imposition of tariffs on electronic transmissions, to make sure global electronic commerce can reach its full potential.

And third, prevention of discrimination against safe, scientifically proven techniques like biotechnology. This is a critical issue for American agriculture, but it is equally important for pharmaceutical companies; for makers of precision instruments who serve farmers and biotech firms; and to preserve the potential for uses of biotechnology in areas we have not yet imagined.

#### IV: THE SUPPORT OF CITIZENS

This is an ambitious agenda. It covers the oldest tariffs and customs issues, and the newest technological innovations in cyberspace. It addresses every part of the world. And I believe it will do immense good. But it will not work unless we succeed in the fourth and most important challenge. That is, ensuring that trade policy continues to receive the support of the public.

Today, public anxiety about trade is high. We see that everywhere from polling data to the fast track debate in Congress. And it is especially high with respect to manufacturing, where concerns about imports and jobs are most intense. If advocates of open trade cannot address these fears, the most exciting plans will mean little.

The response must begin with a better effort to give the public the facts. The contribution of trade to a strong American manufacturing industry. The importance of exports in our current national prosperity, and the high wages export jobs pay. And the role of the trade system in advancing freedom, transparency and the rule of law. NAM's work in publications like "Why Exports Matter" is an excellent start; but all of us must do better.

We must address substantive concerns: our citizens must know growing trade will not reduce our environmental quality or labor standards. Growth at home can go together with safer factories and a cleaner environment. In the U.S., since 1970, as manufacturing production doubled, the number of workplace deaths fell 60%, the percentage of fishable and swimmable rivers doubled, and the number of people living with unhealthy air fell by half. We must now prove this world-wide by addressing the issues of labor standards and environmental protection, and their relationship to trade. This is crucial for public support of the trade agenda, most immediately if we are to pass fast track authority next year. Without consensus on this issue we will find that very difficult.

We must address institutional concerns as well. For example, the World Trade Organization has an excellent dispute settlement mechanism, but does not allow ordinary citizens to watch arguments before the panels, or even get the decisions until months later. That is wrong; and a natural breeding ground for rumors and misinformation. It has to open up.

And trade policy must be part of a larger economic policy appropriate to a world in which we have greater competition as well as greater reward. Schools must make sure our young people can compete and succeed. Health insurance, unemployment compensation and job training must be there when any worker loses a job. The good fiscal policies, improved education and domestic safety net our Administration has advocated must be continued and strengthened for trade policy to achieve its goals.

## CONCLUSION

I cannot overstate how important this is.

Great streams of events are flowing together: the opening of the world economy; the dynamism of science; the political changes arising from the end of the Cold War; the financial crisis. If we do not meet these challenges, we lose a chance to strengthen the peace; lose economic opportunities; and fall short of the standard of courage and vision the United States of America should set.

But if we succeed, the rewards will be extraordinary. At home we will see higher incomes for working people. New opportunities for small companies and entrepreneurs. Faster growth and improved prospects for our young people. The further strengthening of the world's largest, most efficient and productive manufacturing sector.

And beyond our borders, a world in which open markets, under the rule of law, let hard work, creativity and initiative find rewards.

Where new technologies help freedom of inquiry and expression to blossom.

And where growing trade gives all nations a greater stake than ever before in a peaceful world.

That is the opportunity before us; and let us not miss it.

Thank you all very much.

## **"The Free Trade Area of the Americas and the Rule of Law"**

**Ambassador Charlene Barshefsky  
United States Trade Representative**

**Georgetown Law Center  
Washington, D.C.**

**October 16, 1998**

Thank you all very much, and thank you for that introduction.

I am very pleased to be here at Georgetown today, to take up with the seminar participants a topic at the heart of our relations with our neighbors in the Western Hemisphere: the promotion of the rule of law, and the part our negotiations toward the Free Trade Area of the Americas can play in it.

In one sense, the relevance of the FTAA to the rule of law is quite simple. The nine FTAA Negotiating Groups in Miami address topics from market access to competition policy; subsidies, anti-dumping and countervailing duties; intellectual property; government procurement; investment; agriculture; and services. The result in each case will be a set of rules accepted through democratic decisions by the elected governments of the participating nations, enforceable by a transparent and binding dispute settlement procedure -- all indicators of the rule of law.

### **SHARED INTERESTS**

But we can also go a bit deeper. The FTAA is both the result and a contributor to a broader shift in the hemisphere. And we can begin to understand this shift by asking the basic question: why have we embarked on this effort? To this there are three, mutually supporting, answers. The first two of them are permanent facts of life.

One is geography. The countries of the Western Hemisphere are our neighbors. They will always be our neighbors. And it is plainly in our national interest to have the best possible trade relationship with our neighbors.

The other is the interest of our citizens. The Western Hemisphere is our largest and fastest-growing market; we are the largest and fastest-growing market for our neighbors. Broadening and deepening this trade relationship will help working people, firms, farmers, ranchers, and service providers everywhere to find new opportunities.

### **EARLIER EFFORTS**

These are enduring, permanent realities. And so it should come as no surprise to find that our generation is not the first to come up with the idea of a hemispheric free trade agreement.

The Liberal vision shared by the leaders of Latin America's independence movements implied precisely such a step. Simon Bolivar himself was the first American leader to propose a hemispheric trade conference. And the idea, in one form or another, was revived on several subsequent occasions. Benito Juarez proposed a free trade agreement between the United States and Mexico in the 1850s. In 1889, U.S. Secretary of State James Blaine actually convened a hemispheric conference in Washington, whose goal was hemispheric free trade.

But all of their efforts failed. And they failed neither because our predecessors were incompetent -- they obviously were nothing of the kind -- nor because of the complexity of the task. A trade agreement in 1889, when the only issues were customs procedures and tariffs on agricultural products and manufactured goods, would in technical terms have been far easier than the task before the nine Negotiating Groups in 1998. Rather, they failed because of barriers of perception and ideas -- and as Jose Marti said after Blaine's conference:

"Barriers of ideas are stronger than barricades of stone."

### **BARRIERS OF IDEAS**

One aspect of this was a set of mutually destructive perceptions. Americans often looked south and saw only caudillos, guerrillas, and opportunistic politicians denouncing the *Yanqui* to mask corruption and repression at home. Latin Americans intellectuals often looked north and saw only an interfering, hegemonic power.

A second, equally profound aspect was that created by a vision, held for many years in many countries, of the role of the state and law in economic development. The Peruvian economist Hernando de Soto describes it by borrowing the term "mercantilism" from trade policy:

"a politically administered economy in which economic agents were subject to specific, detailed regulation. The mercantilist state did not let consumers decide what should be produced; it reserved to itself the right to single out and promote whichever economic activities in considered desirable, and to prohibit or discourage those which it considered inappropriate. To achieve its objectives, the mercantilist state granted privileges to favored producers and consumers by means of regulation, subsidies, taxes and licenses."

Ultimately, this view makes the state superior to the citizen and as an agent of economic development. In his book The Other Path de Soto describes the practical consequences -- a vast web of requirements for licenses, forms and paperwork, which made it impossibly difficult for new entrepreneurs to enter either national or international markets. This discouraged respect for courts and judicial procedures, and encouraged those not favored by the system to move economic life outside the law. Much of the political conflict between right and left simply shifted the benefits of these systems back and forth.

### **BRIDGES OF IDEAS**

Today, much of this has vanished. Since the end of the Cold War, the permanent factors of interest and geography which make the FTAA logical have been joined by a third which makes it possible -- a consensus on the citizen rather than the state as the source of law and policy.

This has had profound and inspiring results in many areas -- especially in promoting democratic government and universal education. In economics, it has meant the decline of the "mercantilism" de Soto discussed. Most governments in the hemisphere now agree in principle that economic development is best achieved through freedom, open markets and entrepreneurialism rather than detailed guidance by the state in favor of one group or another. Thus, regulation has an essential role in protecting consumers, promoting safe workplaces, and protecting the environment and the public health; but very rarely in deciding what products to make, to import and to export. This change is slow, but fundamental.

And looking beyond economics, it has transformed the Americas in the space of a decade. In Central America, the sounds of politics are no longer gunshots, but campaign speeches and parliamentary debate. Throughout South America, soldiers have left Presidential palaces and returned to quarters. State-owned enterprises have been privatized and deregulation introduced. Trade has flourished, as each part of the hemisphere has taken crucial steps toward integration; and as each of these steps vindicated and strengthened the values we share.

## THE CARIBBEAN

In trade terms, the first step was the Caribbean Basin Initiative, begun in 1983 as a set of unilateral American trade concessions and strengthened in 1986 and 1990.

CBI was, in its origins, a political policy, aimed at helping to end the wars of the 1980s by giving the people of the Caribbean and Central America economic opportunity. In this it succeeded: as CBI's trade and tax benefits helped to create jobs in all the 24 beneficiary countries, the economic and social frustrations which lay at the roots of conflict diminished.

But CBI also succeeded as trade policy, with both the U.S. and the Caribbean benefiting from closer trade relations. CBI countries' production often complements U.S. production, or is in partnership with American firms. The major CBI exporters are also the leading markets for U.S. products in their region. Since 1989, US goods exports to CBI countries have more than doubled from \$9 billion to \$18.5 billion, supporting an estimated 360,000 jobs in the U.S.. To put this in context, last year we exported only \$13 billion to China. And the advances the CBI beneficiaries have made from this experience complement their own efforts to expand regional trade through the Caribbean organization CARICOM and the Central American Common Market.

## CFTA AND NAFTA

The second, far more ambitious, step was the the North American Free Trade Agreement,

joining the U.S., Canada and Mexico in fully open trade.

The first move -- the US-Canada Free Trade Agreement -- is now taken for granted. But our trade relationship with Canada is the largest bilateral trade relationship anywhere in the world. We trade more with Canada than with the entire European Union, or with Japan and China combined. The agreement, therefore, was a technical triumph and a demonstration to the hemisphere that full-scale trade integration is possible.

This achievement was deepened and broadened in 1993, when Mexico joined to create the North American Free Trade Agreement. As NAFTA approaches its fifth anniversary, bilateral trade with Mexico has grown from \$80 billion to \$170 billion. This includes growth in American exports from \$41 billion in 1993 to likely \$85 billion this year, putting Mexico ahead of Japan for the second consecutive year, and behind only Canada as our second largest export market.

NAFTA also proved its value in both the peso crisis of 1995 and the current Asian financial crisis. In 1995, it helped make Mexico's recession shorter and milder than that of 1982, and also to prevent restrictions on trade with the U.S. and Canada which ultimately worsened the crisis of the early 1980s in Mexico. In the first six months of 1998, as our exports to Asia fell \$14 billion from last year's levels, our \$11 billion increase in exports to Canada and Mexico helped us preserve jobs and growth. In fact, Mexico is our fastest-growing major export market.

### **SOUTH AMERICAN INTEGRATION**

The same process is well underway in South America, with Chile's trade agreements with its neighbors, the Andean Community and the development of Mercosur. Again, these both justified and strengthened the hemispheric consensus.

Chile's market opening, combined with its trade agreements with its neighbors, stimulated economic growth of over 8% a year; brought more than a million people out of poverty since 1993; and more than doubled per capita GDP. Its economic integration with the world brought in \$8 billion in foreign investment last year, and increased Chile's exports by over 9%. And throughout this period, its commitment to democracy and reconciliation has become an example to the world.

Likewise, the integration of Mercosur has benefited all its participants and the outside world as well. Since the Treaty of Asuncion in 1991, intra-Mercosur trade has increased by over 400%. As intra-Mercosur trade has boomed, Mercosur's exports to the rest of the world have increased by over \$20 billion. And the larger, simpler market Mercosur creates has allowed our own exports to the member countries to grow from less than \$9 billion in 1991 to more than \$23 billion last year.

### **THE LESSONS**

The lessons of this experience are clear.

Trade integration has created growth and mutual benefit in North America, in the Caribbean Basin, and in South America.

Trade integration has both benefited from and strengthened peace, freedom, democracy and the rule of law throughout the hemisphere.

And the Free Trade Area of the Americas will improve, strengthen, and transcend all of this. It will create the world's largest free trade area -- uniting 34 countries and almost 800 million people; geographically stretching from Point Barrow to Patagonia, Hawaii to Recife, Easter Island to Newfoundland -- through fair, transparent rules, and impartial dispute settlement procedures. And thus it will open new opportunities for prosperity to workers, businesses and farmers everywhere in the hemisphere.

## THE OBSTACLES

What then are the obstacles? Let me mention three.

For one thing, the barriers of ideas are not entirely down. That is clear here in the United States in the emotional opposition of some on both right and left to the North American Free Trade Agreement, and in the debate over fast track. But day by day, as U.S. entrepreneurs invest and sell into or import from Latin America, as U.S. students meet their Latin counterparts, as popular culture grows closer and commerce inexorably more interlinked, they will continue to fall. As we proceed, we will be making our case to the public for the FTAA, and for fast track authority. It is my hope that each of you, if you agree, will help us in the effort.

At the same time, the public -- in the United States and elsewhere -- clearly expects trade policy to respond more effectively than it has in the past to the concerns of ordinary citizens. This is natural, as trade grows and more deeply affects our lives. That means our FTAA negotiations must pay appropriate attention to the views of business, labor, consumer groups, environmentalist and others. Just as important, we must promote openness and citizen contribution if the results are to be credible.

Finally, the FTAA negotiations have begun during what President Clinton has rightly called the most dangerous financial crisis in fifty years, and this may intensify traditional fears about trade liberalization.

But trade liberalization is not the cause of the crisis; nor should it be its victim. The fact is, some of the problems evident at the outset of the crisis were caused by the opposite of open markets: lack of transparency, politically directed loans, weak rule of law, and consequently debilitated financial institutions. These are phenomena characteristic of the "mercantilist" system our hemisphere has rejected. They were at the heart of the Latin American debt crisis of the early

1980s. And now as then, our response must involve greater competition, more openness and transparency, and strengthening of the rule of law -- that is, the things we have set out to do in the FTAA.

## FTAA NEGOTIATIONS

And where do we go from here?

In the next few years, our work must draw from the lessons of all the hemispheric trade initiatives as we approach the details of an FTAA. It must address both misperceptions and legitimate concerns about the negotiations and the agreements thus far. And we have designed a negotiating process, I believe, which will do both.

The nine Negotiating Groups address every issue crucial to a comprehensive hemispheric trade agreement. Concurrent with the negotiations, a special joint private sector-government committee will reflect on the use of new technologies and methods of trade related to electronic commerce, Internet readiness and other innovations.

At the same time, we have ensured that each of the participants in the negotiations will have significant responsibility for their success. Every country will, at some point, lead one of the Negotiating Groups, from Nicaragua as Chair of Services in the Miami talks this year, to the US and Brazil as Co-Chairs of the entire process during the last two years.

And we have recognized the fundamental importance of citizen contribution to trade policy through the establishment of a committee of government officials from all FTAA countries to listen to civil society -- business, labor, consumers, environmentalists, academics and others -- and present their advice to the Trade Ministers.

## FTAA RESULTS

Finally, the most important question -- what results do we expect from all this?

First, as directed by the Miami Summit, we will see "concrete progress by the end of the century." Most immediately, we plan to reach agreements on common sense, concrete business facilitation measures. These could include, e.g., a code of conduct for customs integrity; improved customs procedures for express shipments; transparency and due process in government procurement; or adherence to existing conventions on arbitral awards. All of these promote the rule of law and even-handedness in commerce.

And by 2005, at the end of the talks, we will see a rigorous, comprehensive trade agreement establishing a single set of rules for conducting business in the hemisphere -- expanding trade, speeding growth, attracting investment from all over the world and cementing our strategic position in the hemisphere. And we can aspire to results well beyond this.

The FTAA can help us reach trade goals outside the hemisphere. As early as next September, the nine FTAA Negotiating Groups are scheduled to produce "annotated outlines" of the FTAA chapters in each area. These outlines will help us reach some common understanding on such difficult issues as subsidies and other trade distorting practices in agriculture; market access and liberalization in services; effective copyright protection in emerging technologies; and transparency in government procurement. Thus, as negotiations begin at the WTO next fall, we should be able to move toward a more cohesive Western Hemisphere position that enables us to promote our shared interests more effectively worldwide.

The FTAA also has the potential to improve governance. Open and fair procurement practices can raise standards of honesty and transparency. And new dispute settlement procedures will enhance our ability to fairly resolve economic disagreements through the rule of law.

Most important, both the negotiations and the FTAA, if done in the spirit envisioned at the Miami and Santiago Summits, can further strengthen the values of openness, accountability, democracy, and the rule of law which the hemisphere has embraced -- and which themselves have made the FTAA possible.

## CONCLUSION

This is the vision before us as the talks begin.

A community of common interests, in prosperity; jobs; and economic growth

A community of common aspirations for better health; environmental protection, and cultural exchange.

And a community of common values, in a hemisphere united by democracy, freedom, social justice, and the rule of law.

For the first time in two centuries, it is within our grasp.

We must not let it slip away.

## AMERICA'S TRADE AGENDA IN EUROPE

### REMARKS OF AMBASSADOR CHARLENE BARSHEFSKY U.S. TRADE REPRESENTATIVE TO THE EU COMMITTEE OF THE AMERICAN CHAMBER OF COMMERCE BRUSSELS, BELGIUM OCTOBER 19, 1998

Thank you very much, Keith, for your warm introduction, and may I also thank Ambassador Weaver, for being such an important presence for the United States here in Brussels. And while I could acknowledge many of you, because I know many of you, let me say a special note to Ambassador Yerxa, my predecessor at USTR, and one of the truly great trade negotiators.

Let me start by saying that our trade agenda with Europe is quite full. We are discussing bilateral trade through the Transatlantic Economic Partnership, and consulting on expansion of the EU to new members. We are preparing for negotiations on agriculture, services and other issues under the WTO; finding common ground on the accession to the WTO of China, Russia and other aspiring members; and addressing the financial crisis which afflicts so much of the world.

Today I will touch upon each of these issues. I would like to start by putting them in the larger context of the role of trade in America's partnership with Europe.

#### **Shared Values, Shared Responsibilities**

Let me begin with our fundamental assumption: the partnership between the United States and Europe has been the bedrock of peace and prosperity for the past fifty years; and it can continue to play that role in the next century.

The values of our Western heritage - democracy; social justice; the rule of law; individual rights and freedoms - continue to inspire young people and liberate nations around the world.

The strength of the North Atlantic Treaty Organization remains the world's strongest single guarantor of peace and security.

Our scientific cooperation on problems like climate change, protection of the oceans, and threats to health like AIDS, is the best hope for a clean, healthy world for our children.

And our willingness to take up and share responsibilities of economic leadership is central to growth and prosperity in the United States, Europe and the world

Therefore, as President Clinton said in his Berlin address last May, America's goal is:

"a transatlantic partnership that is broad and open in scope, where the benefits and burdens are shared, where we seek a stable and peaceful future not only for ourselves but for all the world."

### **The Postwar Record**

Trade is a fundamental part of this broad partnership. As President Franklin Roosevelt said in 1944, trade is not only a source of mutual economic benefit but a contributor to peace. He said:

"A basic essential to peace, permanent peace, is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want. [And] it has been shown time and time again that if the standard of living in any country goes up, so does its purchasing power - and that such a rise encourages a better standard of living in neighboring countries with whom it trades."

His successors in the immediate postwar era - Churchill, Attlee and Keynes; Truman, Acheson and Marshall; Monnet, Adenauer and de Gasperi - acted upon this vision. They rebuilt Europe through the Bretton Woods institutions and the Marshall Plan. And then they embarked upon the rebuilding of the world economy, shattered as it was by the protectionism of the 1930s and then the war.

The result was the creation of the GATT and the first steps toward European integration. These institutions have reduced tariffs by 90% and allowed trade to grow 15-fold, making firms more successful and working families more secure. We have transmitted new medicines and hospital equipment around the world, helping raise world life expectancy at birth from 48 to 65 in a single generation. Growing agricultural trade has improved nutrition and eliminated famine from all but the most misgoverned corners of the earth.

Trade in information technologies - faxes, e-mail, e-commerce, the Internet - opens new worlds of artistic expression, scientific inquiry and political debate to anyone with a computer terminal. And the faith Roosevelt placed in trade as a contributor to a peaceful world has been more than justified by fifty-three years of peace in Western Europe.

### **The Tasks Today**

We today must live up to the example our predecessors have set. And to do that we have to meet three challenges:

First, our relationship with the EU creates immense mutual benefit, which we can further strengthen; but it is marked by serious disputes which we must solve.

Second, our relationship is an association of values -- democracy, freedom, the rule of law. We can strengthen it by bringing nations committed to these principles into the political and economic

institutions of the West - from Central Europe and the Baltics to reformers in the newly independent states, and states including Turkey seeking peace in the Balkans.

Third, our relationship is a force for world peace and prosperity, which we must build upon as we address the financial crisis and strengthen the multilateral trading system.

### **U.S.-EU Trade Today**

Let me begin with the first challenge: our bilateral relationship.

Today, the European Union is America's largest economic partner. Counting goods and services together, our bilateral trade was well over \$400 billion last year. And it is among the world's fastest-growing relationships as well. Last year, our \$13 billion growth in exports to the EU exceeded the total of our exports to China; and this year, EU exports to the U.S. are expected to grow by a full \$20 billion.

The other side of this relationship - bilateral investment flows - are an equally great contributor to our prosperity. The American semiconductor plants in Ireland and the European auto factories in South Carolina, are only the most visible parts of a direct investment relationship which now exceeds \$750 billion.

One in every 12 U.S. factory workers is now employed by a European firm, and three million U.S. jobs depend on European direct investment in America. And the \$369 billion we have invested in Europe is nearly half our total investment in the world beyond our borders.

But our trade relationship is also marked by serious disputes. Some of these involve principles that must be at the heart of a productive trade relationship: transparency, the application of science to agricultural issues, respect for the decisions of dispute settlement panels. I will speak first to the points of common interest and mutual benefit. But the disputes must be faced and solved - quickly - or they will fester and corrode our relationship.

### **Bilateral Trade Agenda**

But let me start, with the positive. While our bilateral relationship already yields important benefits, we can do better.

This fact - recognized by the Clinton Administration, the Commission and Spain's EU Presidency - was the genesis of the New Transatlantic Agenda in 1995. In it we concluded a Mutual Recognition Agreement (MRA), reducing regulatory barriers in sectors worth \$60 billion in two-way trade, including medical devices, pharmaceuticals and telecom equipment. We agreed on customs cooperation and equivalency in veterinary standards and procedures.

And we have now moved on to the next step! That is the Transatlantic Economic Partnership,

launched at the U.S.-EU Summit last May by President Clinton, Prime Minister Blair and Commissioner Santer. In this initiative, we identify seven broad areas in which we can increase exports and jobs on both sides of the Atlantic, avoid disputes, address disagreements, and remove barriers. And they are:

**Technical Standards** - Here we must find ways to reduce the barriers and avoid potential conflicts created by technical standards, while maintaining high levels of health and safety. We can achieve these results by concluding mutual recognition agreements in new sectors, cooperating more closely in aligning our standards and regulatory requirements, developing procedures and guidelines for improving our opportunity to have input in each other's regulatory procedures.

Less duplication of effort, combined with more openness and transparency, may yield tens of billions of dollars in reduced costs for firms in Europe and the U.S., and it is especially important for smaller and medium-sized companies.

**Agriculture** - We must ensure that regulations in areas like biotechnology are transparent, predictable and based on sound science.

This is of critical importance to farmers and ranchers, and consumers. At the same time, we can seek greater cooperation in areas of common concern like assurance of food safety for our consumers.

**Intellectual Property** - We must work together on three critical issues. First, ensuring full implementation of the WTO TRIPS Agreement, while finding ways to improve it in the future. Second, addressing pirate production and distribution of optical media. Here we can find a number of new tools. And third, more effectively protecting computer software, especially through blocking use of unlicensed software by government entities.

**Government Procurement** - We can improve access for small and medium-sized firms in markets worth \$200 billion in Europe and just about the same in the U.S. We can do this particularly through cooperation on enhancing the compatibility of electronic tendering and contracting used in the United States and Europe.

**Services** - We will collaborate with the Commission to identify and press as hard as possible common U.S. and European interests in the upcoming GATS 2000 negotiations. In addition, we will negotiate certain services issues bilaterally. This could mean doing MRA's in certain areas, perhaps for example in insurance or engineering. It could also mean developing pro competitive regulatory principles in other sectors, just as we did in the WTO telecom agreement.

**Electronic Commerce** - We can build on our December 1997 joint statement to ensure that the new world of computers, telecom and the Internet can reach its full potential to promote growth and entrepreneurialism.

**Promotion of Shared Values** - We can more fully involve our citizens and civil society

associations in trade policy, strengthening the consensus for open trade.

So we are creating Trans-Atlantic Dialogues involving labor activists, environmental activists and consumer advocates to offer advice to our governments and the Commission, much as the Trans-Atlantic Business Dialogue (TABD) has improved US-European trade dialogue with business.

This can help us find common approaches to specific trade issues, to the questions of trade, environment and labor protection, and to transparency.

But as I said, our ability to make the most of these shared interests depends on our ability to face and solve our disputes. Let me mention two types in particular. We have now concluded agricultural cases against the EU: one on bananas and one on banned beef from American cattle. In both, WTO dispute settlement panels and Appellate Bodies ruled in favor of the United States. The EU has implemented neither. In addition, conflicts related to biotechnology also threaten the relationship. These are issues we cannot duck. They must be solved.

## **EU Expansion**

Let me now turn to the second broad challenge: our relationship as an association of fundamental values. The integration of Europe, through NATO and the European Union, is a process of profound significance. It has created a community of democracy, collective security, market economies and the rule of law. And it is no accident that as these values have spread, Western Europe has enjoyed the longest era of peace in its modern history. Each expansion of the EU - from the very beginning with the Coal and Steel Agreement, to the addition of Britain and Ireland, the inclusion of Portugal, Spain and Greece, and most recently Sweden, Austria and Finland - meant stronger guarantees of peace, stability, democracy and prosperity for all of us.

That is why the United States has supported European integration from the beginning. And we see, in the success of economic reform and democratization in Central Europe, an historic chance to go further. We therefore were proud to lead in the expansion of NATO, and take pride as well in our trade and investment relationship with Central Europe. And we applaud and support the EU's invitation to Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus to join. But we will be quite vigilant about the details of EU expansion. Economic integration will benefit the world, and Europe's citizens and consumers, if it is done on a basis of openness to the world. And we believe EU expansion will in most instances mean improved prospects for our trade and investment in Central Europe, Cyprus and other future EU members. But if integration results in higher barriers, it will damage American interests and foster new disputes.

We are therefore going to watch this process quite closely. Through the TEP and other consultations, we will be in close and continuous contact with the European Union as integration moves ahead. We have also engaged Central European governments in separate consultations, and asked our International Trade Commission to study the impacts of EU enlargement. This process can and should serve the interests of the entire Atlantic community.

## **The Newly Independent States**

The success of reform in Central Europe also offers us lessons as we assist reformers further east: Russia, Ukraine and the other newly independent states.

Economic reform and democratization in these nations are a vital interest of the United States. That is why we have offered technical assistance both in political and economic reform, and supported IMF recovery packages for them.

Ultimately, however, Russia and the other newly independent states need to reform their own economic systems and create strong institutions of law and government. While we can provide help, we cannot do it for them. And we should not be surprised to see setbacks and difficult periods. But we also should not be defeatists or pessimistic. The basics are there: Russia and its neighbors have strong natural resource and agricultural potential, advanced scientific establishments, and a tradition of education. The broad trend toward regular elections and economic ties with the West continues. And the creation of stable market democracies in these nations remains critically important to Europe, the United States, and the world.

We therefore remain committed to support reform, and our trade policy has a role to play in the process. The principles of the WTO and our bilateral agreements with these nations - transparency, open markets, the rule of law - will contribute to their long-term growth potential, integration into the world economy, and domestic reform. That is the experience attested to at the WTO Ministerial Conference last May by virtually all Central European and Baltic states. We are thus working diligently, and cooperating closely with the EU, with all those interested in WTO membership. It is not an easy task, but we will soon see Latvia and Kyrgyzstan, and can expect others to join the WTO when they are ready.

## **The Financial Crisis**

We cannot discuss reform in Russia, however, without turning to the third and last challenge: our responsibilities to the world as economic leaders.

This begins with the financial crisis. As President Clinton said to the IMF/World Bank conference two weeks ago, the events which began with the disruption in the Thai currency in the spring of 1997 have now become "perhaps the most serious financial emergency in fifty years." It has devastated the affected nations. And it threatens our own economies as well.

As the world's largest economies, we and the European Union must lead the effort to find a solution. None of us can sit back and leave it to others. Our counterparts in the finance ministries are working closely with the IMF and affected countries to restore economic health and currency stability. These policies are getting results: countries like Thailand and Korea which have implemented reform have stabilized their currencies and brought interest rates below pre-crisis levels. With patience and full implementation of reform, the same can occur in Russia and other affected countries. We must, however, remain vigilant and ensure that the IMF has the

resources and political support it needs to act in case of fresh emergencies.

We must also work together to make sure Japan, the world's second largest economy, accepts its responsibilities - to use fiscal stimulus to restore demand-led growth, reform its banking system, and comprehensively open and deregulate its economy. Without recovery in Japan, the prospects for Asian recovery are quite bleak.

From the trade perspective, we must remain true to our principles and the specific pledges made at the Asia-Europe Meeting and the G-8 summit last spring, by preserving our open markets and moving ahead with multilateral liberalization. To do otherwise would risk a repeat of the 1930s, when protectionism in America and in Europe worsened and prolonged the Depression. Each of us will face pressure from growing imports. As we do - for example in steel - Europe needs to share the burden. Failure to meet this challenge will increase the pressure on all of us.

### **The Multilateral Trading System**

Likewise, we expect Europe to share the responsibility of building a more open, comprehensive, transparent and stronger world trading system:

-- We must begin with respect for the system that now exists, and implementation of panel decisions. As I've already noted, the EU has an obligation to respect results of panels and implement them in a full and timely fashion. This is fundamental to confidence in the rules-based trading system, and to the ability of that trading system to deter new waves of protectionism in an atmosphere of economic crisis. And it is fundamental to support for our bilateral trade relationship.

-- We must also continue to work together on accessions of China, Taiwan and other economies aspiring to join the WTO. With respect to China, the talks have been quite slow, but we and Europe have coordinated and cooperated quite closely. We believe China's membership in the WTO is vitally important, but the principles of the system are equally important. We are prepared to wait until China is ready to make further serious offers.

-- We must also help the least developed countries take full advantage of the trading system's potential to increase growth, promote transparency and strengthen the rule of law, both through technical assistance and open market measures like our expansion of trade preferences to Africa.

-- We must seek common ground as new WTO negotiations approach. We share interests in developing electronic commerce, opening services markets, better enforcement of intellectual property rights in computer software and new technologies, and ensuring fairness in government

procurement. Our companies share with European entrepreneurs a profound interest in a more open, transparent, and predictable process for setting standards.

And Europe's agricultural policies, of course, remain a central concern. American agricultural producers, our trading partners, and Europe's own consumers and taxpayers all share a profound interest in far-reaching reform. The elimination of export subsidies. Reduction in price supports linked to production. Transparency in state trading. These are critical issues for Americans, Europeans and the future of the trading system.

-- And we must promote shared values multilaterally: transparency and response to the concerns of citizens. This is essential to allow the system to endure and retain its credibility. We must make the WTO itself more transparent by opening dispute settlement processes to the public and speeding publication of dispute panel reports. This is essential to public confidence, and the EU is lagging behind in support. And we must find appropriate ways to make sure growing trade goes together with stronger environmental protection and the advance of core labor standards.

## **Conclusion**

These are complex issues and profound responsibilities for both the United States and Europe. The world is looking to us for leadership and responsibility in a way neither the U.S. nor Europe has seen for many years; perhaps not since the postwar generation. And both of us must respond.

Our responsibilities in economics and trade - to the trading system, to the reforming nations of Europe, and to our own farmers, ranchers, working people and businesses - are matched in fields stretching from peace and prosperity; to science and medicine; the defense of human rights; the improvement of international financial institutions and beyond.

But I think history should make us confident that we are up to the challenge. Our own economic ties support the jobs of millions of families on both sides of the Atlantic, and spur economic development in our nations and around the world. Our advances in science, medicine, and technology have made life safer and healthier. The institutions which owe their existence above all to Europe and the United States - NATO, the IMF, the World Bank, the United Nations, the WTO - have proven their worth as enduring contributors to peace and prosperity. Our relationship should continue to inspire and shape the world in the century that lies ahead.

Thank you.

PRESS ROUND-TABLE  
USTR Ambassador Charlene Barshefsky  
London  
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AMBASSADOR BARSHEFSKY: Thank you all for coming. Let me just start out for a moment about the U.S.-U.K. trade relationship. Looking at 1997, and the terms are essentially the same in 1998, \$69.1 dollars in two-way trade. Almost evenly split between the two countries - U.S. exports to the U.K., this is in goods, was about \$36 or \$37 billion, U.S. imports from the U.K. in goods was about \$32 or \$33 billion and, of course, the services relationship between the two countries is immense as well. Investment is split exactly down the middle, which is really quite astonishing. Total of about \$142 billion in investment. Forty percent of all U.S. investment in the EU is in the U.K. and the U.S. is the single largest host to the U.K. for investment. There are about a million jobs in each country that depend on employment in each other's factories and 24,000 U.S. companies export to the U.K. That is second only to Canada. For U.S. companies, the U.K. is essentially the key staging point for not only services and sales in the U.K. but also the staging point for further exportation to the Middle East, to the rest of Europe and to Eastern Europe. So this is an extraordinarily productive and remarkably balanced relationship. We rarely see figures that look like these in terms of balance. And in terms of bilateral trade disputes, I actually, at the moment, can't think of any, which is really quite remarkable. I've come to Europe at this point to talk about four principal topics and these are also the four topics that I'll touch upon in my meetings here with both the government as well as with the private sector.

First, the transatlantic economic partnership (TEP). We have made quite a bit of progress in Brussels in working out, jointly, an action plan for the TEP, which has two components: one is bilateral, (that is U.S.-EU), the other is multi-lateral. On the multi-lateral side, we've identified a broad range of issues on which we would like to cooperate with Europe, particularly as we look to the 1999 WTO ministerial meeting. Our basic view is that the U.S. and Europe, which have led in the creation of institutions like the WTO, should try to do more to cooperate with each other rather than to attempt to disempower each other and that is our hope as we look to the 1999 ministerial meeting.

With respect to the bilateral side of the TEP, we've identified essentially seven principal areas where we would like to cooperate and/or negotiate arrangements. They are: intellectual property rights; government procurement; electronic commerce; services; standards including mutual recognition agreements; agricultural regulatory policy including biotechnology and civil society related issues such as labor input; environmental NGO input; and so on.

The second broad area I've come to talk about is the WTO 1999 ministerial. The U.S. has proceeded and intends to proceed in the following way. First, we must identify the broad range of issues that may be ripe for negotiation or, if not negotiation, at a minimum, for further work. We know already from the close of the Uruguay Round that agriculture is slated to begin in 1999 and services in 2000. But there are many other issues that need to be considered: whether they are intellectual property rights, or procurement, or bribery and corruption or regulatory policy.

There are also a range of institutional issues that need to be considered, and I'll give you one quite pertinent example. That is the question of what should the relationship be between the

WTO, on one hand, and the IMF and the World Bank on the other, particularly at this time of global financial crisis. Substantively, there is obviously an intersection in the work of those three institutions, but institutionally there is no intersection whatsoever, so there is clearly something wrong with this system as it now stands.

So, step one for the U.S. is to identify the broad range of issues in front of us. Much of that work right now is being done in Geneva by the WTO General Council. We were quite insistent last May at the 50th anniversary celebration of the GATT system, that the General Council has an unlimited mandate. That is to say, that any and every country should be welcome to put ideas for negotiation before the General Council and let the General Council and Secretariat do a first vetting so that we can have a very broad and full range of issues for consideration.

The second step, then, is having determined what should be negotiated, how do we negotiate? What is the method by which we proceed to as a rapid a conclusion as possible in the most efficient manner possible. Typically, the term "round" like Tokyo Round, Uruguay Round, has come to mean that nothing is agreed until all is agreed and the negotiations have no particular end date. The Tokyo Round took ten years. The Uruguay Round took seven and a half. I don't believe there is any country or group of countries including Europe that has any stomach for this kind of indefinite negotiation and in addition, particularly now given changes in technology, given the global financial crisis, we cannot possibly embark on a system, during which all trade liberalization stops until the very conclusion of talks. That, I think, would be a very dangerous outcome for the world. Our second step, therefore, is to determine how do we proceed. Maybe we proceed with a "nothing-is-agreed-until-all-is-agreed" strategy but have an absolute definitive drop-dead time deadline for conclusion, which would be a much shorter duration than seven and a half years or ten years. Maybe we should embark upon an approach Canadians and some others have mentioned, what they call round-up, meaning that agreements should be spun off as they are reached during the pendency of negotiations and then heading all the way down toward conclusion. There are probably a hundred variations, we have asked the commission to sit down with us to review all the various ways in which we might proceed and, for the first time, I am pleased to say the commission has agreed. So, we will be doing that and, of course, that is the second step.

The third step is: what do you call what is announced at the WTO ministerial in 1999 and, obviously, we can call it anything we wish. But, the key from our point of view is that we know what we are negotiating and we know how we are going to negotiate it. The name of it is the last thing that should be decided.

The third area that I've discussed and I will discuss here is the area of U.S.-EU bilateral disputes and here there are three areas of particular note: One is biotechnology, in which we have encountered significant and persistent problems in the EU with respect to the approval for GMO seed and commodities, that is, genetically modified seed and commodities. The process in Europe is torturous for product approval. It is opaque for product approval. It is highly politicized and, therefore, arbitrary and this is a matter of grave concern as more and more U.S. acreage is planted with GMO and as more and more European acreage is planted with GMOs. So, some resolution needs to be taken here. I do think the TEP process offers us an opportunity to look at the regulatory system. We are not suggesting that there shouldn't be one. We are simply suggesting that it must be made transparent and time-bound and, also, to look jointly at the issue of food safety, which is obviously a concern to all of our consumers. The other two bilateral disputes involve EU non-compliance with the WTO panel decisions, most particularly

beef and bananas. In the case of bananas, we have been urging the EU to sit down at a table with us to see if the case can be settled. The EU has persistently rebuffed our request. I am pleased to say that, in Brussels, the EU, for the first time, has shown more interest in the possibility of sitting down to consult on the issue. I have discussed this issue with the Germans and the French and I will discuss it also with the British. I don't know if a resolution can be achieved before the expiration of the time of compliance, which is January 1, 1999, but certainly we would like to try and we would hope that Europe would like to try. Having these kinds of disputes linger is terribly corrosive to the relationship. It also undermines confidence in the WTO system. The dispute settlement mechanism was designed to yield affirmative and final results, not an endless loop of litigation.

The last issue, the fourth that I will touch on, is the entire issue of transparency and civil society. This has to do with the WTO as an institution. In the U.K., in the United States, any citizen can walk into any court room, sit in the back of the room if there is a seat available and watch the proceedings. You can't in the WTO. In the U.K. and in the U.S., when the court renders its decision, it becomes immediately public. Not in the WTO. These deficiencies in the WTO must be corrected or we have nothing other than a forum for mistrust and suspicion. Likewise, we want to ensure that the TEP process is also conducted in a transparent manner. In addition, I think in both the TEP and in the WTO, we must look more seriously at labor and environmental issues and their relationship to trade. Not as a matter of negotiation. We are not looking for negotiating groups in these areas but as a matter of thoughtful policy analysis. In the OECD, there has long been the ability of the NGO community to observe certain proceedings. Again, not in the WTO. There has long been the ability of labor organizations to observe certain proceedings and to have periodic meetings with the OECD. Not in the WTO. So, these basic kinds of steps, coupled with some thoughtful analysis of these subjects, is necessary if the global system is to retain credibility with our domestic publics. You see what has happened on the MAI debate, that when these institutions are not transparent, public distrust becomes very, very high and that, in turn, will be the greatest threat to the multilateral trading system, not individual disputes but a complete and utter lack of public confidence in the decision-making of these institutions. So, that's what I'm here to do and that's what I've been doing in Brussels, Bonn and Paris and I am happy to take questions.

QUESTION: Is the U.S. prepared to take unilateral sanctions against the EU January 1st if they don't comply with the WTO and would you do it without getting the WTO approval or whatever the legal word is. And just a second question: if you said that they are ready to talk for the first time, does that imply that maybe you'll accept that they can keep this iniquitous regime as long as they compensate in another area and it balances out?

AMBASSADOR BARSHEFSKY: We have made it very clear that the WTO dispute settlement mechanism was explicitly designed to ensure that rights acquired through litigation could be firmly enforced. This case is not the first time the EU banana regime has been struck down multilaterally. It is not the second time. It is the third time this regime has been struck down. This is a six-year-long battle. We won the panel proceedings. We won the appellate body proceedings. The EU then changed, shall we say modified slightly, its regime. We provided the EU comments on that modification before they finalized it in a very detailed manner demonstrating that the regime was at least as discriminatory and as non-compliant as the first regime and, indeed, maybe more discriminatory than the regime that has already been struck down. The EU, nonetheless, approved the regime. We then took the extraordinary step in July and asked the EU to agree with us, voluntarily, to ask the original panel to reconvene to test the

WTO consistency of this new regime. The EU refused. Therein followed three months of procedural roadblocks put up by the EU preventing any such panel review. We are done litigating this case. We have won this case. We have made it very, very clear that we will enforce the rights we have acquired in this litigation as expected by the dispute settlement process. However, we have also said, as we have been saying for well over a year, we do think it would be appropriate to try to settle this matter. That is, to ensure that the kind of sharp discrimination against U.S. interests and Latin American interests be removed and we are willing to put all of our efforts and, frankly, all of our focus right now is on the question: can this matter be settled. That's why we have again raised it with the Commission despite being persistently rebuffed. That is why we have raised it with the Germans and French and I will raise it this afternoon with the British in the hope that we might sit down together. I don't know if a settlement is possible, and I don't know what Europe's intentions are but I do feel very strongly, and have always felt very strongly, that we must do everything we can to attempt to talk out problems to see if a mutually agreeable solution can be found before any other action is taken.

QUESTION: But my question was, will you then on January 1st impose unilateral sanctions and ignore the legal niceties of the WTO?

AMBASSADOR BARSHEFSKY: I think that I've already answered the question. I've said exactly what our view is as to the legality of WTO action and we intend to proceed on that basis as the dispute settlement system allows.

QUESTION: Are they right that they could string it out longer and longer from January 1st and there are more things that have to go through?

AMBASSADOR BARSHEFSKY: The EU position has been something along the following lines: The case is litigated. The U.S. wins. That takes a year plus. There is a 15 month period of compliance. The EU takes 15 months, slightly changing its regime to make it rather worse. At the end of the period of compliance, the EU position is that the U.S. then re-litigates on the basis of this new regime. So we take another year to re-litigate, another 15 months, of course, which Europe will request for compliance. We have an endless loop of litigation. This is absolutely not the way this system is designed to work and it is absolutely not something that we will put up with.

QUESTION: We understand that you might be pushing for the EU to implement the rulings on beef and on bananas, as we know, the implementation procedure is actually not that legally clear, to the extent that it's actually more of a political process than a legal process. I want to know that, in a similar case which the U.S. has just lost, how quickly are you going to implement the shrimp/turtle ruling.

AMBASSADOR BARSHEFSKY: We have lost two cases which are and have been quite politically sensitive. The first was a case brought by some of our Latin American trading partners on reformulated gasoline. This is a very politically sensitive area in the United States, because, among other things, reformulated gasoline in general implicates a very substantial range of U.S. environmental policies. The panel in that case found that our regulations on reformulated gasoline discriminated against foreign interests. We asked for a 15 months period of compliance. Our environment protection agency embarked on an entirely new rule-making proceeding. From that rule-making proceeding we altered our practice and were deemed to be fully in compliance by the parties affected. It took us no more than 15 months, it may have taken slightly less, but in

the 15 month range. Now the second case is the shrimp/turtle case. In that case, the appellate, body, thankfully, reversed every legal finding made by the panel below and found that the law itself was entirely WTO consistent, and this was a very critical and important win for us. But it found the implementation of the law was discriminatory and the appellate body went through four or five ways in which it believed that implementation was discriminatory. We have not yet gone to the WTO to discuss the period of compliance. I can't tell you right now what that will be. It certainly is not going to be longer than 15 months, which is the standard period. We are looking at all of the options. We will fully respect all of our WTO obligations, there is absolutely no question. We'll look at the question of implementation, and whether some alteration in implementation would solve the problem. We'll look at any other range of remedies that the trading partners affected might wish us to consider, either as a means of settling or as a means of some alteration. We will look at the range of other issues, for example, compensation and so on. But we will absolutely fully respect our obligations. There's no question about that.

QUESTION: I'd like to ask a more general question about the global financial crisis and burden sharing. I mean we've seen this sharp downward revision from the European Commission yesterday in their forecast for Euro zone growth. I wonder what your reaction to that is.

AMBASSADOR BARSHEFSKY: Europe and the United States are the only games in town, and both Europe and the U.S. must take the lead together to promote global growth and stability. Of course the party missing in this has been Japan, which is the world's second largest economy. Japan, has a special obligation to take the steps necessary to restore domestic growth in Japan, particularly through sustained fiscal stimulus, to clean up and recapitalize the banking system and open its markets and further deregulate. And both we and Europe have worked together to push very, very hard on Japan because, without a recovery in Japan, Asia will not recover.

Both the U.S. and EU depend on each other for their own growth. We have, in two-way trade, U.S.-EU, \$400 billion in goods and services last year. In investment, roughly \$760 plus billion dollars in investment and, just as with the UK, virtually split down the middle. If we don't grow, Europe will suffer as well as us. If Europe doesn't grow, we will suffer as well as Europe. So we have an interest in working together. One of the reasons processes like the TEP are important, although these are always step-by-step, these aren't grand schemes but step-by-step, is to do everything we can to increase trade flows between the U.S. and EU and increase investment flows between the U.S. and EU because we are quite mutually dependent. So, obviously, downward revisions in the growth of the EU is of concern in the U.S. Downward revisions of growth in GDP in the U.S. are of concern to the EU. And that's where we are.

QUESTION: Is Europe doing enough?

AMBASSADOR BARSHEFSKY: We have, I think, felt that we and Europe have cooperated exceptionally well during this financial crisis, in every forum. In the WTO - put the disputes aside, we can't define a relationship of this magnitude and importance by disputes - in the WTO, in the IMF, with respect to World Bank disbursements, we have worked very, very closely. The relationships among the finance ministers are very close. The relationships among the trade ministers have always been very close as well as with the Commission. It's very critical that we continue to cooperate as we have and it is critical that we support each other to the maximum extent possible to maximize the opportunities for mutual growth, and thereby enhance the prospects for a return to more global prosperity. But, right now, we and Europe are the only

shows in town. So, in that regard, with respect to burdensharing, what we have said is simply this: Europe does have restrictive auto quotas. They're due to be phased out in a year and we have said, can Europe accelerate the phase-out? With respect to Russia, Europe does have a very restrictive arrangement on Russian imports of steel. We don't question Europe's potential need for some arrangement with Russia in this area but we have simply asked: Can Europe liberalize the arrangement? Right now, the U.S. takes twice the volume of steel from Russia as does Europe and we take literally ten times more steel from Japan than does Europe, which seems to us rather anomalous. We are simply saying that we would hope Europe would look at the trade restrictions in place, particularly on these large industrial goods and seriously consider liberalizing the restrictions at this point in time.

QUESTION: What about monetary policy?

AMBASSADOR BARSHEFSKY: I don't really want to comment on monetary policy.

QUESTION: I mean European monetary policy, which is slightly criticized as being too tight.

AMBASSADOR BARSHEFSKY: We have a rule in the U.S. on monetary policy and exchange rates, and they are, of course tied, together, and that is there are only two people in the U.S. government who speak to those issues. The first, of course, is the President, but even he often refers to [Treasury Secretary] Rubin. So I'll stay away from those issues.

QUESTION: Would you explain why the U.S. is the standard bearer of the banana issue, when the U.S. doesn't grow bananas?

AMBASSADOR BARSHEFSKY: But we distribute bananas.

QUESTION: U.S. companies own the plantations where they're grown, is that what you mean?

AMBASSADOR BARSHEFSKY: Our companies have substantial interests in Latin America, as you know. European companies have substantial interests in the Caribbean.

QUESTION: Which companies?

AMBASSADOR BARSHEFSKY: Dole, Chiquita, and the Hawaiian Banana Grower's Association. One of the important aspects of the WTO case is that it is the first case on services. And the fact is that the Services Agreement, the General Agreement on Trade and Services, GATS Agreement, is an agreement that does mandate openness in distribution services. This is the first case of this sort on distribution. In that sense, it is precedent setting. Most of the cases in the WTO system are on goods and/or the laws underlying intellectual property rights. But they are not on services. So this was a rather ground-breaking set of legal decisions at the panel level and then at the appellate body level. I should also say that this regime has been subject to three such cases, each one of which has upheld the complaining party and struck down the EU regime. There is no question but that the EU regime was GATT-illegal and it is WTO-illegal and there is no question about that.

QUESTION: What other products might be influenced by a decision on distribution services?

AMBASSADOR BARSHEFSKY: I'd have to think about that. For example, retail distribution, whether it's consumer products, whether it's wholesale or after-sales service, much of which is covered by the GATS agreement, that might be one in the services area. Tourism

services is another area which could be impacted. This includes travel agents and the rights of travel agents as well as airline reservation systems. It will depend on the country and the obligations that country undertook. We took broad obligations in the services sector as did the U.K. Some countries took lesser obligations and you can obviously only enforce rights that you acquired under an agreement with that particular country. But you have financial services, insurance services, distribution services, tourism services, professional services, there are an array of commitments very broad in nature which both the U.S. and EU, and then selectively many other countries undertook. It just so happens this is the first case that is a services-oriented case. The effect on goods is clear, of course, if you can't distribute the goods there is, therefore, a de facto barrier on the goods themselves. But the underlying case is services of a distribution nature.

QUESTION: What I'm getting at is, your office fought for about seven or eight years to get Toys R Us into Japan.

AMBASSADOR BARSHEFSKY: Yes.

QUESTION: ... and if you go into a Toys "R" Us in Japan, not 1% of their products which are made in America by American workers. And here you're waging this two year battle for bananas, what American jobs are at stake?

AMBASSADOR BARSHEFSKY: Well Toys "R" Us or companies like Dole, Chiquita, or the Hawaiian companies, you have, as in any service sector, a variety of personnel that are employed. I think, in the toy sector, you have an inordinate number, whether its importers, distributors in the United States, or administrative personnel. In services, it is sometimes a little bit more difficult to quantify. But, under your theory, one would argue that we should not fight for the rights of our insurance or financial services companies in foreign countries because the bank tellers in foreign countries are foreign and not American and I don't think that's a sustainable argument.

QUESTION: How much money is actually involved and how much are American companies being deprived of, what size of the market share would fall to them if the regime was more favorable?

AMBASSADOR BARSHEFSKY: I can't give you a precise answer in the following sense. We have been working with the interagency on what we call a damage assessment. It is certainly in the hundreds of millions of dollars. I can't give you, though, a precise number. But we will have that number, I would think, within the next, probably, two or three weeks. What we have done, in the case of bananas we will - I don't actually know if it came out this week. The first step we take in any matter of this sort is to publish in the Federal Register a request for comments on what we call action ability. That is to say, we ask for public comments, which can come from any source, foreign or domestic, for public comments on the question of the compatibility of the EU regime with WTO rules. Because we must establish through that process and legal analysis strict actionability. That notice should come out next week and there is a thirty-day period within which people comment and we'll look at all those comments, obviously, and make our conclusions. But, in the interim, there is also the interagency, a "damage assessment" that's conducted and we derive the specific figure or set of figures or range of figures. That process is still ongoing and am sure that the number is quite sizeable.

QUESTION: When you said earlier that you wouldn't accept this continuing, what measures are available to you as of January 1st that will change it? What reprisals or counter measures can you undertake?

AMBASSADOR BARSHEFSKY: Well, we can take counter measures in the amount of the damage caused by the offending practice but I would like to emphasize that my sights aren't set on that issue right now. My sights are set on engaging the EU in a negotiation on this issue.

QUESTION: But how would that...I mean who would that apply to? Caribbean banana importers in the United States?

AMBASSADOR BARSHEFSKY: No, this doesn't affect the Caribbean banana importers. We have never challenged preferential treatment for Caribbean bananas in the EU under the Lome Convention. That's never been subject to challenge, never.

QUESTION: What's the Lome Convention?

AMBASSADOR BARSHEFSKY: It's a convention under which the EU provides essentially one-way tariff preferences to Caribbean nations, including former colonies. It's a little bit like our GSP program (Generalized System of Preferences) where we give one-way preferences to developing countries if they qualify. In our case, the tariff preferences are always zero. We give them zero tariffs. That is also what is at the core of our Africa initiative. It would be zero tariffs on products exported from African nations to the U.S.

QUESTION: Many people are worried about protectionist pressure in the U.S. The steel industry has started the anti-dumping ball rolling. There's no longer a majority for fast track and morale at the USTR is said to be very low. How worried are you about protectionism and where do you see it, and from which industries do you see it flaring up next?

AMBASSADOR BARSHEFSKY: I would take issue with one thing which is, I could take issue with many things, but the one thing I would say, I don't think we can say there's not a majority for fast-track. I think we can say that the recent fast-track vote, which was largely politically inspired, was never intended to produce a positive result for many, many reasons, not the least of which is that major trade votes typically don't occur eight weeks before an election cycle. So, I don't read too much into that vote and I don't think from that vote one can conclude that there is not ultimately a majority for fast-track.

QUESTION: The last vote did not have a majority either. That wasn't just before an election.

AMBASSADOR BARSHEFSKY: But it was very, very close. And there are certainly a number of people who argued that had it been brought to a vote it would have passed. We didn't agree with that and did not want to risk a loss on such a major piece of legislation but there has always been, in the U.S., a dispute about that. Our intention has been to bring it up in early 1999 and we will be working to do that.

On the question of protectionist pressures, I think we see this in the UK, in Europe, as well as in the United States. There is no question that our exports have fallen off and there is no question that that, more than a surge in imports, has accounted for quite an increase in the trade deficit. But we do know that, even though an overall surge of imports hasn't happened, certainly there have been spikes in certain sectors. I think Europe is beginning to see this also, also in steel. And our entire trade policy has been focused, geared toward open and foreign markets because over one third of the growth in our GDP the last five years has come from our exports and because 80% of global consumption occurs outside the United States and a market-opening trade

strategy is absolutely critical to our own domestic prosperity. And that has been our focus and that remains our focus. To the extent companies wish to avail themselves of our laws, to the extent they wish to avail themselves of European laws, whether it's dumping or other such laws, that is their legal right and they will pursue whatever actions they wish to pursue.

From the point of view of trade policy, we need, I think, to respond in as sensible a manner as possible, including with an eye toward the longer term. Having said that, in the case of steel there is plainly a significant problem and in Brussels, Bonn, Paris, there is quite a similar view. The global price war has completely collapsed, and I don't think any of us have ever seen a drop in prices of this magnitude and this rapidity, ever. Not ever in recent history. So we have to, I think, look very carefully at the situation but overall I think both Europe and the U.S. have to respond in as sensible a manner as possible. We have to also absolutely continue an open markets strategy. It's why TEP is important, it's why the WTO '99 Ministerial is important. It's not just a matter of asking the world to retain the status quo in terms of then-existing market opening. We've got to keep pushing forward.

QUESTION: But surely, though, it will be difficult to open those foreign markets if other countries, as they increasingly are, start copying the U.S. and the EU anti-dumping laws. Argentina, Brazil, those countries...

AMBASSADOR BARSHEFSKY: Most countries have already copied these laws. This is the other side of having these laws. But bear in mind, the anti-dumping code in the GATT was created in the 1960s and these laws have been around an awfully long time. It is the right of any country to use them, we can see positive aspects of their use in the U.S. and Europe and we can certainly see negative aspects when we are both on the receiving end of those laws. I think, certainly what we demand, particularly when these laws are imposed by other countries is complete transparency and due process, which is often lacking, and that is not the case in the U.S. and that is not the case in the EU.

QUESTION: May I ask you, you said that the U.S. and the EU were the only show in town and you've been here a week now but it seems to me that, since you've been here, we've got this problem, this data protection directive which is going to come into force on Monday in the EU and I don't know if it's you, someone's been making noises about European mobile phones and it just happens to be an industry where two European companies are overtaking Motorola, that doesn't look too good. You know, the EU doesn't agree with your statistics on Russian steel imports and next Monday and Tuesday you and the French are going to talk about the MAI--the multilateral investment agreement. All these negative things have happened just before, and as you're going back home. I mean, you know, and then you're going to have an election coming up in a few weeks which may be return a kind of more protectionist minded guys so what's going to happen in 1999 when you want fast-track and you don't get a deal even on beef or bananas. I mean hasn't it been a kind of slightly negative week for you, objectively speaking?

AMBASSADOR BARSHEFSKY: If you have a trade relationship that is \$400 billion, two-way, you're going to have problems. The axiom is, the smaller the trade relationship, the fewer the problems. The bigger the trade relationship, the greater the number of problems. I think that's absolutely to be expected. It certainly does not lead me to run around like Chicken Little saying the sky is falling. There are problems. Third generation mobile handset standards is a significant issue, there is no question. Bananas, beef hormones, are significant issues. The privacy directive is a significant issue although my sense is, and of course Commerce Secretary Daley has

negotiated that, but, my sense is that it actually has been moving in a more positive direction. All of these, biotechnology, all of these are large issues and they are critical issues but we can't possibly conduct a bilateral relationship focused only on the negative when you have a \$400 billion trade relationship. You have to remain pro-active, the disputes have to be resolved and, if they can't be resolved, we and Europe each retain our rights to take action. But the focus should always be on dispute resolution and the broader focus should be on increasing an already extraordinary and huge relationship. We handle pressures as pressures arise and in as thoughtful a way as possible.

QUESTION: Would it help, just a personal question, one of your predecessors famously said, you know and it had some effect, that she would use a sledgehammer to open up markets. Would you follow her in that kind of tactic, which seemed to work.

AMBASSADOR BARSHEFSKY: We have negotiated, in five and a half years, 260 trade agreements, five of which are huge: the Uruguay Round; NAFTA; the global ITA; Information Technology Agreement; the global telecom deal; and the global financial services deal. And then we have another 255 trade agreements, including 35 market access agreements with Japan, 16 with Europe, 17 with Canada, a bunch with China, so on and so forth. We have seen our exports increase 50% in five years. We have seen exports in the sectors in which we have negotiated agreements, which is almost everything from soup to nuts, increase at a rate far greater than the overall growth in our exports. In many cases export increases in sectors of 80% and 90% over those five and a half years. So, if I may say so modestly, I think we've applied exactly the right measures that needed to be applied to achieve that kind of success.

QUESTION: I just wanted to ask you how you found the new German government. Did you find them pro-trade, pro-competition and secondly how you find the differences between governments and thirdly in December you've got an Austrian, going to see the President of the United States to discuss EU-U.S. policy?

AMBASSADOR BARSHEFSKY: I don't have too much comment to make on the new German government. I arrived and Stolmen resigned and I arrived in Paris and the agriculture minister resigned, I just wonder who it will be in the UK. In any event, I think we had very good discussions in Bonn and in Paris with a variety of government officials. Generally speaking, my sense is that the policy in Germany will remain an open markets policy. I think Germany will be very active in the WTO '99 Ministerial. They have been active and helpful in the TEP process and I don't think we anticipate on the trade side any particular change. What I hope, with respect to both Germany and the UK, is to see, perhaps, more sympathy with and greater cooperation on the issues of civil society, transparency in the WTO and the issues of labor and environment and their roles. So, that's on the German side. The U.S.-EU summits, which occur about every six months, generally are very, very productive. One, because it keeps the president of the U.S. quite firmly engaged, very current, very connected to European leadership. And, second, because these are quite substantive meetings. These are not photo sessions, they're very substantive, and the full range of issues, of course, going well beyond trade, security, political, and so on, are discussed in quite a bit of detail. So we would expect nothing different from the meetings. I think they are going to be December 15th. So this I think has been a very productive way to proceed with Europe.

QUESTION: It's not frustrating trying to deal with so many different people?

AMBASSADOR BARSHEFSKY: Well, it would be nice to deal with one person who agreed with you all the time. Failing that, actually the numbers of people don't much matter.

QUESTION: Has the U.S. ever taken sanctions against Europe since the WTO has been around?

AMBASSADOR BARSHEFSKY: Government procurement in '94. There may be one or two other instances. I would suggest that what you might do is call our office and they can give you the numbers if you want. But we did, actually on government procurement, we mutually took sanctions. Whether the WTO was legally in effect I can't tell you but it was toward the close of the round as I recall. I think there may be another instance or two, you'd have to ask them.