

**Update on Trade-Related Elements of
The President's Comprehensive Plan for Steel**

Testimony of Ambassador Charlene Barshefsky

United States Trade Representative

Senate Committee on Finance

March 23, 1999

Mr. Chairman, Senator Moynihan and Members of the Committee, I appreciate the opportunity to discuss with you today the steel import surge, its impact on the U.S. market and industry, and the Administration's response.

INTRODUCTION

Last year, as we all know, steel imports rose sharply and rapidly, threatening, within a matter of months, the stability of our domestic industry and the jobs of many of its employees. In the April through November period, imports ran some 50 percent over historic levels across the industry, and at much higher levels in several key product sectors.

This import surge occurred in the context of the larger Asian and Russian financial crises, as a result of weakened demand for steel in Asian and other markets. Fairness demands that the U.S. steel industry, its workers, and their families not be asked to carry the burden of the financial crisis alone. Neither can the crisis become an excuse for our trading partners to adopt predatory export policies in steel or any other sector. Thus President Clinton is personally committed, as he has said both here and abroad, and as he repeated in his State of the Union Address, to ensure that our trading partners act fairly, and will continue to enforce our domestic trade laws to ensure this.

The Steel Report which the President sent to the Congress on January 7 provided a comprehensive and forceful set of actions to deal with the steel import surge and the associated unfair trade issues. This

action plan is working and we are seeing the first signs of recovery. The Administration is determined to follow through until stability has been restored to the U.S. steel market.

Let me also stress that our efforts to solve the steel crisis have been, and must remain, within the framework of our laws and our international commitments. To begin with, this framework is adequate to the task. And second, by sticking to the established rules, we can help ensure that the Asian crisis does not lead to a cycle of retaliation and protectionism which would badly damage our economy as a whole, and be especially dangerous to farmers, ranchers and manufacturing exporters including steel-intensive exporters, who are already suffering due to weaker demand for our products abroad. This is especially important as we work to ensure that the European Union lives up to its commitments in the banana and beef cases at the WTO.

THE PRESIDENT'S ACTION PLAN

The President's steel action plan was developed with the benefit of advice and suggestions from industry and labor. It can be found on the USTR web page at www.ustr.gov/pdf/steel99.pdf. The report outlines in detail steel import trends, their economic impact, and our response. This action plan includes four trade-related elements:

- Vigorous and expeditious enforcement of laws to counter trade practices;
- Bilateral efforts to address unfair trade practices at their sources;
- Support for a strong safeguards law and for expeditious Section 201 investigations;
- Creation of an early warning system for steel import monitoring.

The initiatives are the foundation for a comprehensive resolution of the steel import crisis in a balanced manner which will not damage other U.S. industries and workers by exposing them to retaliation or supply shortages. These principles have been translated into specific actions which are beginning to provide meaningful relief. We are confident that continued vigorous implementation of the President's steel action plan will bring about the result we all desire: a stable and competitive U.S. steel market where U.S. and foreign producers can compete fairly. In the days, weeks and months ahead, we will follow through on progress being made and take additional targeted actions where market conditions and imports warrant, in a manner consistent with our nation's overall economic interest.

Let me now turn to a more detailed review of the import surge, the current market situation, the status of our efforts, and next steps.

STEEL IMPORT TRENDS AND MARKET CONDITIONS

- **The 1998 Import Surge**

I will begin by reviewing the trends in our steel trade and market over the past year.

Last year, 1998, witnessed the largest level of steel imports, the largest and fastest import growth, and the largest import penetration in history. Based on final import statistics for December, our 1998 steel imports were 37.7 million metric tons (MMT) -- an increase of 33.3 percent, or 9.4, MMT over 1997. Steel import penetration rose from 23.8 percent in 1997 to 30.1 percent in 1998. This level exceeded U.S. domestic needs, causing a glut in the market and severe price suppression. Between 1997 and 1998 U.S. steel shipments fell 3.5 percent, from 96 to 92.7 MMT. Labor statistics show a sharper than usual decline in steel employment, from 242,000 in January of 1996 to 236,000 workers in January 1997 and 1998, to 226,000 in January 1999.

Three countries -- Japan, Korea, and Russia -- accounted for the great bulk - 76.4 percent -- of this import surge. To update the information from the President's January Steel Report, in 1998:

-- Japan was the single largest source of steel imports at 6.1 MMT, up 163.4 percent or 3.8 MMT from 1997, accounting for 40.3 percent of the import growth;

-- Russia was the second largest supplier at 4.8 MMT, up 58.9 percent or 1.8 MMT, accounting for 18.9 percent of the import growth; and

-- Korea was the third largest source of the growth, with imports at 3.1 MMT, up 109.3 percent or 1.6 MMT, accounting for 17.3 percent of the import growth.

While these three countries accounted for the bulk of the steel import growth, imports from a number of other countries also rose substantially. In 1998, the United States imported steel from 68 countries (albeit in very small quantities from some). Steel imports from a dozen or so "second-tier" suppliers reached between 100,000 and 900,000 metric tons, and have potential to increase further. Notable import growth occurred from: the United Kingdom, Australia, Ukraine, South Africa, China, Indonesia, Taiwan, India, Luxembourg, Moldova, Romania, Latvia, and Kazakstan. In addition, the European Union as a whole remains the single largest source of U.S. steel imports, supplying 6.6 MMT to our market in 1998, although overall steel imports from the EU were 4 percent below 1997 levels.

By product, carbon flat rolled steel was the single largest source of the import surge, accounting for 46.5

percent of the overall import increase. However, sharp import increases occurred in a range of other products, including heavy structurals, steel piling, light shapes, reinforcing bars, line pipe, pressure tubing, etc.

In sum, we saw import and market disruption levels of unprecedented proportions in the U.S. steel market beginning in April of 1998. However, due to the Administration's execution of the steel action plan, the first tentative signs of recovery are beginning to emerge.

- **First Signs of Recovery**

The December 1998 steel import data provided the first indication that market conditions may have bottomed out, and that recovery can be anticipated.

At 2.6 MMT, December imports reflected a substantial decline from the average monthly import levels of 3.5 MMT from April through November 1998 import surge period. Further progress was evident in January, with imports declining further to 2.48 MMT -- about 5% above the 1997 monthly average level of 2.36 MMT.

The December and January decreases were concentrated in carbon flat rolled products from Japan and Russia, which are subject to the ongoing antidumping investigation, indicating that actions taken by the industry, labor, and the Administration are bearing fruit. When compared to November levels, January imports of these products declined 67 percent. Declines were sharpest from the three countries under investigation, with imports from Japan down 77 percent, from Russia down 90 percent, and from Brazil down 84 percent. Imports of this product from Japan and Russia have basically ceased. The 1998 U.S. import increase of this product was 4.4 MMT (from 5.7 MMT in 1997 to 10.1 MMT in 1998). In 1998 U.S. imports of this product from Russia and Japan totaled 5.9 MMT. Therefore, a substantial reduction of imports from these two countries will more than offset the growth which has occurred. Nevertheless, imports of carbon flat rolled steel from a range of other countries are increasing, and are being closely watched by the interagency import monitoring team with a view to ensuring fair trade.

This type of short-term import decline does not by any means resolve the entire steel problem. A glut of steel products is still evident in the U.S. market, and high import levels of other products persist. However, the December and January declines are significant steps, and a clear indication that President's steel action plan is working.

Several other market indicators are also positive. Steel demand in the United States remains strong and new orders are reportedly improving. In late January, a number of companies announced price increases of 5 percent to 8 percent per net ton (\$20 to \$30) on hot-rolled, cold-rolled, and coated sheets for second

quarter shipments. Analysts believe these increases will likely succeed, as prices for these products are already quite depressed (down an average of 21 percent since May 1998), and as the import supply is being reduced due to ongoing unfair trade cases.

In January, U.S. raw steel production rose 5.1 percent from December while the capacity utilization rate rose to 77.2 percent from 74.8 percent over the same months. The most recent data for capacity utilization for the week of March 13, 1999 show another improvement to 78.8 percent. Nevertheless, these rates are still low when compared to the operating rate of 93 percent in mid-March 1998.

Reflecting the drop in imports, import penetration (imports as a percent of apparent consumption) fell to 28.0 percent in January 1999, from 36.6 percent in November of 1998. Still, this level is significantly above the 23.4 percent level recorded in December 1997.

TRADE ACTION PLAN

These are some initial encouraging signs that the President's steel action plan is working. Continued forceful pursuit of the policies and actions announced, and active monitoring of import and market conditions with a view to additional, targeted action, where needed, will be key in reestablishing the health and stability of the U.S. steel market. Following is an update on the trade related aspects of the President's action plan.

A. Unfair Trade Laws

The first and essential element of the steel action plan is vigorous and expeditious enforcement of the antidumping law and countervailing duty laws by the Commerce Department.

As you know, fully one third of some 300 antidumping and countervailing duty orders now being administered by the Department of Commerce address steel products. This remedy is well suited for the steel sector, in which the industry's cyclical nature and the high level of government intervention and support overseas have led to a high incidence of unfair trade. The industry is a strong proponent of this trade remedy, and has used it effectively to gain relief from unfairly traded and injurious imports.

That has been the case in this crisis. The Commerce Department's expedited investigations and the critical circumstances findings have resulted in relief for U.S. carbon flat rolled producers in record time, with retroactive effect to 90 days prior to the Commerce Department announcement of the preliminary dumping margins. Thus, in the case of Japan, the antidumping cash deposit and bonding requirements became effective only some six weeks from the joint industry and union filing of the dumping case. The trade laws have worked expeditiously to provide U.S. industry and workers with relief against unfair

trade. Secretary Daley will elaborate on this element of the President's action plan.

The U.S. steel industry and workers filed additional dumping and countervailing duty petition on February 16th with respect to carbon cut-to-length steel plate imports from eight more countries which may have taken advantage of antidumping relief applied to products from Russia, Ukraine, China and South Africa. The Commerce Department initiated these investigations on March 8th.

Let me also note that January's import figures show a sharp rise in steel imports from China, from 60,000 to just under 100,000 tons. This is still a small total, making up about 4% of our steel imports for the month. However, the sharp rate of increase is a cause for concern. Secretary Daley will raise this issue during his upcoming visit to China. As the Secretary has said, we will not allow others to jump into a vacuum caused by the elimination of dumped steel from Japan or other countries.

In sum, the combined industry, labor, and Administration effort to pursue and implement actions to counter unfair trade are providing relief, in a manner fully consistent with U.S. international obligations.

- **Bilateral Action**

Another key element of the President's steel action plan provides for bilateral initiatives with countries which are the key sources of the steel import growth: Japan, Russia, and Korea. Substantial progress has been made on this front as well.

1. Japan - The largest source of steel import growth last year was Japan. As reflected in the President's Steel Report to the Congress, in January the Administration informed the Japanese Government that we expect steel imports from Japan to revert to pre-crisis levels. We also informed Japan that, if such a roll-back does not occur in short order, the Administration would self-initiate trade action to ensure a reduction of imports and to prevent further injury to U.S. steel producers and workers. Thus, the roll-back will be enforced, if necessary, through Administration trade action. Our intent is to act forcefully if normal trade patterns are not promptly restored.

Our interagency steel import team closely monitors and analyzes both Japanese monthly export data and U.S. monthly import data for all major steel categories. We are reviewing trends, levels, and U.S. market conditions, and in consultation with U.S. producers, we are assessing where trade action may be appropriate. Some of the trends are encouraging, but important concerns remain. Japan's exports of steel to the United States in December 1998 fell to 363,000 metric tons, and in January 1999, Japan's exports declined to 233,000 metric tons. This compares to the average monthly export rate of 680,000 tons from April through October 1998, and the peak of 908,000 tons in Japan's September exports to the United

States. Japan's December and January steel exports of hot rolled sheet declined to a negligible level. Our product-specific monitoring of steel imports from Japan continues to ensure that our expectations are fully met.

At the same time, in our broader trade and economic relationship with Japan, we are pressing for the creation of domestic demand-led growth in Japan through fiscal stimulus, broad deregulation, financial reform, and meaningful market-opening measures. If fully implemented, these policies would create substantial opportunities for exporters and workers in America, other Pacific economies, and for Japanese workers and companies. Decisive action by the Government of Japan to implement such reforms are key to relieving global pressures which are at the root of the steel import crisis in the United States. We are looking to compile a substantive package of deregulation measures by Prime Minister Obuchi's visit to the United States in May.

2. Russia -- On February 22nd, Secretary Daley announced the initialing of a comprehensive set of steel agreements with Russia -- a suspension agreement on the carbon flat rolled dumping case, and a broader agreement under the market disruption article of the 1992 U.S. bilateral trade agreement with Russia. These agreements would roll back and cap steel imports from Russia, the second largest source of our 1998 steel import surge.

The suspension agreement would ensure that: a) there will be a zero quota -- no imports from Russia of flat rolled products covered by the investigation for a period of six months, and b) the annual quota which goes into effect at that time, 750,000 metric tons, is 78.4 percent below our 1998 imports of this products from Russia and 58.4 percent below our 1997 imports of this product from Russia. The quota basically rolls back imports from Russia to their 1996 level. In addition, there would be minimum price and strict monitoring provisions.

The second, broad, steel agreement with Russia would cover imports of all other steel products not already subject to quota, as well as pig iron. It contains quotas on sixteen products, and rolls back imports of these products to 1997 levels or below, reducing them by 68 percent from the 1998 import level.

Both agreements have been subject to public comment, and all views will be considered. The key objective here is to offset any unfair trade margins, and to help restore predictability and stability in the U.S. market. This comprehensive approach to the Russian issue is particularly appropriate because the European Union had already negotiated a similar agreement with the Russian government which may have caused diversion of Russian steel to the U.S. market, something U.S. industry was particularly concerned about. This comprehensive approach also envisages opportunities for regular dialogue between U.S. and Russian government and steel industry representatives which can be used to provide technical assistance in the transformation of the Russian steel sector to market-based principles, and to sound environmental and managerial practices. We welcome U.S. industry and labor involvement in this

dialogue.

3. Korea -- The third largest source of our steel import growth was South Korea. The President's Steel Report announced that our dialogue with Korea on steel trade and policy issues would be expanded and expedited. A Korean government and industry steel delegation visited Washington in late January and provided an update on government and industry efforts to restructure and privatize Korea's steel sector. The Administration, as well as U.S. steel industry and members of Congress, have had a longstanding concern with the Korean government's involvement in the steel sector through industrial policies which have favored steel and steel-using industries, and encouraged their growth and export-oriented capacity expansion, through incentives and directed lending. Hanbo Steel is the best-known example, but there are other examples as well.

In August of 1998 USTR exchanged letters with the Korean Ministry of Foreign Affairs and Trade which are aimed at ensuring that the sale of Hanbo Steel, which is in bankruptcy, is taking place through a market-driven, open, and transparent process in accordance with international practices. Hanbo's production of hot-rolled sheet has ceased pending its sale, Bankers Trust has been engaged to manage the sale.

In addition, the Korean government has offered general assurances that steel-related practices which have resulted in excess capacity in Korea and have been the cause of longstanding trade friction between our countries, have been abandoned. Accordingly, we have included in our steel discussion with Korea a set of objectives to ensure that real and substantive progress is made toward permanently getting the Korean government out of the steel business. Our broad objectives in these discussions include:

- a) Having the Government of Korea address anticompetitive activity in the Korean steel sector and ensure open competition inside Korea and in international trade;
- b) Expeditious, complete, and market-based privatization of Korea's largest steel producer, POSCO ;
- c) Implementation of the Hanbo sale and operation of the company on arms-length terms outlined in our August exchange of letters with Korea, in a manner which will not engender government involvement (we sent a formal Report on this issues associated with Hanbo to Congress last December);and
- d) Fair trade in steel products.

In our view, these are reasonable expectations. They are consistent with stated policies of the Korean government, and they must be implemented fully if we are to avoid continued trade friction in steel.

- **Section 201 Safeguards**

A third key element in the President's steel action plan is strong support for an effective safeguards provision in U.S. trade law, including his willingness to urge the ITC to expedite any section 201 safeguards investigations concerning steel.

U.S. industry and workers filed a petition for relief on steel wire rod under Section 201 in December of last year. The International Trade Commission (ITC) is now conducting an inquiry to establish whether injury has occurred or is being threatened in this segment of the industry. If the ITC reaches an affirmative conclusion under its legal procedures, the President will have the option to decide whether relief is appropriate. If a remedy is appropriate, he will have wide discretion to fashion it in a manner which is appropriate for this industry.

Because of its scope and flexibility, Section 201 is an extremely important and valuable trade remedy tool. As with the unfair trade remedies, the decision on when and whether to invoke it lies foremost with U.S. industry and workers. The Administration has met with steel industry and labor representatives to review market and import trends and to review assess relief options. Additional meetings will be held in light of the publication today of the preliminary import statistics for January.

- **Import Monitoring and Early Warning**

The fourth trade-related point in the President's steel action plan is the decision to release preliminary steel import data in order to create an early warning import monitoring system. Under this unprecedented new data release program, steel import statistics are made public almost a month sooner than the regular release schedule, some three weeks after the end of each month. Import trends are reviewed at senior levels of government and discussed with industry and labor representatives to assess their impact and options for import relief.

These import data releases have been invaluable in providing both the government and the industry with a real-time sense of import trends. Each month's data are carefully analyzed by USTR and Commerce Department experts and the interagency import monitoring team to review trends by country and by product category in terms of volume and per unit import value. These trends are reviewed in light of most current information on U.S. market and industry developments.

Our particular focus at this time is threefold: 1) to carefully monitor imports from Japan in light of the President's announcement that he expects imports from that country to revert to pre-crisis levels; 2) monitoring import trends for product categories that had been the subject of sharp import increases, to ascertain whether meaningful declines are underway; and 3) monitoring of imports from second-tier suppliers and the EU.

LEGISLATIVE INITIATIVES

In summary, our action plan, and our trade laws are in place, and beginning to provide the relief needed and deserved by U.S. steel producers and workers. Proposed legislation such as H.R. 975, which would attempt to resolve these issues through the legislated imposition of import quotas or similar import restrictions, would be neither in our national interest, nor that of our steel industry. While well intentioned, this type of action could create additional havoc in the U.S. market and undermine substantial progress we have made to date.

Unilateral imposition of quotas or import bans would ignore the fact that we already have effective trade remedy tools which are producing results. As I have discussed above, we have seen a substantial decline in imports in December and January; we have announced preliminary dumping and countervailing duties against unfair trade in record time; we have seen a substantial drop of imports from Japan; and, we have initiated a comprehensive set of agreements with Russia. Additional trade cases, both under the unfair trade laws and under the safeguards mechanism (section 201) are pending, and the Administration has affirmed its support for their fair and expeditious review. Our action plan and our trade laws are working as Congress intended, providing the relief needed and deserved by U.S. steel producers and workers. The crisis is by no means over, but we are seeing signs of recovery. Continued implementation of the President's action plan will ensure further progress. In particular, we are determined to carry on with our active import monitoring program to ensure that these positive trends continue, and that other countries do not increase their exports to undermine progress we have made.

By contrast, legislated imposition of trade remedies for steel outside of the established U.S. trade laws can backfire by inviting trade retaliation by affected trading partners and causing damage to export-oriented U.S. industries and workers, some of which may already be adversely affected by reduced demand abroad. While trying to assist U.S. steel workers, quotas which are legislated outside of our trade laws could harm U.S. steel interests by prompting retaliation against export oriented U.S. steel-using industries, such as autos and machinery, or against vulnerable industries such as agriculture which rely on a strong, rules-based trading system.

Finally, legislated solutions which do not arise from the type of careful ITC analysis and interagency and industry consultation process can create severe distortions in the market which can add to, rather than resolve, economic problems. When not carefully considered, quotas can create shortages for user industries or result in excessive price-hikes. As our economy continues to grow, demand for steel

products remains strong. Imposing quotas at this stage, when it looks like the market is beginning to stabilize could have the unintended effect of causing a panic in the market which could reverberate throughout the U.S. economy and undermine our nation's economic growth.

Other legislative proposals to improve U.S. trade laws are being reviewed by the Administration. For example, we are currently in the process of reviewing the proposals concerning Section 201. Section 201 is one of our most important trade laws and is critical for ensuring that our industries can make a positive adjustment to import surges when they occur. We fully support a strong, effective safeguards law which does not require industries seeking relief to satisfy conditions beyond our international obligations. We will review with Congress any proposals toward that end.

CONCLUSION

In conclusion, let me reiterate that prompt restoration of a stable U.S. steel market remains a top U.S. trade priority, and the President's steel action plan is achieving the goal. Vigorous and expedited enforcement of U.S. trade laws has resulted in substantial relief from unfair trade. Imports from Japan have been rolled back almost to the pre-crisis levels. A comprehensive agreement has been initialed with Russia which will substantially roll back imports and prevent new surges. Progress has been made in our dialogue with Korea, and additional results are anticipated shortly. Active import monitoring is underway based on the unprecedented early import data releases, and the Administration is committed to do more as market and import trends warrant. Prices and capacity utilization are rising.

We are not ready to declare that the problem has been solved. We are fully aware of recessionary conditions and excess capacity abroad, and of the fact that the strong U.S. market will continue to act as a magnet, while the temptation to trade unfairly will persist. Nevertheless, we are pleased that actions taken to date have resulted in improvements, and we are committed to continue to vigorously enforce the President's comprehensive steel action plan. Working hand-in-hand with U.S. industry, labor, and Congress, we believe positive results will be achieved without jeopardizing broader U.S.

bringing new ideas and opportunities to its people and giving China greater common interests with its Asian neighbors and with us. China's constructive approach to the Asian financial crisis may well be at least a partial consequence of this policy.

U.S.-CHINA TRADE RELATIONS TODAY

But at the same time, the progress has been slow. China remains a country characterized by high trade barriers and numerous unfair trade practices -- which create inefficiencies within the Chinese economy; slow the process of integration; and cause frustration and sometimes injury to American farmers, workers, and businesses.

China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain closed, depriving China of the jobs, efficiency and innovation competition could bring to the domestic economy. And the rule of law -- as Hong Kong Chief Secretary Anson Chan said last summer, the "infrastructure which enables enterprise to flourish" in any economy -- is undeveloped.

Thus, China remains insecurely integrated, and only opportunistically so, with the world outside; and its economy faces severe challenges which, over time, more open trade could help to solve. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth in the present financial crisis and in the future. One index of this is our trade deficit with China, now over \$1 billion per week. Another is that between the opening of Normal Trade Relations (formerly MFN status) in 1980 and 1997, our exports to China grew only \$9 billion -- barely half of our \$16 billion in export growth to Taiwan, and less than a quarter of our \$39 billion in export growth to the ASEAN nations.

WTO accession allows us to address the policy issues at the root of these problems in a comprehensive way. As it does so, it also is an opportunity to advance our broader interests and values beyond trade:

- As a matter of trade policy, a sound agreement will open Chinese markets to our exports, and give American domestic industries stronger protection against unfair trade practices.

- As a matter of strategy, WTO membership will complement our efforts to maintain peace and stability in the Pacific by linking China's economy more closely with the world's, creating constituencies within China for stability beyond its borders.

- And as a matter of values, WTO principles - transparency, fair and impartial judicial practices, peaceful settlement of disputes, the rule of law - are those we hope to advance in China and worldwide.

To win these benefits, an agreement on WTO accession must be commercially meaningful, addressing our major concerns in a detailed, enforceable and rapid way. This is also true for China -- a weak, "political" agreement would not yield the full potential for economic efficiency and growth in China. Thus, we are committed to a commercially meaningful accession; but while we have not yet reached agreement on such a package, in the past months we have made significant progress toward the goal.

PROGRESS THUS FAR

We have reached consensus with China on a broad range of market access commitments covering each major sector: agricultural products, manufactured goods, and services. And we have reached consensus with China on some of the most important and difficult Protocol issues, including safeguards against import surges, guarantees for our right to use appropriate non-market economy methodology in dumping cases, and protection against abusive investment policies like forced technology transfer and offset requirements. Talks will continue on a range of important market access and Protocol issues, however -- including many that must be addressed multilaterally -- and until they are each concluded on an acceptable basis, we will not be in a position to conclude the WTO accession. These include banking, securities, consumer auto finance, and the duration of rules regarding dumping and safeguards.

Let me now review the progress we have made thus far in agriculture, industrial goods, services and rules.

OUTLINES OF COMMITMENTS THUS FAR

On market access, we have a broad set of Chinese commitments covering most of our concerns. This set of commitments has four features:

- First, it is broad. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution within the Chinese market; unjustified sanitary and phytosanitary standards; and restrictions on services.

- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.

- Third, it is fully enforceable. The commitments China has made in all areas are specific, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the protocol issues.

- -Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat took effect immediately on their signature last Saturday, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one, in virtually every area. The phase-in of further broad concessions in all these areas will be limited to five years in almost all cases; in many instances the transition time ranges from one to three years.

Some examples of the progress thus far include:

1. Agriculture

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time, adopt liberal tariff-rate quotas in bulk commodities of special importance to American farmers, apply science-based sanitary and phytosanitary standards including in grains, meats and fruits, and eliminate export subsidies. Notable achievements here include:

Sanitary & Phytosanitary Standards - China will apply sanitary and phytosanitary standards based on science, eliminating its bans on American meats, citrus fruit and Pacific northwest wheat. In citrus, the industry estimates that this can mean up to \$700 million in new exports, when coupled with China's market access commitments on accession and later.

Tariffs - China's agricultural tariffs will decline to 14.5% for our priority items. All cuts will occur within a maximum four-year time-frame; by contrast, WTO developing countries received ten years. Results in some top priorities include tariff cuts from 45% to 12% in beef; 40% to 12% in citrus; 30% to 10% in apples; 50% to 12% in cheese; and 65% to 20% in wine. And all tariff cuts will be bound at applied levels - that is, unlike many of our trading partners, China will not have a right to raise tariffs beyond these levels once it enters the WTO.

TRQs - China will liberalize its purchase of bulk agricultural commodities like wheat, corn, soybeans,

rice, cotton and so on. It will adopt tariff-rate quotas - that is, very low tariffs on a set volume of commodities - in these bulk commodities. The wheat TRQ, for example, begins at 7.3 million tons and rises to 9.3 million tons by 2004. (Present import levels are below 2 million metric tons.) In all these TRQs, private traders will be guaranteed a share of the TRQ and a right to use unused portions of the share given to state trading companies. This will help establish legitimate private-sector trade in China.

Export Subsidies - China will not provide agricultural export subsidies. This is an important achievement in its own right, and a major step toward our goal of totally eliminating export subsidies in the next WTO Round.

2. Industrial Goods

In industrial goods, China will cut tariffs and bind them at the new, lower levels; make the deepest cuts in the areas of highest priority to the U.S.; allow American firms to import, export and distribute their products freely in China; and eliminate quotas and other numerical restrictions. Specific achievements in industrial goods include:

Trading Rights and Distribution - China will grant American companies, over a three-year phase-in period, rights to import and export products without Chinese middlemen, and to market, wholesale, retail, repair and transport their products -- whether produced in China or imported. Companies which set up business in China will also be able to import the goods they choose from the United States. Even for China's most protected sectors, such as fertilizer, China will grant full trading rights and distribution rights in five years.

Tariffs - China will make substantial tariff cuts on accession and further cuts phased in, two thirds of which will be completed in three years and virtually all of which will be completed within five years. On U.S. priority items, tariffs will drop on average to 7.1% -- a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these levels. Some specific examples include:

Information Technology Agreement - China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items connected to the information superhighway by 2003 in most cases and 2005 in a few others. This places China on the same footing as other ITA participants, who are required to phase out all tariffs in these sectors by 2005.

Autos - China will reduce tariffs on autos from 80%-100% today to 25%, and on most auto parts to 10%. This will be done by 2005.

Wood and Paper Products - China will reduce high tariffs on wood and paper to levels generally between 5% and 7.5%.

Chemicals - China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%-35% to 5% to 6.5% in most cases. In other high-tariff items, China will cut tariffs significantly as well.

APEC -- China has agreed to implement the early voluntary sectoral liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

Non-Tariff Barriers - China will eliminate all quotas and other quantitative measures on accession for top U.S. priorities such as certain fertilizers and fiber-optic cable, by 2005 in all cases and by 2002 in most cases. In autos, China has committed to an initial quota of \$6 billion - well above our current exports and the highest level of exports achieved in the past, and thus large enough that it will pose no restriction on trade. That quota will grow by 15% each year and will be eliminated entirely in 2005.

3. Services

In services, while discussions continue on audiovisual, banking and securities, China has agreed to broad-ranging commitments such as:

Grandfathering - China will guarantee to protect the existing rights and market access of all service providers operating in China.

Insurance - China will end restrictions on large-scale risk insurance throughout China immediately, grant licenses solely on prudential criteria, phase out restrictions on internal branching and remove restrictions on majority control or joint ventures, gradually eliminate geographical and numerical limits on licenses, and take several other measures.

Telecommunications - China will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services within four years, mobile and cellular within five years; and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, phasing in 49% foreign equity in all services in six years and 51% foreign ownership for value-added and paging services in four.

Audiovisual - Here, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction, and ownership and operation of cinemas. We continue to discuss several issues here as well.

Distribution - China will remove all restrictions on wholesaling, retailing, maintenance and repair, and transportation within three years, along with restrictions on auxiliary services including express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

Also covered, of course, is a broad range of other services - architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and many more.

4. Protocol

Let me now turn to the Protocol issues. Some of these are completed; on others we will need work, including as part of the WTO process involving a large number of other countries. China has already made significant commitments in a number of major areas of concern, but significant issues remain outstanding. Commitments include:

- Product-specific safeguard provisions to ensure effective action in case of import surges.

- Guarantees that we will continue to use our current "non-market economy" methodology in anti-dumping cases.

- Commitments to eliminate requirements that companies export what they make in China or use Chinese parts or other products when they manufacture there. Our companies will not have to agree to offsets to invest in China or to receive permission to import U.S. goods.
- A ban on requirements for technology transfer for U.S. companies to invest in China.
- Guarantees that state trading companies and state-invested enterprises operate solely on commercial terms, and specification that purchases by these companies are not government procurements and are thus not subject to any special or different rules.

The important question of the duration of several of these special provisions remains open, and we continue to discuss other issues as well.

WTO ACCESSION AND OTHER AMERICAN PRIORITIES

Any final accession package must be judged primarily on its value to working people, businesses and agricultural producers. It is not a substitute for a vigorous and effective policy in other areas of our relationship with China, and is not intended to be such. When completed and when enforced, however, it will complement our work in such areas as human rights and security policy, helping us build a peaceful, prosperous and open Pacific region; and to advance fundamental American principles of freedom, transparency, accountable government and the rule of law.

Thus, as I welcome scrutiny of the trade policy details of the WTO accession, I also hope that Americans will think about them in the larger context of Pacific security and American values. And I would like to take the remainder of this time to speak to those questions.

1. Pacific Security

First of all, with respect to security, as ultimate WTO membership helps integrate China more fully in the Pacific and world economies, it will ensure that China's stake in its neighbors' stability and prosperity continues to grow.

This trend began with the economic opening of China in the late 1970s and early 1980s. Its results are clear in the contrast between the revolutionary foreign policy China pursued in the 1960s and early 1970s, when it sought the overthrow of neighboring governments; and the approach China has taken to the Asian financial crisis today, when it has sought to help stabilize their economies through contributions to IMF recovery packages and its own currency stability policies.

WTO accession, by reducing Chinese barriers to trade and investment and providing enforceable means of keeping them lowered, will deepen and accelerate this process of integration. Thus, this is in no sense a substitute for the U.S. military commitments, security treaties and other policies designed to ensure peace and security in the Pacific; but it will complement them in our larger search for a peaceful, stable and open Asia-Pacific region.

The WTO Accession and American Values

And as in the case of security, the WTO accession will complement and support efforts to advance the cause of human rights.

WTO membership, in its largest sense, represents adherence to a set of accepted international rules. They include the development and publication of laws and regulations; consistency in decision making; recourse to law enforcement and judicial proceedings; curbs on the arbitrary exercise of bureaucratic discretion. And these concepts in turn rest upon universal values and ideals including transparency, public and enforceable commitments, and openness to the outside world.

The WTO accession thus will accelerate the trend toward development of the rule of law within China. It thus complements the work our colleagues in other agencies are doing in advocacy for political prisoners, activity at the UN Human Rights Commission and engagement with China's top leadership on human rights issues in the Administration's efforts to bring China closer to conformity with international standards of human rights.

CONCLUSION

In summary, over the past months we have made very significant progress on this work.

We have attempted to address the principal concerns of American agriculture, manufacturing, and service industries. And we have enhanced the work on rules.

If this progress continues, we will ultimately reach a result that creates a fundamentally fairer trade relationship. And at the same time, we will contribute to our larger goals of a Pacific region more stable and peaceful than it is today; and to the advance of universal values worldwide. This is a process which is in the American national interest.

Let me conclude, though, by saying once more that the work is not yet done. WTO accession will come only on completion of a commercially meaningful agreement; and that means each part of a commercially meaningful agreement, including the market access commitments and the Protocol issues, which are central. In the weeks ahead, we will consult with the Committee and other Members of Congress to make sure that our work meets your concerns.

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

AMERICA'S AGRICULTURAL TRADE AGENDA

Ambassador Charlene Barshefsky

United States Trade Representative

National Association of Agricultural Journalists

Washington, D.C.

April 19, 1999

Thank you very much. I am very pleased to be here with you this evening. And let me thank the National Journal for bringing us together. We have a great deal to talk about: the progress of our talks on China's membership in the World Trade Organization; the opening of a new Round of international trade negotiations later this year, with agriculture at the heart of the agenda; our work with Canada and Mexico; our immediate agricultural disputes with the European Union.

ADMINISTRATION AGRICULTURAL POLICY

I will touch on each of these, but let me begin with two larger points.

First, this is a year of crisis for America's farm and ranch families. As we speak -- with financial crisis overseas, natural disasters at home, and a boom in world production -- thousands of farm and ranch families are wondering whether they can hold on. No farmer could foresee these events -- as the Vice President said to the Farm Journal conference last week:

"Anyone who has spent any time on a farm knows that both the beauty and the tragedy of the land is that it follows a rhythm far beyond our ability to predict or control."

We understand the gravity of this crisis, and we are absolutely committed to a response that makes sure Americans have a secure future on the land. The President and the Department of Agriculture have acted quickly to create a safety net, ensuring the passage of a \$6 billion aid package, combined with commodity loans, disaster assistance and other initiative to help address the effects at home. We vigorously support the IMF recovery packages, with their potential to restore health in countries affected by the financial crisis overseas. And in trade we have worked for agreements with major trade partners - Canada, China and others - which can open new markets and relieve some of the pressure.

Second, looking further ahead, our trade initiatives are just part of our work to ensure a prosperous, secure future for rural America. Thus, our long-term work to open markets and ensure fair trade is inseparable from the fiscal policies which turned a \$290 billion federal deficit into a \$110 billion surplus; our work to improve the 1996 Farm Bill with a long-term safety net; the initiatives in the new highway bill to improve rural infrastructure; and investments in agricultural science and rural schools.

ADMINISTRATION AGRICULTURAL TRADE POLICY

With this context, let me now turn to our trade policy goals.

American farmers are the world's most highly competitive and technically advanced. Because of this we produce far more than we can ever eat. That means we have the opportunity to export to the 96% of the human race that lives beyond our borders; and with one in three farm acres now producing for foreign markets, we have to export to remain profitable at home.

These realities are the foundation of our agricultural trade policy. During the Clinton Administration, our work has covered five broad areas. We have sought to:

- reduce tariffs and other barriers to trade;
- ensure that sanitary and phytosanitary standards are based on science;
- promote fair trade by reducing foreign export subsidies and trade-distorting domestic supports;
- ensure greater transparency and fairness in state trading; and
- help guarantee that farmers and ranchers can use safe modern technologies, in particular biotechnology, without fear of trade discrimination.

The foundation of this work is its direct benefit to our agricultural producers. But each item on our agenda is also rooted in a broader humanitarian vision.

As American producers benefit from open markets, consumers abroad have more diverse supplies of food, helping guarantee food security and prevent famine during natural disasters.

As we reduce export subsidies, we ensure fairness for American farmers -- and for farmers in developing countries whose governments lack the resources to fight back.

And as we ensure respect for science in food safety and biotechnology, we protect public health and reduce pressure on land, water and wildlife habitat.

ADMINISTRATION AGRICULTURAL TRADE RECORD

We have much work to do before we get there. But we can also be very proud of the work we have done so far.

First, with the passage of the North American Free Trade Agreement in 1994, we won preferential access to our immediate neighbors. As a result, our agricultural exports to Mexico have grown from \$3.6 billion in 1993 to \$6.1 billion in 1998, a 70 percent increase, and exports to Canada have grown from \$5.3 billion in 1993 to over \$7 billion in 1998. Together, these two countries -- with a population of 120 million between them -- now buy over a quarter of our agricultural exports and provide American farmers with at least a partial shield against overseas economic crisis.

Then, with the completion of Uruguay Round in 1995, after forty-seven years of developing the trade system, we began to bring agriculture under its rules. We lowered tariffs. We put limits on trade-distorting subsidies. We won agreement among all WTO members -- 110 at the time, 134 today -- to ensure that sanitary and phytosanitary standards guarantee food safety rather than barring imports. And we created a dispute settlement mechanism, which we have used in the past four years to enforce the Agriculture and SPS Agreements in nine separate cases: from fruit sales to Japan, to pork in the Philippines, dairy in Canada, and of course the still unresolved banana and beef cases with the European Union.

The banana and beef cases are especially important, since they concern fundamentally important principles and precedents: in bananas, the first test of dispute settlement in the General Agreement on Trade in Services; in beef, respect for internationally recognized agricultural science; in both cases, the confidence we and our public have that our trade partners will live by the results of WTO panel decisions. We expect full implementation of each decision and are taking measures to ensure it, beginning with our authorized retaliation in the banana case. That took place today, imposing penalties on \$191.4 million worth of European products. It is proof that the system works: when members refuse to live by the rules, they will pay a price.

Since the Uruguay Round, we have also negotiated numerous bilateral agreements in a very large range of sectors. Beef in Korea. Apples and cherries in China. Almonds in Israel. Most recently, our agricultural agreement with Canada and our sanitary and phytosanitary agreement in China. And these agreements are paying off.

The Canada agreement is a great example. In the three months since our agreement gave Montana, North Dakota and Minnesota farmers access to the Canadian rail system, over 151,000 tons of wheat and barley have moved north. That compares to virtually nothing last year. And the total has the potential to grow rapidly -- since two weeks ago, as the agreement required, Canada recognized fourteen U.S. states as free of karnal bunt, eliminating testing and certification regulations in grain. And with 26 states now able to ship feeder cattle to Canada under new animal health regulations, over 40,000 head of cattle have moved north since January. That compares to 1,000 head for all of 1998.

And at the same time, our colleagues at the FDA and the Department of Agriculture are intensifying food inspection at the border, to not only maintain but improve our food safety standards. This is especially important as imports have risen in recent years, to ensure that the American public will have the world's safest food supply as we get the benefits of open trade.

NEXT STEPS

So today, American farm and ranch families face a far more open and fair international market than they did six years ago.

But we are very far from done. In the next decade, we can and should go well beyond the achievements of the 1990s, to make trade more open for our farmers and ranchers; encourage the most advanced and

environmentally friendly agricultural technologies; and ultimately to increase the world's food security.

Most immediately, we have the emergency of the Asian financial crisis, which may have receded from the headlines, but not from the lives of people in the affected countries or at home in rural America. Here we act at home - through the \$6 billion safety net package President Clinton insisted on last year; through export credit and trade promotion initiatives through the Department of Agriculture, and through resisting protectionist legislation that could easily lead to retaliation against agricultural and manufacturing exports. And we act overseas, both by supporting the IMF recovery packages in Southeast Asia, Korea and Brazil, and through vigilance against protectionist responses in our trading partners.

With respect to market access, we have substantial initiatives in each part of the world. We have more work ahead with Canada and Mexico. We have the broader project of the Free Trade Area of the Americas, where the Agricultural Negotiating Group is laying the foundation through drafting annotated outlines of a hemispheric agreement in agriculture. In the Transatlantic Economic Partnership talks with Europe, we are working toward a consensus approach on food safety and biotechnology issues. And we have sectoral issues to address in Africa, Asia and elsewhere.

But let me address in more detail two issues of great long-term consequence: that is, our recent negotiations with China on its accession to the World Trade Organization; and our plans to deepen and improve the WTO through a new global Round of trade negotiations.

CHINA AND OTHER WTO ACCESSIONS

Today the world trading system is a bit like the World Series -- that is, its title promises a bit more than it delivers. The WTO now has 134 members. But outside the system, unaccountable to its rules on market access and standards, remain about 1.5 billion people - about a quarter of world population. The largest group of these is the reforming communist countries: Russia, Ukraine, other former Soviet republics, Indochina, and the world's largest nation, China.

Our goal, ultimately, is to bring all these countries into the system, on the commercially meaningful grounds its present members accept. This is a task of great importance. For these countries, accession to the WTO, with commercially meaningful commitments, will support domestic reform and support long-term growth. This will also complement our political and security policies by giving these nations a greater stake in peace and stability beyond their borders. In a sense, this is the contemporary equivalent of reintegrating Japan and Germany after World War II.

It is also, however, an immensely complex task. The issues we must address in the agricultural talks with China are a perfect example. China's trade barriers include state enterprise control over purchases of bulk commodities. And they extend to unscientific sanitary and phytosanitary standards, high tariffs and restrictive quotas at the border. But as complicated a task as this may be, it is not insoluble. And the progress we have made in the past months with China shows that.

The commitments we have achieved in our WTO negotiations address every one of these layers of trade barriers. In practical terms, they offer immense opportunities to producers. The pork industry estimates completing the accession could mean \$100 million a year in sales. Poultry perhaps as much as \$500 million. Citrus, \$700 million; wheat, \$460 million; rice, up to 100,000 metric tons of new exports, and on down the list. Let me review some specifics.

SPS Agreement

First, we reached an agreement on sanitary and phytosanitary standards which is already in effect. With this agreement, China has lifted its longstanding bans on U.S. citrus; beef, pork and poultry; and grain from the Pacific Northwest. Industry estimates that these restrictions have cost U.S. farmers billions of dollars in lost export opportunities over the past two decades.

This agreement also has potential benefits beyond these commodities. It includes provisions for technical cooperation and scientific exchange on a wide range of mutually beneficial topics, which can help us reach consensus with China on some very important issues in the next Round. For example, with over 1.2 billion people to feed, less than 7 percent of the world's arable land, and rapid construction in rural areas, China will benefit immensely from biotechnology and other techniques that raise yields. Thus, in a new Round China may well be one of our allies on these issues.

WTO Commitments

Second, we have made significant progress in the WTO accession. While negotiations remain ahead on several service sectors and other issues, China has already made commitments in agriculture extending to all commodities of interest to the U.S., and all issues from tariffs to quotas, bulk commodities and state trading. To give you a few specific examples:

Tariffs - China's agricultural tariffs will decline from present levels to an average of 17%, and 14.5% for our priority items. This compares to an average of 50% agricultural tariffs for WTO members generally. And all cuts will occur within a maximum four-year time-frame; by contrast, WTO developing countries

received ten years. So by 2004 China will cut its tariffs on beef from 45% to 12%; from 40% to 12% in citrus; 30% to 10% in apples; 50% to 12% in cheese; and 65% to 20% in wine. All tariffs will be bound at applied levels - that is, unlike many of our developing country trading partners, China will not be able to raise tariffs beyond these levels once it enters the WTO.

TRQs - With respect to bulk agricultural commodities -- wheat, corn, rice, cotton and so on -- China will adopt tariff-rate quotas on very liberal terms, with tariffs often in the 1-3% range. For example, China now imports about 2 million tons of wheat; after WTO entry, its wheat TRQ will open at 7.3 million tons, and rise to 9.3 million tons by 2004. In all these TRQs, private traders will be guaranteed a share of the TRQ and a right to use unused portions of the share given to state trading companies. This will help establish legitimate private-sector trade in China, and allow American producers to compete at market prices.

Finally, China will agree not to provide agricultural export subsidies. This is an important achievement in its own right, and a major step toward our goal of eliminating export subsidies in the next WTO Round.

Again, we have work ahead to reach a successful conclusion. But we have made very significant progress. We will reengage with China this week to address the issues which remain incomplete, and I believe an agreement will shortly be reached.

NEW WTO ROUND

And that brings me to the final issue I will address today: the opening of the new Round.

Here we will take up the work we began in the Uruguay Round: addressing market access, subsidies, scientific issues, state trading and more. The agenda we develop in these areas over the next few months will shape the trade agenda of the next decade; and success in achieving the agenda is enormously important for our national interests in agriculture.

The Round will be launched at the WTO Ministerial Conference in Seattle this November. In the past months, we have developed a broad agenda, which includes reducing tariffs and improving administration of tariff-rate-quotas; eliminating export subsidies; reducing trade-distorting domestic supports; stronger disciplines on the activities of state trading enterprises; and guarantees that decisions on biotechnology will be made on scientific grounds through transparent regulatory processes.

We are now developing specific goals in each of these areas through consultations with agricultural producer and commodity groups; private sector companies, academics and Congress. We will also hold a series of outreach sessions this spring jointly with the Department of Agriculture, in which we will get out of Washington to California, Florida, Montana, Texas, Kentucky, Iowa, Nebraska, Wisconsin and other states, to hear directly from farmers, ranchers, agribusiness and others on the agenda that will help them most.

At the same time, we are building consensus with our trading partners wherever possible. Export subsidies are an example, and a case on which we are doing reasonably well. We have the Cairns Group with its 24 members on record supporting this. In Miami, the Free Trade Area of the Americas talks have helped us win a commitment to the goal in principle by the 34 Western Hemisphere nations. With the WTO accession, China will join this consensus; and at the recent US-Africa Ministerial, I had a good exchange with 30 African trade ministers about the damage Europe's Common Agricultural Policy - which at \$4.8 billion last year made up 85%, or six dollars in every seven, of world export subsidies - does to African farmers.

We are also working toward an agreement that this Round can and should be completed rapidly. We believe three years is an appropriate time-table. And rapid results are especially important to agriculture given the expiration of the current Farm Bill in 2002, the expiration of the Uruguay Round's peace clause in 2003, and the pressure the financial crisis has placed on so many farm and ranch families.

And perhaps most important, together with USDA and others, we are building public understanding of the issues at stake. As we think about biotechnology, for example, we should remember that virtually every type of food we now eat is genetically engineered in some way, through selective breeding programs for plants and animals dating back thousands of years and through the Green Revolution of the 1950s and 1960s. Foresight and appropriate regulatory procedures are important; but just as important is that we react to the 21st century with a sense of appreciation for the benefits new technologies can bring.

THE ACHIEVEMENT AND THE OPPORTUNITY AHEAD

Let me conclude with some thoughts about the years ahead.

American agricultural producers are living through a very difficult period. That is a fact which demands immediate attention. But when we look ahead, I truly believe our farm and ranch families can see a very good future -- one in which, to quote a young woman from Cecilia, Kentucky, whose essay on risk management won a prize from the Future Farmers of America earlier this year, a prosperous life on the land will be there "for me, for my family, and for generations to come."

In trade policy -- through our regional and bilateral initiatives; through NAFTA; through the Uruguay Round's agreements on Agriculture and Sanitary and Phytosanitary Standards -- we have created a fundamentally more open, fair and law-abiding trading world. And the new Round -- together with the opening of China, and the work we see ahead in Canada, Mexico, Europe and elsewhere -- promises equally profound advances in the next decade.

These new opportunities will combine with our work at home -- an improved safety net; lower interest rates; a better infrastructure; investments in scientific research and rural education - to ensure that farmers and ranchers will be able to make the most of their talent and get the full benefit of their hard work.

These are the conditions under which Americans will succeed; and they are the reality which, working together, we can create for American agriculture.

Thank you.

The North American Free Trade Agreement Five Years Later

Ambassador Charlene Barshefsky

United States Trade Representative

1999 NAFTA Ministerial Conference

Ottawa, Canada

April 23, 1999

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

It is now five years since the North American Free Trade Agreement went into effect. Today, as we look back on its first years and towards its future, I would like to reflect on three topics: our experience with the agreement thus far; our agenda for the future; and the lessons we can bring from our experience in this agreement to the issues we must address beyond our own continent -- in the Western Hemisphere, the Pacific region, and the world trading system.

THE AMERICAN TRADE AGENDA

The NAFTA is a partnership. It is an agreement that rests on shared values and principles of mutual benefit. But let me begin my discussion with a bit of context from a U.S. perspective.

America's trade interests are worldwide. Our goods exports are almost equally divided among four major regions: Asia, Europe, Latin America and North America. Thus our trade agenda takes in each part of the world, and the multilateral system that links it together. To review it briefly:

-- We will host the Third WTO Ministerial Conference this November in Seattle, kicking off a new

Round of negotiations with great potential for our farms, working people, businesses and consumers.

-- We are addressing the trade consequences of the world financial crisis for farm and manufacturing exporters and for domestic industries, notably steel.

-- We have begun an ambitious program to improve our trade relationship with Africa.

-- We are working to improve our trade relations with the European Union through the Transatlantic Economic Partnership.

-- And together with Canada, Mexico and every other hemispheric democracy, we are at the midpoint of negotiations toward a Free Trade Area of the Americas by 2005 -- which this year, in accordance with the Miami and Santiago Summits and under Canada's direction as Chair, must lead to implementation of concrete business facilitation measures and "annotated outlines" of final FTAA chapters.

THE VISION

Each of these is an immensely important endeavor. But as important as each of these endeavors may be, it is fair to say that we have no relationships more important than those which are closest to home. No relationships mean more to the daily lives and well-being of our citizens than those with Mexico and Canada.

And that means all three of us are very fortunate countries. This month, every one of us here has watched hundreds of thousands of people forced onto the dirt roads of Kosovo, losing homes, possessions, sometimes lives to barbarous practices of "ethnic cleansing." Our countries now house hundreds of thousands or millions of refugees from such conflicts -- today from the Balkans; in the past two decades from Central America, Southeast Asia, Africa, the Middle East and virtually every part of the world.

Almost alone in the world, for a century and more North America has been free from this. For over a century, our three nations have lived together in peace. That is an extraordinary blessing -- one which is almost unique. It is a precious legacy, and a tribute to the foresight, common sense and good will of many generations of Americans, Mexicans and Canadians. And the North American Free Trade Agreement, in the deepest sense, represents our generation's commitment to preserve this legacy and to strengthen it for a new century.

A SUCCESSFUL TRADE AGREEMENT

At bottom, of course, it is a trade agreement, and must be judged on its merits as such. And from four different perspectives, the agreement meets that test.

1. Promoting Trade, Jobs and Growth

First, NAFTA is promoting trade through an open and fair market. Virtually all the merchandise trade -- a figure now approaching \$350 billion a year -- between the U.S. and Canada is now duty-free; about two-thirds of US-Mexican trade is duty-free. As a result, Mexico has surpassed Japan as America's second-largest foreign market for goods. We now export three times as much to Canada as to China, Hong Kong and Taiwan combined. Employment and wages are rising in all three countries, meaning new opportunities for working people and higher standards of living for families.

Second, it meets the test of compliance. Our tariff reductions are on schedule. In fact, on two occasions all three members have agreed to implement tariff-phaseouts before the deadline. Quotas, performance requirements and other NAFTA illegal barriers are being eliminated on time. Over the five-year history of the agreement, we have submitted only two issues to Chapter 20 arbitration panels - a testament to the quality of the agreement and our commitment to make it work.

Third, it is advancing our broader economic interests with respect to the world economy. Most notably, the agreement has been an essential factor -- perhaps the single most important factor -- in protecting our economies from the worst effects of the Asian financial crisis. From the U.S. perspective, as our exports to the Pacific Rim dropped by \$30 billion last year, the growth in our exports to Mexico and Canada protected jobs in manufacturing, farm and service sectors, and incomes of blue and white collar workers, all across America. This is a benefit all of us share, of course: Mexico and Canada have been able to rely on access to our market as exports across the Pacific have dropped.

Fourth, and most important, it is helping the working people, families, farmers, entrepreneurs, investors and consumers of our three countries find new opportunities and enjoy higher living standards. Since its passage in 1994, as our economy has grown by well over \$1 trillion, the United States has created jobs at a pace unmet in our history; unemployment has fallen to 4.2% - the lowest peacetime rate in forty years - and working people have seen wages rise substantially after a sharp decline during the 1980s.

2. Managing Implementation and Disputes

Much work remains ahead, of course. The Agreement will not be fully implemented until 2008, and through our trilateral work program we must monitor the process closely and find opportunities to improve it. That is why we put in place last year a new high level oversight and policy coordination mechanism to oversee the work program, strengthening our efforts even beyond the annual Ministerial oversight.

Today, we have taken steps to further improve implementation, and directed that additional work begin to make this trilateral project as successful as it should be. This is essential for us not only to take maximum advantage of the opportunities open trade in our continent creates, but to make our economies as competitive as possible with respect to other regions of the world.

We must also address our disputes and disagreements forthrightly. With respect to Mexico, we have yet to resolve concerns on land transportation, but both sides are working with that objective on the issue. We have very important issues to resolve pertaining to high-fructose corn syrup and sugar, and to telecommunications barriers. And we want to work together to address piracy of intellectual property, particularly copyright piracy, where serious problems exist. But we always keep in mind the tremendous growth in our bilateral trade and the value that has brought to both our economies.

With Canada we recently reached a major agricultural agreement, helping to ease trade and increase transparency in wheat, barley, cattle and other commodities. This was of course a first step, and we have a range of agricultural issues to resolve in the months ahead. This area will continue to command high level attention in the U.S., as will our work together with Canada on agriculture in the WTO. And we need to address the major market access impediments facing our magazine publishers and other media and entertainment industries. This and other issues make the U.S. - Canadian trade agenda extremely challenging, particularly given the long and complicated history of many of these issues; but they are not surprising, given the vast size of our trade relationship, and must always be considered in the context of its overall success.

No agreement will ever end all disputes. But through the cooperative framework we have built, we have avoided or solved many disputes and are working in good faith on those which remain. And five years after passage of the agreement, we can say with absolute certainty that the trade interests of Mexico, Canada and the United States have all been served very well.

3. Improving the Quality of Life

But in relations among neighbors, each of us has concerns that extend well beyond trade.

Our people - Americans, Canadians, Mexicans alike - expect growth and jobs to go together with a rising quality of life and the advance of basic values. Thus the agreement, at its inception and still today, must also meet the test of improving our ability to guarantee clean air, clean water, public health and protection for our natural heritage. It must help us ensure safety, dignity and elementary rights for working people. And in each of these areas - as in its trade provisions - five years into the agreement, we have work ahead but the agreement meets the test.

With respect to the environment, the agreement has led to a remarkable improvement in our ability to protect public health, improve the quality of our air and water, and protect habitat and wildlife. Through the Commission on Environmental Cooperation, created by the environmental side agreement, we have agreed on conservation of North American birds and created a North American Pollutant Release Inventory. The CEC has also helped us devise regional action plans for phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury. Important cooperative work is also underway on environmental enforcement and air quality monitoring.

On the US-Mexico border, the North American Development Bank has begun fourteen projects which will reduce water pollution and improve health for millions of people. For example, Juarez broke ground last November for its first waste-water treatment plant. That is going to mean better sanitation and cleaner water for a million people in Juarez, another million in El Paso, and for border towns and villages all along the upper Rio Grande. A similar project has opened on the American border near San Diego and Tijuana.

And with respect to labor practices, the Agreement on Labor Cooperation has generated the largest cooperative effort on labor anywhere in the world. It covers occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues. It has allowed citizens to draw attention to labor practices and improve working conditions, through the filing of twenty separate submissions to the labor commission. Submissions in 1998, for example, led to ministerial consultations on freedom of association and safety and health issues in the Mexican states of Baja California Norte and Mexico. Earlier consultations led to a trilateral conference on the labor rights of women workers in North America, and a work program of trilateral seminars in Mexico City, San Antonio, and Monterrey on union registration, certification, elections, recognition and union democracy.

4. The Record

Altogether, then, the record of the North American Free Trade Agreement five years later is very good. It has created the opportunities that allow our people to create jobs and raise living standards, dramatically expanded trade and investment, and shielded our continent from the worst effects of the Asian financial crisis. And it has helped us work more closely than ever before to protect our natural heritage, improve public health, and advance the rights of workers. And, as it has achieved these specific tasks, it has served the fundamental strategic interest we all have in preserving the peaceful, cooperation relationship between the countries which share the North American continent.

NORTH AMERICA IN THE WIDER WORLD ECONOMY

This is, of course, a task of fundamental importance for each of our countries. And it offers us a larger opportunity as we approach our challenges and opportunities worldwide.

Each of us is a participant in the Asia-Pacific Economic Cooperation forum; in the WTO and the development of the world trading system; and in the work toward the Free Trade Area of the Americas. And to close my comments today, let me offer a few thoughts on the lessons we can bring from the first five years of our agreement to these tasks.

1. 1999 Priorities

The first is obvious - we do not reach visionary, strategic goals in trade without specific, substantive achievements. Just as the North American Free Trade Agreement began with more focused agreements, so we will need specific accomplishments in smaller areas to reach our larger goals in APEC, the FTAA and the WTO, beginning this year.

With respect to APEC, the Information Technology Agreement, with its potential to speed the development of high-tech industry and open societies, is just one a small example of what we can achieve through this forum. To choose just one of the nine sectors we took up in APEC last year, open trade in environmental goods and services has equally broad implications for North American exporters and for the quality of life. Each of us should work as hard as we can to win consensus on this package by the Ministerial conference in Seattle next November.

Likewise, the Miami and Santiago Summits directed us to make "concrete progress" toward Free Trade Agreement of the Americas this year. Canada, as the Chair for this year's discussions, has an ideal opportunity to lead in implementation this year of concrete and mutually beneficial 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; adherence to arbitral conventions; and mutual recognition agreements in telecommunications.

And as we approach the WTO Ministerial and the new Round of global trade negotiations to begin there, we should work toward consensus not only on the APEC sectoral agreement but an "Information Technology Agreement II" to improve access to the most modern technology; extension of our commitment to refrain from imposing tariffs on electronic transmissions, so electronic commerce can continue to develop; and for an agreement on transparency in government procurement to reduce opportunities for bribery and corruption.

2. Civil Society Participation

The second lesson we have learned is that trade policy does not succeed without the inclusion and participation of all elements of our society.

As we see in our experience over the last five years, the work of the Commissions on environmental and labor cooperation has given ordinary people and civil society groups interested in trade a chance to participate in the implementation of our agreement. All of us have learned from this process. Those who administer these agreements and citizens in all our countries believe more strongly than ever that these accords have helped us reach the NAFTA's larger goal of cooperation and progress in North America.

We are convinced that the same will be true of our work outside North America. If it lacks transparency; if civil society does not feel it can participate; we may not succeed. And the guarantees of participation will not only strengthen the consensus for APEC, or the WTO, or the FTAA, but improve them.

In the FTAA process, we have therefore - for the first time in any major international trade negotiation - we have created a Committee on Civil Society to advise governments on the views of business, labor, consumers, environmentalists, academics and other citizen associations. Thus, both the negotiations and the FTAA can strengthen, throughout the hemisphere, the sense of mutual benefit, citizen participation, shared values and common destiny which today allow the three nations of North America to live together in peace and prosperity.

Likewise at the WTO, we are determined to lead in the creation of consensus on reforms that will improve transparency and access for citizens - more rapid release of documents, the opening of dispute settlement proceedings to interested observers, and the creation of more permanent fora in which groups can exchange ideas with WTO members and staff.

CONCLUSION

And finally, after five years, our public and the world beyond can draw a third lesson from this experience. That is, the concepts of trade integration, mutual benefit and shared destiny which underlie the NAFTA are not just correct in theory but proven in practice.

Americans, Mexicans and Canadians alike are more prosperous and have more opportunities than before its passage.

Our governments are working more closely and accomplishing more than ever before on environmental protection, workplace safety, and all the other issues that affect the daily lives of our citizens.

And we will pass on to our children, stronger than ever, the legacy of peace, cooperation and progress on the North American continent we have inherited from past generations.

Thank you very much.

THE TRADING SYSTEM OF THE 21ST CENTURY

Ambassador Charlene Barshefsky

United States Trade Representative

Economic Strategy Institute Conference

Washington, DC

April 28, 1999

Good afternoon. Thank you, Clyde, and thank you all.

The Economic Strategy Institute's annual conference is one of Washington's signature trade events. And it occurs this year at an ideal time.

In the months ahead, through the World Trade Organization's Third Ministerial Conference and the launch of a new Round of international trade negotiations, the foundation of the next decade's trade agenda will take shape. That in turn will shape the 21st century economy in which our businesses, farmers, working people and consumers live.

This afternoon, as the work begins, I would like to offer you some thoughts on the future we should seek for the trading system.

U.S. TRADE PHILOSOPHY

The goals we seek are clear. At home, opportunity and equity; scientific and technical progress; a rising standard of living together with a high quality of life. Abroad, a more stable and prosperous world

economy; improving environmental protection and respect for core labor standards; a stronger peace. And a strong, rules-based trading system is essential to both.

At home, trade offers American farmers, businesses and workers larger markets. Almost 80% of world economic consumption takes place outside the U.S., and if we are to continue to grow and remain competitive in the future, Americans must have fair access to these markets. Likewise, living standards and economic efficiency require openness to fairly traded imports.

And abroad, a strong trading system helps increase world prosperity, advances the rule of law, provides an indispensable shield in moments of crisis, and contributes to international peace by giving nations stronger stakes in their neighbors' stability and prosperity.

These principles have formed the basis of American trade policy since the end of World War II. They are the foundation of the 275 trade agreements we have concluded since President Clinton took office. And they are the basis of an agenda for the next decade, ranging from integrating the quarter of humanity outside the trading system; to strengthening and reforming that system to make it more open, fair and responsive to the opportunities of the 21st century.

DEVELOPMENT OF THE TRADING SYSTEM

Let me begin, however, with the context: because to explain the role of the trading system in our future requires us to review the reason it exists today.

This takes us back to 1948, when 23 nations joined to form the General Agreement on Tariffs and Trade, or GATT. They did this, most immediately, to revive the western economies after the Second World War. But their decisions took place in the light of the experience of the 1920s and 1930s, when cycles of protection and retaliation helped create the unemployment and social tension which contributed so much to the political upheavals of that era.

The challenge the leaders of those days faced was to rebuild the relatively open trading world which had existed before the outbreak of the First World War in 1914 -- described so well by John Maynard Keynes in his Economic Consequences of the Peace:

"What an extraordinary episode in the progress of man was that which came to an end in August, 1914.

The inhabitant of London could order by telephone the various products of the whole earth, and reasonably expect their early delivery upon his doorstep; he could at the same moment adventure his wealth in the natural resources and new enterprises of any quarter of the world ... and most important of all, he regarded this state of affairs as normal, certain and permanent, except in the direction of improvement."

Events had proven it nothing of the sort. That era of growth and open trade depended on policy, and was undone by policy: the tariff hikes and colonial preference schemes of the 1920s, capped by the Smoot-Hawley Tariff in the United States, cut trade nearly 70% by 1934 and transformed the world into something like a series of island economies. By 1948, disintegration was complete: trade barriers divided the Allied economies; China left the world economy in the communist experiment; Russia was long gone; Japan and Germany had not yet returned.

The founders of the GATT drew the obvious lessons. For living standards and growth, trade is not a luxury but a necessity. In strategic terms, trade is an invaluable support to peace.

THE ACCOMPLISHMENT

Since then, eight separate negotiating Rounds have rebuilt a freer trading world.

The system has grown in membership, from the original 23 countries to today's 134 economies and 4.5 billion people. And it has grown in scope: tariffs remain central to its work, but are now joined by agreements on agriculture, services, sanitary and phytosanitary standards, intellectual property, technical barriers to trade, the Information Technology, Basic Telecommunications, and Financial Services agreements, as well as dispute settlement, oversight bodies for each agreement, and a forward work-program on newer issues.

As a result, for each WTO member, exports offer markets to farms and businesses, create the economies of scale that speed technical progress, and raise the wages of workers. Imports raise the standard of living for consumers -- especially the poor -- and let industries find the best price for inputs and compete more successfully. Since 1960 global trade has grown fifteen-fold. World economic production has quadrupled and per capita income more than doubled; this in turn provides families and governments with the resources to improve health, invest in education, protect the environment and advance other social goals.

In consequence, life has improved nearly everywhere in the world. World life expectancy has grown by

twenty years. Infant mortality has dropped by two-thirds. Famine has receded from all but the most remote or misgoverned corners of the world. And daily life has been enriched in perhaps small but remarkable ways: oranges and green vegetables available around the world in midwinter; books and cars over the Internet.

And during the financial crisis of the past two years, the trading system proved its worth in another way. Today's enforceable commitments and contractual rules are vastly more resilient than that of 1914. In the worst financial crisis of the past half century - with 40% of the world in recession, six major economies contracting by 6% or more, and the American trade imbalance likely to pass \$300 billion -- we at least so far have seen no broad reversion to protectionism.

While the crisis is by no means over, this has prevented enormous economic damage to our country and our farmers and working people. It has helped guarantee to affected countries the open international markets essential to their recovery -- and we now see signs of return to health, from buildups of inventory in Thailand's manufacturing sector, to rising numbers of Asian tourists in Hong Kong, revival of consumer demand in South Korea, and resilience in Brazil. And it has helped to avert the political tensions that can arise when economic crisis leads to trade conflicts.

The question, of course, is whether these accomplishments are enough. As the President's call for a new Round indicates, we believe they are not.

END OF THE COLD WAR

First of all, the basic work begun in 1948 -- the completion of an open trading system whose principles are accepted by all major trading economies -- is not yet done. Many Middle Eastern countries remain outside the system, as do many smaller island states and least-developed economies. And we face one challenge with truly profound implications: the response of the trading system to the end of the Cold War.

The trading system began, in essence, with the World War II allies and Latin America. Since then it has responded to two of the great political developments of the postwar era: the reintegration of Japan and Germany, and decolonization. The largest group now outside the system are the transition economies: China, Russia, Vietnam, Ukraine and other former Soviet republics. They make up 18 of the 30 current applicants for WTO membership. Their entry and acceptance of the system's rules is essential: it will strengthen the WTO; strengthen peace by giving them greater interests in stability beyond their borders; and support domestic economic reform and sustainable growth in the transition countries. It is a task of immense gravity, technical difficulty and political complexity; but it is achievable - and that is clear because it is already well underway.

1. Progress Thus Far

Since its creation in 1995 the WTO has admitted five transition economies: Slovenia, Bulgaria, Mongolia, Kyrgyzstan and Latvia. We have completed bilateral negotiations with Estonia, and made significant progress with another six: Albania, Armenia, Croatia, Georgia, Lithuania and Moldova. Their governments -- some in the Balkans and the Caucasus operating under the most difficult of circumstances -- deserve immense credit for their progress so far.

From our perspective, each case has set important precedents and offered lessons on broader questions associated with integrating transition economies, including subsidies, transparency, transitions to market pricing and other issues. And each acceding nation has found the process a support to its domestic reforms. As Latvia's Foreign Minister Birkavs said to the Second WTO Ministerial Conference last year:

"the accession process and potential membership in the whole have very positively influenced and even accelerated the whole reform process."

2. China's WTO Accession

We are now in the midst of negotiations with a much larger nation: the People's Republic of China, the world's largest nation and the largest economy in this group. This is a matter of immense importance -- for our economy and our working people, for our Asian trading partners, and for our national strategic interests.

Consider how damaging was China's economic isolation during the Cold War. Between 1949 and early 1980s, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

With the reform in China beginning twenty years ago, this has begun to change. China is now one of the world's major exporters; its Asian neighbors are among China's markets and leading investors. The consequence of this may well be evident in China's response to the Asian financial crisis: where once

China might have seen an opportunity to overthrow governments in Korea and Southeast Asia, it now sees a threat to its own economic interests, and has thus contributed to IMF recovery packages and maintained currency stability.

But China remains insecurely and only opportunistically integrated in the global economy. Trade barriers remain high in agriculture and manufacturing; its service market is among world's most tightly closed. The principal victim of these practices is China itself: it faces inefficiencies in rural and urban economies stemming from lack of competition and state monopolies; the closure of markets in sectors like finance and telecommunications which slows technological progress; and a weakly developed rule of law threatens investment and long-term growth. At the same time, of course, China's trade barriers block American goods and services, and prevent its neighbors from taking maximum advantage of an economy which could be an engine of growth for the region and during this crisis.

These are the broad issues we take up in the WTO accession. Our work rests upon specific American commercial interests. But it also contributes to the entry of China into an international culture of open economies and the rule of law. It helps to create transparent laws and regulations; ensure access to administrative or judicial decision making; curb arbitrary bureaucratic power; and bring China toward adherence to accepted international standards of behavior. This will help strengthen the rule of law in China. It will help us achieve a more fair and open Chinese trade regime that creates opportunity and ensures fairness for Americans. And it will advance our larger goal of trade policies that support and complement our work to ensure Pacific security and advance universal standards of human rights.

In the past months, we have made very significant progress in China's WTO accession. We have completed our negotiations on agriculture and industrial products, and addressed many of our concerns in services. We have also made significant progress on subsidies, state trading, technology transfer, non-market economy dumping and other issues common to the transition economies. While time does not allow a comprehensive review - that is in any case available on our web site - we have reached a set of commitments that covers most of our concerns. This set of commitments has four features:

- First, it is broad. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution within the Chinese market; and restrictions on services.

- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.

- Third, it is fully enforceable. The commitments China has made in all areas are specific, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the Protocol or rules-based mechanisms.

- -Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat are now in effect, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one, in virtually every area. The phase-in of further broad concessions will be limited to five years in almost all cases; in many instances the transition ranges from one to three years.

The work is not yet done in either market access or the Protocol. As in all accessions, concluding it depends on the acceding government, and of course China must meet the concerns of our trading partners at the WTO as well. But the distance we have traveled opens the prospect of completing the work soon. And when it is done, within view will be the completion of the vision held by the founders of the GATT: a universal trading system which advances prosperity and the rule of law in all the world's major trading economies.

OPENING A NEW ROUND

This is a challenging agenda by itself; but today we must go further to improve the WTO and its rules as they stand today.

Since 1995, the WTO has proven itself a fundamental improvement over the GATT: it has created opportunities for growth, advanced the rule of law, and helped make sure the Asian financial crisis did not lead to a cycle of protection which would have further hurt affected nations and threatened world prosperity. And its balance of market access commitments and phase-ins give both developing and industrial countries confidence the system is generally fair.

But we all can see that it is by no means perfect. Our disputes with Europe on bananas and beef reveal weaknesses in dispute settlement which could erode its strength and threaten overall confidence in the system. And in a broader sense, we must take up a set of challenges whose resolution offers immense opportunities for further improvements in growth and the quality of life; but which if unattended may threaten confidence in the world economy.

The financial crisis has pointed up the need for transparent, pro-competitive regulation in services. Agricultural trade barriers, which remain very high, reduce world food security; and agricultural export subsidies impose especially unfair burdens on farmers in the poorest countries. The advance of science and technology has created new products, new services and new methods of conducting trade, notably

through the Internet.

In broader terms, we note a sense in the developing world that poorer countries benefit less than they should from liberalization. Paralleling this is concern in many developed nations that policies to open trade and promote growth are advancing more rapidly than policies to protect the air, the water and the global commons, and defend children against sweatshops and other abuses. We see a growing reluctance by governments to talk about the benefit of imports. And -- certainly in America, and I believe elsewhere -- many people hold a perception, which is not entirely incorrect, of the WTO as an institution whose workings, especially in dispute settlement, are opaque and inaccessible.

THE FUTURE AGENDA

Thus, if we do not improve the system, we are likely not only to lose opportunities but to see public dissatisfaction rise and the strength of the system erode as time goes by. And that is the context in which President Clinton called for a new Round.

We approach this task with some new advantages -- notably the stronger institutional structure of the WTO, and our consequent ability to conclude the very broad agreements on Information Technology, Financial Services and Basic Telecommunications without a formal Round. And so we envision a Round which uses this stronger structure to work in three separate dimensions simultaneously: ongoing results in priority areas, an accelerated negotiating agenda; and institutional reforms and capacity-building at the WTO.

1. Ongoing Results

The ongoing results would begin in the months leading up to the Ministerial Conference and at the event itself. They could include, for example, efforts to reach consensus on an agreement on transparency in government procurement, which reduces opportunities for bribery and corruption; and extension of the WTO's standstill on tariffs applied to electronic transmissions, so that development of trade over the Internet is not slowed by trade barriers. It can also include our work toward consensus on an "Information Technology Agreement II" which further ensures access for all countries to the most modern technologies; as well as progress toward the sectoral liberalization initiative begun in APEC and now under consideration at the WTO.

2. Accelerated Negotiations

Looking then to the negotiations which will comprise the Round, we are now consulting with Congress, our trading partners in Geneva, and American business, agricultural and other civil society organizations. These discussions will continue through the summer and early fall. But as a starting point, the negotiations should be manageable enough to complete within three years, and should include:

-- Agriculture -- which offers the prospect of more prosperous rural societies, and lessened threats of hunger and malnutrition. Further reductions in tariffs, trade-distorting domestic supports and other barriers will strengthen food security by giving consumers more diverse sources of food. Eliminating export subsidies will help ensure market-based prices -- essential to consumers and farmers alike. And guarantees that producers can use scientifically proven biotechnology techniques will allow farmers and ranchers to raise yields and efficiency, protecting consumers and reducing pressure on land and water.

-- Services, where deeper commitments to liberalization and national treatment can address some of the weak regulatory practices in law and finance which helped to spark the financial crisis, advance freedom of information by ensuring access to new telecommunications technologies, help to protect public safety by raising architectural and engineering standards, and facilitate commerce and growth by creating open, competitive distribution and transport systems.

-- Industrial goods, where we can raise living standards and speed the advance of science by opening new high-tech sectors; reducing tariffs and nontariff barriers, and thus allow manufacturing industries and working people to take advantage of economies of scale and produce more efficiently.

-- Government procurement, where a foundation in an agreement this year on transparency likely will yield further opportunities for cooperation.

-- Intellectual property, where we will begin with the scheduled review of the Uruguay Round's TRIPs agreement, and consider whether we need go further to promote scientific advance, artistic creation and improved medicine.

-- A forward work-program and/or negotiation on issues including how competition and investment policies help assure fair and open trade; how the WTO can promote pro-competitive regulatory principles in services; advance efforts against bribery and corruption; and address the need for safety nets as nations adjust to heightened competition.

3. Institutional Reform of the WTO

The final dimension is institutional reform. Broadly speaking, this would ensure public support for the WTO as an institution, strengthen its ability to support real-world commerce, and improve its cooperation with other international institutions. Here we would hope to take up:

- Trade facilitation, perhaps beginning with customs reform to reduce unnecessary paperwork and ease the flow of goods;

- Capacity-building in developing countries. This would include technical assistance to ensure that they can fulfill the commitments which help them export -- intellectual property enforcement, compliance with food safety standards, pro-competitive regulation in telecommunications and so on -- and which create more efficient domestic economies by developing the infrastructure of communications, information and finance.

- Coordination between the WTO and the international financial institutions, in a world where the separation of trade flows from financial policy has become entirely artificial and sensible trade policies can help to advance and complement financial stabilization.

- The intersection between trade and environmental policies: as shown by the WTO's recent High-Level Meeting on Trade and the Environment, a consensus among governments exists that trade liberalization can complement policies to ensure clean air, clean water and protection of our natural heritage, while promoting economic growth. This is a promise we must realize.

- The intersection between trade and labor: growth should be accompanied by elimination of exploitative child labor and respect for internationally recognized core labor standards. Closer cooperation between the WTO and the International Labor Organization would be a start.

- Finally, reform and openness in the WTO itself -- because the WTO, like domestic institutions, must be transparent and responsive to win public support. Here we seek practical goals: ensuring rapid release of documents, guaranteeing the rights of citizens and citizen groups can file amicus briefs in dispute settlement proceedings, seeking other methods for civil society to contribute to the work of the trading system, and making dispute settlement proceedings be open to public observers. In the interim, we have a standing offer to open any dispute panel involving the United States to the public, if our dispute partner agrees.

CONCLUSION: THE MINISTERIAL AND THE YEARS AHEAD

This is the work that begins with our role as host and Chair of the WTO's Third Ministerial Conference this fall. The Ministerial will be the largest trade event ever held in the United States, highlighting to the public the importance of the trading system to our current prosperity; and creating a consensus for the trade agenda of the next century.

An agenda which helps re-integrate the world by giving China, Indochina, Russia, Eastern Europe and the newly independent states their place in a prosperous, rules-based world economy.

Which speeds technical progress that can improve health, help protect the environment, ease commerce and stimulate artistic creation, scientific research and political debate.

Which advances the universal values of fairness, open government and the rule of law.

And which gives ordinary people more power to shape their lives, and offer their children better prospects still, than at any time in human history.

It is an extraordinary opportunity. And the work of making it reality begins this year.

Thank you very much.

The Free Trade Area of the Americas: One Year After Santiago

**Ambassador Charlene Barshefsky
United States Trade Representative**

Council of the Americas

Washington, D.C.

May 4, 1999

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

I am very pleased to be here today. It is now one year since the Summit of the Americas in Santiago; and it is a little more than eight months since formal FTAA negotiations began, at the direction of that Summit. Since mid-January, we have held negotiating sessions in Miami every week ... with the exception of the Super Bowl.

But the intervening year has been more eventful, in more ways, than many expected. Since our negotiators began their work in Miami last September 1st, many of the hemisphere's 34 democratic governments have changed. The Asian financial crisis has put immense stress on all of our economies. And we have all seen and responded to Hurricanes Mitch and Georges, with the terrible destruction and human suffering they brought to Central America and the Caribbean.

And as we look ahead, we see the deadline our leaders set for completing the Free Trade Area of the Americas approaching quickly: the young people graduating from high school this month will have graduated college when we complete the talks by 2005. And so, with the experience of the past year behind us, I felt that today would be an appropriate moment to revisit our goals; review our progress thus far; and look ahead to our prospects for completing the work.

SHARED INTERESTS, SHARED VALUES

Let me begin with the assumptions at the heart of the FTAA.

-- We share interests that make this project one of great potential benefit to all our countries.

Our nations are neighbors; we will always be neighbors; and it is clearly in our interest to be able to trade as easily and fairly as possible with our neighbors. That is plainly evident in our experience during the past two years, when the various trade agreements we have adopted in the past decade - NAFTA, Mercosur, CBI, Caricom, the Andean Pact and the Central American Common Market - have helped our people avoid the worst effects of the financial crisis in Asia.

-- We share views on policy that make the FTAA possible.

The FTAA's promise -- to eliminate tariffs, quotas and discriminatory regulation; protect intellectual property rights; ensure open and transparent markets in services; and provide for the peaceful resolution of disputes -- will create a free and open market under the rule of law, helping our nations compete in the world economy and giving our citizens the chance to make the most of their talents and provide for their families. The associated work we have undertaken in the Summit of the Americas to ensure universal access to education, fight bribery and corruption, and promote new technologies in telecommunications and the Internet will make these opportunities open to everyone.

-- And we share values and ideals that make the FTAA project all but inevitable.

Since the end of the Cold War, we have achieved an historic consensus: commitment to democracy; faith in the rule of law; commitment to social justice; and confidence in one another as partners in a shared destiny. These principles have transformed the Americas: from Central America to the southern Cone, soldiers have returned to quarters; guerrillas taken up politics; and the sounds of politics are no longer gunshots, but campaign speeches and parliamentary debate. A "lost decade," in which closed economies and state control brought crisis, gave way to a decade of achievement, hope and high aspiration.

And this in turn opened the prospect of the Free Trade Area of the Americas at the Summit of the Americas in Santiago, when President Frei as host laid out the opportunity of the future:

"powerful vision of a community of nations united by the objectives of democracy, economic integration and social equity."

THE SANTIAGO SUMMIT AND THE AGENDA FOR 1999

That is the opportunity before us: a united community of democratic nations, putting aside outdated rivalries and suspicions; realizing mutual interests; promoting shared values; partners in a shared destiny. And where do we stand a year after the speeches and the vision?

In one sense, we are precisely on schedule. In Santiago last April, the Leaders authorized us to begin the realization of this vision, through the painstaking, detailed work of trade negotiations. The goals for 1999 were clear and explicit.

- They called on us to complete "annotated outlines" of all nine chapters of a final FTAA: market access, competition policy, subsidies, anti-dumping and countervailing duties; intellectual property; government procurement; investment; agriculture; services; and dispute settlement. This is the foundation and frame on which the completed agreement will rest.

- They directed us to reach agreements on concrete business facilitation measures that will promote trade within the hemisphere today and help us build momentum toward the completion of the negotiations in the five years ahead.

And we are working to meet that schedule. Last September 1st, nine negotiating groups began their sessions at their negotiating site in Miami. They have made a good deal of progress, and with continued application by all participants and the private sector will be able to meet our goals.

At the same time, we have deepened the social consensus for the FTAA through a set of initiatives proceeding in parallel with the trade negotiations: improving education throughout the hemisphere; ensuring that each FTAA member can take advantage of the new opportunities created by electronic commerce; and creating a Committee on Civil Society, directed to listen to the views of civil society and report the full range of views to the Ministers at our meeting in November.

This is the first time in an international trade negotiation that this type of Committee has been established, and it is important that the business community strongly support its work. The initial response has been very positive - the Committee has received more than 70 written submissions from people throughout the hemisphere: business associations, labor unions, environmental groups, consumer groups, and private citizens.

THE FINANCIAL CRISIS

At the same time, however, the landscape in which we work has greatly changed.

Each of us has felt the impact of the financial crisis which began in Asia two years ago. This crisis may have receded from the headlines, but its effects remain alive and devastating for tens of millions of people worldwide. And the challenge it poses to government policies has only begun.

Today, 40% of the world is in recession. All of Latin America's major economies, with the exception of Mexico, contracted in the last quarter of 1998, with an especially sharp contraction in Latin America's largest nation, Brazil. In this atmosphere of financial crisis, each member of the FTAA will feel great pressure to move more slowly; which in turn would raise fundamental questions about the FTAA project as a whole.

Our trade partners in South America, with growth rates falling and commodity prices down, face enormous temptation to raise trade barriers -- to one another and to others -- and to reinstitute subsidies and protection.

The United States, looking at a merchandise trade deficit of perhaps \$300 billion and with intense pressure on steel, agriculture and other sectors, will debate trade policy intensely during next year's Presidential campaign.

And the economic pressures North and South America face are small in comparison to the personal suffering of many Central Americans in the wake of Hurricane Mitch.

AMERICAN RESPONSIBILITIES

This is a severe test. But vision is tested not in sunny years of growth, but times of stress and challenge. And if we, together, meet this test, the foundation of the FTAA - mutual interest, shared faith in our citizens, confidence in one another as partners in shared destiny - will emerge stronger than ever. In the months ahead, therefore, it is more important than ever to remain committed to our vision and the schedule we set to realize it.

For our part, the United States must continue to grow and keep open our markets. As our economy remains strong, we have a self-interest and a responsibility to ensure that no cycle of protection and retaliation develops, which would hurt our own citizens and those of our trading partners. This has allowed Latin American exports to the U.S. to grow by 12% last year, excluding oil where statistics are distorted by the drop in prices. At the same time, we are pressing other developed countries, especially Japan but also the European Union, to restore growth, deregulate, and further open their markets.

Likewise, we have played a crucial role in the recovery packages organized by the IMF and the G-7. In the case of the package for Brazil, the U.S. contribution was \$5 billion. The public vote of confidence in Brazil's ability to address the crisis that was evident from such U.S. participation was an even greater contribution than the specific dollar amount itself. Our Administration, from the President on down, remains absolutely focused on ensuring that these packages work. We applaud the Cardoso Administration for its efforts to maintain the economic reform course in the face of great financial stress.

And the Clinton Administration has made absolutely clear that we seek to maintain the momentum of trade expansion through negotiation and through domestic legislation. We remain among the most ambitious in the hemisphere with respect to the pace and content of FTAA negotiations leading up to the Toronto Ministerial in November. We will host the WTO Ministerial in Seattle just a month later. And last month, we transmitted a bill to Congress which will enhance the benefits that our Caribbean Basin Initiative provides to the countries of Central America and the Caribbean.

CBI ENHANCEMENT

Let me say a few words about this last point, because CBI enhancement is one of the key points in our legislative agenda on trade.

For sixteen years, the CBI has been a centerpiece of our relationship with the Caribbean nations. It has and continues to be a program of mutual benefit: it supports and helps diversify the region's economy, and at the same time stimulates mutually beneficial two-way.

This is evident in our trade statistics. Last year, United States merchandise exports to the CBI countries were more than \$19 billion. To put this in context, last year our merchandise exports to France were \$16.0 billion, to Brazil \$15.9 billion, and to China \$14.4 billion. Our imports from CBI beneficiaries exceeded \$17 billion. Thus the Caribbean Basin is a market of great importance to the U.S., and prosperity in the region will help our two-way trade grow further.

The new package will create significant additional benefits for the Caribbean economies, and also to help them make the transition to the FTAA itself. It will add to the existing products covered by the program apparel products; textile handicrafts, and all non-textile products currently excluded -- e.g. energy products, footwear and others. This will help stimulate new value-added industries in the region, and increase Caribbean competitiveness as the FTAA approaches. We continue to work with Congress to create a final package,; and are committed to see the effort through.

IMPORTANCE OF BUSINESS FACILITATION AGREEMENTS

Turning now to the negotiations themselves, it is important to implement this year substantial, concrete, practical business facilitation measures that make commerce easier and more economical throughout our hemisphere in the immediate future.

By the next meeting of the FTAA Trade Negotiations Committee, at the end of July in Bolivia, the participating countries must agree on the initial package of these measures. The 34 countries participating in the negotiations have agreed that the first area of attention will be customs procedures. Here we hope to agree on measures such as streamlining customs procedures for express shipments; establishing a code of conduct for customs officials; implementing systems of "control and release"; and easing customs procedures for entries in connection with business travel.

Completion of these agreements would be an important boost -- most of all for its immediate effect on hemispheric trade, but also for its psychological effect on the FTAA talks. I am concerned, however, that some of our FTAA trading partners are a good deal less ambitious than the U.S. in business facilitation. This was evident in the meetings of the Trade Negotiations Committee last week in Miami. While most of the significant customs measures are still on the table, it is essential that governments move ahead to adopt them.

We are prepared to go even further, by adopting joint measures such as transparency and due process in government procurement, mutual recognition of certification of telecommunications equipment, and hemisphere-wide adoption of international conventions on intellectual property rights and arbitration. We invite our partners to join us in implementing a significant package of business facilitation before the

end of this year.

Furthermore, we should work together to show support for the trading system. As the WTO Ministerial in Seattle this November and the new Round of global trade negotiations approach, we should work toward consensus on a broader, multilateral agreement on transparency in government procurement; extension of the WTO's commitment to refrain from imposing tariffs on electronic transmissions, which will support our own e-commerce work in the FTAA; an "Information Technology Agreement II"; and the sectoral initiative begun in APEC last year, with its great opportunities for developed and developing countries alike.

CONCLUSION

Each of these steps will yield its own specific benefits; each will also contribute to the realization of the larger vision.

In the past decade, our possibilities have grown beyond imagination. Each successive step in hemispheric integration - the Caribbean Basin Initiative; the US-Canada Free Trade Agreement and NAFTA; Mercosur; the trade agreements in the Caribbean, Central America and the Andes; have helped us create a hemisphere more prosperous, more stable, more democratic, more respectful of human rights.

And we have the opportunity to unite and transcend each of these achievements in the Free Trade Area of the Americas: a community of common interests in jobs, growth and prosperity; of common aspirations for better health, improved education, safer factories and cleaner air and water; and of common values, in a hemisphere united by the rule of law, open and honest government, human rights and democratic principles.

These goals are inherent in all the American independence movements; but never before have we come so close to reaching them. We are now halfway there: just over five years since the Miami Summit brought a democratic hemisphere together for the first time; a little more than five years before our work is done.

It is a time of immense hope and promise; but it is also the moment of greatest risk. In the months ahead, we must redouble our efforts and renew our commitments. It has taken two centuries for us to come this close; and we must not let the promise and the vision slip away.

Thank you.

CHINA TRADE IN AMERICA'S PACIFIC STRATEGY

Ambassador Charlene Barshefsky

U.S. Trade Representative

Society of American Business Editors and Writers

Washington, DC

May 4, 1999

Thank you for inviting me to speak with you this afternoon. Let me also offer my special thanks to the Bloomberg News Service as sponsor of our meeting.

This afternoon I will address America's trade relationship with China, and in particular our negotiations on China's membership in the World Trade Organization. I will offer some thoughts on our present relationship and its future; but let me begin by recalling an event of the past.

PACIFIC STRATEGY

This year marks the centennial of the U.S. Open Door Policy, which Secretary of State Hay announced in 1899. The Open Door was, on the surface, a trade policy. It drew its name from the note Hay sent to the European powers and Japan, calling on them to accept "perfect equality of treatment for navigation and commerce" for all countries trading with China.

The implications of this, however, were broader: an opposition to colonial plans in China; a determination to assert our own interests as well. This policy set a pattern for us in the 20th century: America is a Pacific nation; we have a vital interest in a peaceful, open and prosperous Asia-Pacific; and we will act to secure that interest. And our policies today are firmly in this tradition.

We make an unshakable commitment to peace and security in the region through 100,000 troops in the Pacific; strong alliances with Japan -- now strengthened by the passage of the new defense guidelines in the Diet's lower house last week -- and other Asian democracies, and work with all Pacific nations in bilateral talks, the ASEAN Regional Forum and elsewhere.

We vigorously support human rights, democratic principles and the rule of law, in bilateral relationships and at the UN Commission on Human Rights.

And we seek an economic environment of open trade and sustainable growth through our response to the Asian financial crisis, bilateral trade negotiations, work in APEC, and the World Trade Organization.

THE PLACE OF CHINA

China, as Asia's largest nation and fastest-growing economy, has an inescapable part in this strategy. We do not always agree with China, and we are prepared to assert our interests when we disagree. We have done so in trade, including through sanctions. But we are also committed to find and develop areas of common ground.

This is true in security issues: stability in the Korean peninsula, peace in the Taiwan Strait, and control over weapons sales. On human rights, Red Cross access to prisons and religious freedom. On transnational questions from climate change, to narcotics control and protection of the oceans. And fundamental to this policy, for the sake of our economic interest and as a complement to our strategic, security and human rights policies, is support for the integration of China into the Pacific and world economies.

We base this on our economic interests; but also our historic experience. It is not long ago, after all, that China was economically isolated. For nearly forty years after the Communist Revolution, its economy was almost entirely divorced from the outside world. This was vastly damaging to both China and the Pacific region. The loss of foreign markets and investment impoverished China at home. And it meant Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

Our effort to undo this isolation has been a continuous and bipartisan feature of American foreign policy,

comparable to our support for the economic reintegration of Japan and Germany after World War II, and to our work in Eastern Europe and the former Soviet Union today. In China, it began with the lifting of our economic embargo in the mid-1970s; through our Commercial Agreement and mutual grant of MFN status (now Normal Trade Relations) in 1979 and 1980; the renewal of normal trade relations for the past 20 years; and through the market access, textile and intellectual property agreements of the 1990s.

RESULTS OF INTEGRATION

These agreements are policy achievements aimed directly at opportunity and fairness for American businesses, farmers and working people. But they are also initiatives with broader implications: they deepen China's integration in the world and Pacific economy; accelerate China's adoption of international standards of behavior in commerce and law; and increase the contacts Chinese businesses, working people, mid-and-lower officials, and families have with the outside world. And thus they complement our broader Pacific strategy.

1. Security

In security, for example, the implications of China's growing entry into the Pacific and world economies are clear.

Broadly speaking, China has moved away from revolutionary policies utterly at odds with American interests. And it has moved towards a role as a major regional power willing to play a constructive part in some of the principal regional issues.

China's stake in regional prosperity and stability is evident in the Asian financial crisis. Thirty years ago, China might well have seen the crisis as a chance to foment revolution in Korea and Southeast Asia; today it is a threat to China's investment prospects and export markets, and China has thus maintained currency stability and contributed to IMF recovery packages. It may also play a role in China's normalization of relations with South Korea and participation in the four-party talks.

2. Human Rights and Freedom

And at the same time, China's economic integration has played a fundamentally important role in the vast changes in Chinese life over the past two decades.

As internal markets have opened and foreign investment grown in China, a generation of Chinese young people have grown up free of "work units" and other forms of government control over jobs, housing, marriage and informal conversation. As trade has grown, tens of millions of Chinese citizens, for the first time since 1949, have gone to work for foreign, Taiwan and Hong Kong companies; have met and spoken with foreigners and overseas Chinese; have access to new forms of telecommunications that inherently open up new sources of information and debate. Over 2000 years ago, the philosopher Han Fei-tzu noted the link between trade and freedom from state power; it is still valid today, when the worst periods of China's modern history - the years of the Great Leap Forward and Cultural Revolution - were those when it was most tightly closed to the outside world.

And the trade agreements themselves represent acceptance of deeper concepts: development and publication of laws and regulations; consistency in decision making; recourse to law enforcement and judicial proceedings; curbs on the arbitrary exercise of bureaucratic discretion. And these in turn rest upon more universal values and ideals. Transparency. Public and enforceable commitments. The rule of law. These are concepts fundamental to any society that lives by the law and respects the rights of citizens.

U.S.-CHINA TRADE RELATIONS TODAY

But the work is far from done. China's formal and informal trade barriers remain high. Its agricultural standards are based on bureaucratic fiat rather than science. Key service sectors like distribution, finance and telecommunications remain largely closed to foreign competition, depriving China of jobs, efficiency and innovation in rural and urban economies. In critical sectors - autos, telecommunications, semiconductors -- we see not only high tariffs but quotas, subsidies and more. Other unfair practices -- forced technology transfer, offsets, export performance and local content requirements -- are frequent. And the rule of law - crucial to any advanced economy - is undeveloped throughout the Chinese economy.

Thus, China remains insecurely integrated, and only opportunistically so, with the world outside. At home, its economy faces severe challenges which, over time, more open trade could help to solve. And China's neighbors -- including ourselves -- remain blocked from an economy which could be an engine of growth in the financial crisis and in the future.

One index of this is our trade deficit with China, now over \$1 billion per week. Another is that between the opening of Normal Trade Relations (formerly MFN status) in 1980 and 1997, our goods exports to China grew only \$9 billion -- barely half of our \$16 billion in export growth to Taiwan, and less than a quarter of our \$39 billion in export growth to the ASEAN nations.

This is a fundamentally unbalanced, unsustainable situation. Tension and frustration over it within the United States is growing; and it is quite possible that without change, trade could lose its role as a source of stability and mutual interest and become another source of division.

U.S. POLICY IN WTO ACCESSION

China's accession to the WTO is an opportunity to address the issues at the root of these problems.

- As a matter of trade policy, a sound agreement will open Chinese agricultural, manufacturing and services markets to our exports, strengthen the trading system itself, and give American workers and domestic industries stronger protection against unfair trade practices and import surges.

- As a matter of strategy, WTO membership -- like our previous trade agreements, but in a much more profound fashion -- will complement our efforts to maintain stability in the Pacific by linking China's economy more closely with the world's, strengthening constituencies within China for stability beyond its borders.

- -And as a matter of values, the principles of the WTO - transparency, fair and impartial judicial practices, peaceful settlement of disputes, the rule of law - are those we hope to advance in China and worldwide.

COMMERCIALLY MEANINGFUL ACCESSION ESSENTIAL

Of course, at bottom the WTO accession is a trade deal. And any agreement on WTO accession must be commercially meaningful.

The result must address the major barriers to American exports in goods, services and agriculture. It must address our concerns in other areas: abusive investment practices intended to draw jobs to China or take unfair advantage of American research; and unique issues arising from China's status as an incompletely reformed non-market economy. And it must do so in a detailed, enforceable and rapid way. For those of you who are superstitious or like folklore, 1999 is the Year of the Rabbit, and tradition has it that "if someone signs a contract with a rabbit person, there can be no backing out." I prefer detailed, measurable and enforceable commitments.

To this task we have brought some lessons learned elsewhere. Since 1995, we have brought five transition economies -- Slovenia, Bulgaria, Mongolia, Kyrgyzstan and Latvia -- into the WTO. This year we have completed bilateral negotiations with Estonia, and made significant progress with another six: Albania, Armenia, Croatia, Georgia, Lithuania and Moldova. We are also working with Russia, Ukraine, the Indochinese nations and others. China is by far the largest such economy and is unique in many ways. But our goals are consistent; and many of the issues involved -- transparency, state enterprise, subsidies, transitions to market pricing - have some parallels in these other, smaller economies.

So, by the way, do the lessons for the acceding countries. The successful applicants thus far have made commercially meaningful commitments in all areas, and found them immensely beneficial for their own domestic reform efforts. Just as a weak, "political" accession would neither be fair to China's major trading partners, nor to strengthen the global trading system, so it would not yield its full potential for economic efficiency, support for domestic reform and sustainable growth in China.

Thus we rejected attempts by China to win a political accession at the creation of the WTO in 1995 and before the Presidential Summits in 1997 and 1998. We are committed to commercially meaningful principles in the issues that remain. But while we have not yet reached agreement on such a package, in the past months we have made very significant progress toward the goal.

PROGRESS THUS FAR

To be specific, we have completed negotiations on agriculture and industrial goods, and addressed most of our concerns in services. We have consensus on a number of special Protocol, or rules-based, issues. And if this progress continues on the relatively limited issues which remain, we can bring the talks to a close soon.

Time does not allow a comprehensive review of the commitments we have reached, but let me make a few general comments. Overall, the set of commitments China has made contains four significant features:

- First, it is comprehensive. It covers agriculture, industrial goods and services; and unfair trade practices including quotas, other non-tariff measures, application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other barriers to trade. It will address tariffs and other barriers at the border; limits on trading rights and distribution in the Chinese market; and restrictions on services. And it deals with subsidies, state trading, technology transfer, non-market economy dumping, offsets, export performance requirements and other rules issues.

- Second, it grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners, including some industrial countries.

- Third, it is fully enforceable. The commitments China has made in all areas are specific, measurable, and enforceable through our trade laws and WTO dispute settlement and other special mechanisms, including some of the Protocol issues.

- -Fourth, its results will be rapid. The agreements on sanitary and phytosanitary standards concerning TCK wheat, citrus and meat are already in effect, lifting import bans of long duration. On accession to the WTO, China will begin opening its market from day one in virtually every area. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases to one to three years.

All these, let me note, are one-way concessions. They open markets, fight unfair trade policies and strengthen protection for American workers. But they require no market access, export control, or trade law concessions from the United States. Our import policies, domestic trade laws, and market access policies remain as they are today. It would exaggerate, but not be wholly untrue, to say that while the opening to China in the 1970s was an act of enlightened self-interest, a commercially meaningful WTO accession is self-interest without the adjective.

SPECIFIC COMMITMENTS

Let me also make a few comments on the specific commitments.

In the Protocol, which establishes broad rules and frameworks for trade, we create a product-specific safeguard to address import surges. The Protocol will also ban forced technology transfer policies for investors. It will ensure that we continue to use "non-market economy" methodology in anti-dumping cases, and take account of China's unique characteristics in subsidies. It will eliminate abusive investment requirements designed to take jobs to China: offsets, export performance, current-account balancing and local content. And it will guarantee China's state trading companies and state-invested enterprises operate on commercial terms, and that their purchases are not subject to special or different rules. Again, we continue to discuss several issues, notably the duration of special provisions. While they will not continue in perpetuity, very rapid phaseouts are not acceptable.

With respect to the market access commitments.

Agriculture: China will apply sanitary and phytosanitary standards based on science. It will cut tariffs to an average of 14.5% for our priority items, and bind them at the applied levels. Thus, unlike many countries, China will not have a right to raise tariffs again after it enters the WTO. It will adopt a new and more liberal system of -- tariff-rate quotas -- in bulk commodities. And it will agree not to provide agricultural export subsidies - a major achievement in its own right, and a step toward our goal of totally eliminating export subsidies in the next WTO Round.

Industrial goods: China will grant rights to import and export products without Chinese middlemen, and to distribute products within China. It will cut its tariffs on average for U.S. priority items to 7.1% -- a figure comparable to most major U.S. trading partners. This includes participating in the Information Technology Agreement, and deep cuts in everything from autos to wood products, chemicals and construction equipment. And it will eliminate all quotas.

Services: China has made a comprehensive set of commitments extending from distribution to insurance, telecommunications, architecture, engineering, legal, travel and tourism, computer and business services, environmental services, franchising and direct sales, and more. Talks continue in several areas - banking, audiovisual, securities - but in several of these as well, China has made a set of commitments that already open significant opportunities.

These are a very broad set of commitments. They may well bring opposition from vested interests at home in China. But others have made comparable commitments, and China is entirely capable of making them as well. More important, WTO accession on commercially meaningful terms is good for China: it will mean increased employment, economic growth and social stability in the long run.

CONCLUSION: WTO ACCESSION IN LARGER CONTEXT

As you know, our work is continuing in several specific areas: our negotiating team reviewed the outstanding issues with China in Beijing last week, and will resume talks in mid-May. We are committed to resolving those which remain; but also optimistic that they are manageable issues which can be resolved. And if we are able to resolve them, the rewards will be substantial.

As China's market opens, American businesses, farmers, and working people will find new opportunities in the world's largest nation; and they will have stronger guarantees that Asia's fastest-growing economy will operate more fairly.

As China joins the trading system, its ties with its neighbors - Japan, Korea, Southeast Asia, the United States - will grow; and with that will come stronger incentives for China to act in concert with the region to build a stable peace.

And as we realize these concrete, material benefits, we will also advance less tangible but equally important goals: fairer and more transparent practices; ultimately, the rule of law.

The result will help us reach the goals we have had for a century: an open and fair world economy; a China more open to the world and closer to the rule of law; a stable, prosperous and peaceful Pacific region. These are, ultimately, the goals of the Open Door policy of a century ago; but they will also serve us very well today.

Thank you.

TRADE POLICY TOWARD THE 21ST CENTURY

Ambassador Charlene Barshefsky

U.S. Trade Representative

American News Women's Club

Washington, DC

May 5, 1999

Good evening. Thank you for inviting me to speak with you today.

I'm sure as journalists and editors you will be a tough, challenging audience. So I am mindful of the words of the Danish physicist Niels Bohr: "Never express yourself more clearly than you are able to think." Many lawyers and politicians have prospered by taking that to heart - but I always feel we are better off being clear and straightforward.

Choosing a topic this evening has been an interesting challenge. We have talks underway on China's membership in the World Trade Organization; market-opening and deregulation in Japan; regional initiatives in Europe, Africa, Asia, the Western Hemisphere and the Middle East; as well as the WTO's Third Ministerial Conference in Seattle this fall and a new international Round of trade negotiations. It is a full agenda; and so rather than take up any one of these topics by itself, I will address a thread which ties them all together: the place of trade in creating the economy of the 21st century.

THE REVOLUTION IN SCIENCE AND TECHNOLOGY

To open with a platitude, we live in an age of profound change - and much of this can be attributed to the revolution in science and technology.

In health, pharmaceutical research creates new and cheaper medicines each month; CAT Scans and MRIs reduce the need for surgery; family doctors consult on-line with the Centers for Disease Control through telemedicine.

In agriculture, biotechnology techniques raise yields and build resistance to pests while information technologies help farmers improve irrigation and seeding.

In transport, commerce and family vacations are growing easier, cheaper and safer with intelligent highways, the Global Positioning System, aerospace and fuel-efficient vehicles.

In manufacturing, factories are becoming more productive and safer through computerized machine tools and robotics.

And in the realm of values, freedom of inquiry and expression is blossoming, as new forms of art and communications emerge and the Internet reaches every country in the world.

At times, of course, the most brilliant advances in technology can cast darker shadows. New aerospace or information technologies have national security implications we must address, including through export controls in sensitive areas. Hate groups and scam artists can use the Internet as easily as anyone else. Automated manufacturing raises social questions by reducing demand for low-skilled labor -- 80% of job displacement comes from new technologies rather than competition from trade or domestic industries -- which we must meet with the best possible education and job training. In all fields, fair, efficient and science-based regulation is crucial for consumer protection and public confidence.

THE PLACE OF TRADE

But these concerns must not obscure the larger benefits of technological progress - which include their extraordinary economic benefits.

High technology is America's comparative advantage. Medicine, information and telecommunications, aerospace, advanced manufacturing, modern agriculture are almost without exception fields in which we lead the world. Industries which barely existed in 1975 -- from software and biotechnology to cell

phones and satellites -- now create hundreds of billions of dollars in wealth and employ millions of Americans. To note a statistic, as our manufacturing production has grown 38% since 1992, our production of computers, telecommunications equipment and semiconductors has grown 441%. This is an industrial revolution, and a social revolution, comparable to mechanized textile production in the early 19th century, and mass production in the 1920s. If it reaches its full potential, we can imagine still more.

Open trade helps us get there. For industries and the national economy, trade creates economies of scale, allowing us to sell to larger markets, devote more resources to research and development and progress more rapidly. For individual Americans, together with commitment to education and scientific research, trade lets us specialize in the highest-skilled and highest-paid fields in the world.

Benefits for our trading partners are equally great: trade always shares knowledge as well as goods, as far back as the Book of Kings, when King Solomon sends wheat and oil to Tyre in exchange for the cedar logs and expert architects with which he builds the Temple. Today, as trade barriers come down, our partners gain access to communications, information technologies and transport networks and services at the heart of growth. Their schools and hospitals improve. And their own technological capacity and potential for growth expands.

Trade policy thus can help us create a 21st-century economy in which people are more prosperous; economies more efficient; the environment cleaner; and nations less threatened by hunger and disease. And it can do so by creating a framework of rules, accepted worldwide, that in the Vice President's words, "accommodate change." These are, broadly speaking, principles that operate today in our domestic economy: respect for intellectual property rights; open markets; fair, nondiscriminatory and transparent regulatory policies; and the prevention of artificial new barriers to progress.

INTELLECTUAL PROPERTY

I will start with intellectual property rights. As the U.S. Constitution recognizes, strong standards of copyright, patent and trademark protection are the foundation of scientific and technical progress. Today they are fundamental to the success of copyright industries valued at \$433 billion, or more than one dollar in twenty of American GDP; to medicine and agriculture; and to competitiveness in manufacturing.

Our challenge is to extend the strong standards we have at home worldwide. And we began from a very low base. Fifteen years ago, many countries had no copyright, trademark or patent laws at all. Some saw intellectual property rights -- especially when applied to products like computer software or

pharmaceuticals -- as obstacles to development. Thus, piracy was not just common but universal. For example, at least 90% of copyright works on sale in developing countries worldwide were pirated.

Our work began with bilateral negotiations with governments where piracy was most common, with the support of the "Special 301" law, passed in 1988. These were difficult; at times, as with China in 1995 and 1996, we threatened sanctions on billions of dollars in trade. But we raised standards significantly, spurring passage of internationally compatible copyright and patent laws around the world, in both developed and developing countries. This approach remains crucial today on enforcement of these laws -- just last week, our 1999 Special 301 report cited concern about practices in 54 countries, including special concern about Ukraine, Israel and Hong Kong over copyright, Uruguay and Egypt on patents, and the announcement of WTO cases against Argentina and Canada for failing to enforce patent rights in medicines.

But we are also now able to go beyond solely adversarial tactics. As our trading partners strengthened their laws and enforcement, many began to see positive economic effects at home, and conclude that strong standards speed their own economic development. Pirates who copy American films and software will copy local works too. This growing consensus helped us make a fundamental advance with the agreement on intellectual property (TRIPs) as part of the creation of the World Trade Organization in 1995.

TRIPs obliged all members to pass and enforce modern copyright, patent and trademark laws, with these obligations phasing in for developing countries on New Year's Day, 2000. This is a basic obligation of the WTO, which most members meet and which we expect all new WTO members to accept. We are focused this year on implementation of all commitments, to ensure that all developing countries meet the deadline. We are helping arrange technical assistance to those which would like advice; and we are prepared to file cases against those which refuse to meet their obligations.

But we are also addressing newer problems. One focus is end-user piracy of software -- that is, massive copying of a software program throughout, for example, a government agency. This caused most of the losses our software industry attributes to piracy worldwide. We set an example with President Clinton's Executive Order ensuring that U.S. agencies use only legal software. Colombia, Paraguay, the Philippines, Korea, Thailand, and Jordan have issued similar directives. And we made another advance with China's publication of a State Council Directive in March, barring government agencies and ministries from using pirated software. We are now working to ensure effective enforcement and full transparency in implementation, as well as to extend these directives to other countries.

A second focus is control of pirate production and distribution of optical media: high-value products like CDs, CD-ROMs, Video CDs and DVDs (digital videodiscs). We have noted rapid growth in this problem most recently in Malaysia. Here we are working with the European Union and other trade partners, both to prevent pirate production and to find effective tools that will help establish legal

industries, like licensing for optical disc manufacturing facilities and import/export licensing for manufacturing equipment.

Finally, as we open a new Round of global negotiations in Seattle at the end of this year, we are reviewing our needs for the future. This is a quickly changing field, and we have to be sure our laws and policies are adequate for emerging technologies -- from biotechnology products and new plant varieties to the prospect of an explosion in on-line piracy, which we are combatting by encouraging wide ratification of recent World Intellectual Property Organization treaties which address Internet piracy, among other topics. We will be studying a range of these latest issues under the WTO's scheduled review of the TRIPs agreement next year; but for now, implementation is an overriding priority.

MARKET ACCESS

Intellectual property rights create the foundation for technical advance. But for the world's newest industries to develop as rapidly as they should in the 21st century, they must be able to take advantage of economies of scale. This allows them to recoup research investments more rapidly by selling to larger markets. And since 96% of the world's population, and 80% of economic consumption, are overseas, our high-tech industries and those of other nations need open markets.

As with intellectual property, we began in a difficult environment. Many countries have long seen protection and subsidies for favored industries, as opposed to open markets, as effective ways to develop high-tech economies. We thus began in the 1980s with specific negotiations in sectors where these were especially common, focusing most often on Japan, but also on Europe and other advanced trade partners.

1. Bilateral and Sectoral Initiatives

The result was a series of bilateral agreements in specific high-tech sectors: with Japan on semiconductors, satellites, computers, supercomputers, cellular phones, medical equipment, telecommunications and NTT procurement; with Europe, Mutual Recognition Agreements in telecommunications and other fields such as pharmaceuticals.

In Japan this approach was especially successful in semiconductors, cell phones and medical technology.

And it remains very important to us: we are now promoting further market-opening and deregulation measures in basic telecommunications, wireless cable, direct-to-home satellite services and cable TV, medical equipment and pharmaceuticals, financial services, energy and other fields. And with Prime Minister Obuchi's visit this week, we reached agreement with Japan on further steps in these fields. Of course, protection and subsidies are deeply entrenched in some sectors -- and not only in Japan; the Airbus program in Europe is an example -- and we have much work ahead.

But as in intellectual property, our initial agreements helped shift perspective. Our trade partners more often see open markets as in their own interests -- and not only as exporters, but also as buyers of computers, specialized computer chips, telecommunications products and services, and other technologies that improve efficiency and growth prospects. Thus, we now can develop broader, sometimes world-wide agreements.

The Semiconductor Agreement is one such case. In 1996, our bilateral agreement with Japan was broadened to include Europe and Korea. Taiwan now also participates. And its coverage grew to include research and development, and private sector cooperation. We are now working toward its renewal as a plurilateral agreement, including extension of the private-sector World Semiconductor Council, broader membership and a new charter.

2. ITA, Financial Services and APEC

In 1997, we negotiated the much broader Information Technology Agreement (ITA). By 2004 it will eliminate all tariffs on \$600 billion worth of goods: 95% of the world production of semiconductors, computers, telecom equipment, integrated circuits and other goods associated with the Information Superhighway.

This is the equipment every factory needs to become safer, more productive, and more flexible; and every country needs to make its economy more efficient. The ITA is a step important for its vast size -- these products make up about one in every thirty dollars of world GDP -- and its potential to promote economic growth and freedom of information; for its social implications; and for the precedent it sets for future sectoral agreements. We are now seeking consensus on an expansion of this agreement -- the "ITA II" -- to include even more products.

The WTO Financial Services Agreement we negotiated in the same year is a second example. This creates market access commitments in banking, insurance, and securities, from a wide range of countries around the world including the key emerging markets of primary interest to U.S. industry. The agreement covers an overwhelming share of global trade in this sector, including the most important international financial services markets and encompassing \$38 trillion in global domestic bank lending,

\$19.5 trillion in global securities trading, and \$2.1 trillion in world wide insurance premiums, accounting for approximately 95% of bank lending, stock turnover, capitalization of stock markets and insurance premiums.

And we can go further. APEC, for example, has begun an eight-sector initiative which, if completed at the WTO, will eliminate barriers to environmental goods and services, helping countries control pollution and guarantee their people clean drinking water. It will end tariffs on energy equipment to promote clean and efficient power generation, reduce urban air pollution, and help us address climate change. And it will liberalize trade in medical equipment and scientific instruments, improving health care and research capabilities. The new WTO Round will offer us many more opportunities to open specific industrial sectors.

REGULATION AND CONSUMER PROTECTION

But intellectual property and market access alone are not enough. As in our domestic economy, progress requires fair, non-discriminatory, transparent and "least trade restrictive" regulation, which promotes competition and innovation while ensuring consumer safety. This enables us to develop both specific new products and transformational technologies which create entirely new industries.

1. Telecommunications

One example is telecommunications.

This, in the U.S. and elsewhere, was for many years dominated by national monopolies and closed markets. In the 1980s we broke with this pattern, easing access to our domestic market for new companies; the 1996 Telecommunications Act took us much further. Once almost immune to competition, our local telecommunications markets now host vast numbers of new competitive local providers, who have attracted \$30 billion in investment and are bringing advanced services to millions of Americans, from cell phones and satellite service to video-conferencing and beyond.

The WTO's Basic Telecommunications Agreement we negotiated in 1997 extended those opportunities worldwide. Its pro-competitive regulatory principles allow competition and promote innovation in one-time monopolies all over the world, covering over 95% of world telecom revenue in an industry whose value approaches \$1 trillion. Over seventy WTO members have joined, and membership is one of our fundamental expectations for newly acceding WTO members, including China.

This is of course immensely important for some of America's leading exporters. But it is equally important as a source of new technologies for those countries, especially in the developing world, which join. By giving U.S. and foreign companies access to local, long-distance and international service through any network technology, and allowing them to acquire, establish or hold a significant stake in telecom companies around the world, the agreement also supports creation of modern, high-tech infrastructure.

Thus, adding new members is also a high priority and a special focus of our African trade initiative. Uganda, for example, has only 50,000 telephones for a population of 20 million, and has recently joined the agreement as a way to rapidly gain access to modern technologies. African nations are also among the strongest supporters of our proposal to open satellite phone systems with global coverage. And our work to bring African countries into the Agreement -- the most recent signatories are Ghana and Uganda - goes together with technical assistance through the Agency for International Development and the FCC which offers technical advice, seminars for officials and legislative suggestions to ensure effective regulation.

Together with the Financial Services Agreement, the telecom experience has offered us important lessons as we approach the new Round, in which liberalization of services is at the heart of the agenda. At the same time, we will begin a work-program to consider newer issues, including how competition and investment policies help assure fair and open trade and contribute to domestic efforts to promote competition and innovation.

2. Agriculture, Medicine and Biotechnology

As we look ahead to the regulatory issues of the next Round, a key focus will be biotechnology. This has the potential to transform industries which depend on the life sciences -- notably agriculture and medicine -- just as telecommunications has transformed finance, transport and other industries.

In agriculture generally, open trade can mean better prices for both consumers and producers, and more diverse sources of food supply that make nations less vulnerable to famine. Lower trade barriers are essential to reaching this goal; but they mean little without fair, transparent regulation.

We took the first step in the Uruguay Round's Agreement on Sanitary and Phytosanitary Measures. It required trade restrictions taken to protect plant, animal and human health to have a scientific basis. For the first time, this set a worldwide standard requiring agricultural inspections to be based on science and concern for health rather than trade protection.

Biotechnology -- the use of genetic techniques to create new medicines and plant strains - is the second step. In the future, it will help develop strains of plants resistant to drought and other natural stresses, along with cures for forms of cancer, aging diseases and birth defects. The promise for improved health and longevity, and higher farm yields that reduce hunger and ease pressure on land, water and wildlife habitat is immense. To quote Sir John Maddox, the retiring editor of *Nature*, in his 1998 book on the future of science:

"The understanding of life that has followed from the structure of DNA ensures that the century ahead will be transformed by engineered forms of plants and animals, and by different and more effective human medicines. ... They will feed the hungry and cure the sick of simple ailments; it is a matter of time only before they can list the kinds of cancers that are curable this year, and those that are on the cards for cure next year or sometime soon afterwards."

But biotechnology also raises some public and consumer concerns about potential unintended effects. This is especially true in Europe. These are fears we must address squarely; but the fact is, virtually all foods we now eat are genetically engineered in some way -- through selective breeding dating back thousands of years and the Green Revolution of the 1950s and 1960s. Biotechnology speeds the process but does not fundamentally change it.

Fair, transparent and scientific regulation should reveal any threats to health and allow us to win its maximum potential benefit. This is what we encourage in our Transatlantic Economic Partnership talks with the EU. And it will be a fundamental part of our agenda in the new WTO Round set to begin next fall at the WTO Ministerial Conference in Seattle. A worldwide consensus on this in the next Round is a fundamental part of any policy to support rural economies, guarantee world food security and fight hunger in the next century.

PREVENT MISTAKES: ELECTRONIC COMMERCE

This leads me to a fourth and final issue. I noted when I opened these remarks that the high-tech sectors are an economic competitive advantage for the United States. It may be immodest, but I think this is because our historic enthusiasm for new ideas -- in science, in political debate, in arts and entertainment -- is an area of intellectual competitive advantage. Like Thucydides' Athenians, Americans are:

"in love with innovation, and their designs are characterized by swiftness alike in conception and execution ... and the disappointment created by the failure of an enterprise is soon replaced by fresh

hopes."

This has made us an innovative society throughout the 20th century: cars, airplanes, radios, television, microchips, lasers, antibiotics, aerospace, fiber-optics, biotech, computer networks and the Internet all arose here, and this is because we think first of the benefits new technologies can bring us, rather than the threats. And the fourth and final strategic goal of our trade policy is to create a similar intellectual environment worldwide.

In essence, much of global trade policy since World War II amounts to undoing the mistakes of various sorts which stem from the 1920s and 1930s -- years in which an open world economy was unravelled by colonial preference schemes, the Smoot-Hawley tariff in the United States, and the communist experiment. Thus our work aims at ending tolerance of intellectual piracy; ensuring market access by removing tariffs and eliminating subsidies; and replacing monopolies and unscientific standards with fair and transparent regulation. The ideal approach, though would be to prevent mistakes in the first place. And we have precisely that opportunity in a third transformational technology: electronic commerce, or trade conducted over the Internet.

The Internet, developed only a few years ago, is growing with incredible speed. It had 3 million users in 1994; fewer than 10 million in 1996; 140 million today; and may have 320 million by next year. Commerce over the Net is rising even faster still. This can raise productivity, make almost every existing industry more efficient, and create new ones we have not yet imagined. In trade, our task is simply to prevent mistakes that could reduce its potential.

Today, in trade terms, the Internet is pristine. No member of the WTO considers electronic transmissions imports subject to duties for customs purposes. There are no customs duties on cross-border telephone calls, fax messages or computer data links, and this duty-free treatment should include electronic transmissions on the Internet. We secured a temporary "standstill" on application of tariffs in this area at the WTO last year, and will seek consensus on extension this year.

We are also working with our trading partners to develop a consensus on appropriate treatment of consumer issues. Electronic commerce cannot flourish without an environment of trust, where consumers feel safe from unscrupulous practices. Industry-led efforts to maintain this trust are the optimal solution, but where those fail, government have a clear role in protecting their consumers. In all areas where the government plays a role in e-commerce, however, we need to such action should meet a clear standard established by the WTO to ensure that trade is not impaired -- that measures are the least burdensome possible, and not used as trade barriers.

And in our regional trade initiatives - the Free Trade Area of the Americas, APEC, the Transatlantic

Economic Partnership - we have created special committees to advise us on ways to ensure all participants can take maximum advantage of electronic commerce. These are especially exciting for their potential to speed development in disadvantaged regions.

Internet access requires little capital, helps entrepreneurs find customers and suppliers quickly, and eases technical and paperwork burdens that can slow participation in trade. Thus it is ideally suited for developing countries and people with a good idea but little capital. In the Africa trade initiative, AID has helped eight nations set up national gateways, and begun discussions with four more. AID has also reallocated existing funds for e-commerce development to Jamaica, Guatemala, Uganda, Bulgaria, Morocco, Egypt, Ghana and Haiti. Within a few years, if our work succeeds, we will have a seamless, worldwide network that promotes growth, entrepreneurialism, and the principles of open society everywhere.

CONCLUSION

And perhaps this can be a lesson for us in years ahead. If I can conclude with a second quotation from Dr. Bohr: "prediction is extremely difficult ... especially about the future."

Neither government, business, nor even the best-informed scientists and engineers can predict the future of the scientific revolution. But we can observe that with sound intellectual property laws; open markets; fair regulation; and the courage to let new technologies develop freely, the possibilities are infinite. And if we can simply give humanity's inherent genius the freedom to let them emerge, we will have served our country and the world well.

We can look forward to a future in which people live safer, healthier, longer lives. In which the air and the water are cleaner and the future of wildlife more secure, even as economies grow and living standards rise. Censorship and limits on freedom of speech fade into the past. And human reason and good will are free to reach the furthest horizon.

Those of us in trade have just a small role in this; but it is one we are very proud to play.

AMERICA, JAPAN AND THE TRADING SYSTEM

Ambassador Charlene Barshefsky
United States Trade Representative

Tokyo American Center
Tokyo, Japan

May 13, 1999

Good morning. Thank you all for coming.

I am here in Tokyo for the meeting of the so-called "Quad" -- Japan, America, Canada and the European Union -- to begin building consensus for the WTO's Ministerial Conference in Seattle this fall, and for a new Round of global trade negotiations. I am also, of course, meeting with my counterparts from Ministries including MITI, MOFA, the Ministry of Posts and Telecommunications, and the Financial Supervisory Agency to discuss our bilateral agenda.

THE WORK AHEAD

It is clear, of course, that in both areas we have much work ahead.

As we prepare for a new Round at the WTO, the financial crisis illustrates the need for transparent,

pro-competitive practices in services; agricultural trade remains plagued by trade barriers, subsidies and unscientific regulation; government procurement, competition policy, investment policies and other issues raise difficult questions.

In our bilateral relationship, we have much more to accomplish in market opening and deregulation. Steel is a sector of great sensitivity and visibility. We must ensure that our existing agreements are fully implemented. We are beginning our work on a third package of deregulation measures. And the sharp rise in our bilateral trade imbalance to \$64 billion last year -- and perhaps more this year -- increases the potential for tensions in the relationship as a whole.

This is a broad and complex agenda, and our work may not always be easy. But regardless of the strains of any particular moment, we should remember that we are building on a record of progress and achievement.

In trade, ours is the world's second-largest bilateral relationship. We worked together to create and strengthen the WTO. And we must cooperate in the work of the future - from response to the financial crisis; to integrating China, Russia and others; to the new WTO Round.

THE FOUNDATION: BILATERAL RELATIONSHIP

But the foundation of cooperation in the trading system must be a strong bilateral relationship which offers both of us a sense of fairness, trust and mutual benefit.

This in turn requires a return to economic health in Japan. For eight years, Japanese families, businesses and consumers have endured sluggish growth and stagnation; in the past two years, slowdown has become recession. This has complicated the efforts of Japan's neighbors to recover from the crisis, as Japanese imports dropped significantly last year. It has also increased the potential for trade tensions as U.S. exports to Japan have dropped and the trade imbalance has grown.

To break this cycle, Japan's government has committed to fiscal stimulus and financial reform, and taken the first steps towards a decisive break with the regulatory webs and closed markets that slow growth. And this is where our bilateral trade agenda joins with Japan's own goals. Over-regulation, lack of competition, market access barriers, and tolerance of formal and informal cartels in many industrial sectors block imports but also frustrate those Japanese who hope to set up their own companies, and weaken the entire Japanese economy. And our 37 trade agreements with Japan, in fields from agricultural commodities to insurance, high tech and manufacturing, are directed at precisely these

barriers. Thus they offer a chance for faster growth and the opportunity for more young people to become entrepreneurs, with all the benefits -- jobs, healthier companies, higher living standards, confidence in the future.

DEREGULATION INITIATIVE

Our bilateral Enhanced Initiative on Deregulation and Competition Policy sets the same goals. Sector by sector, over the past two years, we have worked to remove unnecessary and burdensome regulation, improve transparency, enhance competition, and create new opportunities for international and Japanese businesses.

The agreement we reached during Prime Minister Obuchi's visit last week takes this a step further. We agreed that Japan will take concrete measures on such issues as:

- interconnection, liberalized network arrangements and cable TV in telecommunications;
- performance-based standards, transparency and non-discrimination in housing;
- regulatory transparency, expedited approvals and acceptance of clinical test data in medical devices and pharmaceuticals;
- reforms in financial services including eased registration for securities companies, expansion of scope of activities for banks and securities firms;
- simplification of regulations and harmonization of standards in the energy sector;
- adoption of nationally applicable guidelines on operation of large-scale retail store laws;

- use of "Public Comment Procedures" to increase the transparency of policy formulation and implementation; and

- advocacy of policies throughout the economy that will help create competition.

Finally, we agreed to extend the Enhanced Initiative for a third year, to build on our progress and expand it to new areas and sectors of Japan's economy.

These are very positive steps. Prime Minister Obuchi and his government deserve credit for them. But much work remains ahead. In areas where we have reached agreement on paper, full and quick implementation is critical. And they are only a few of the issues we must address to ensure the success of economic restructuring and improve market access.

We also concluded a joint report on investment during the Prime Minister's visit. This focuses on measures that can improve the environment for foreign direct investment in Japan, including actions to develop a more active mergers and acquisitions market; improve foreign investors' access to land; and eliminate rigidities in labor markets. This will offer American and other foreign companies new opportunities to enter the Japanese market, and give Japanese firms access to foreign capital and management ideas that will assist in the national restructuring effort.

PERSISTENT CHALLENGES

These advances are important. But we must go further and also faster, because in several areas tension in our trade relationship has grown rather than diminished in the past year.

That is especially true in steel. Last year's import surge has raised immense frustration in Congress and industry. It is hard to overstate the tension in the U.S. surrounding this issue.

Our Administration is committed to bring the problem to an end. We will remain within the framework of our WTO commitments, but we will strongly enforce our laws on dumping, and we expect that steel exports will return to their levels before the financial crisis on a sustained basis. As the President told Prime Minister Obuchi, if they do not, we will act.

But it is also true in a number of other issues. On flat glass, autos and auto parts, insurance, and government procurement we have serious concerns about implementation of our trade agreements. Full adherence to their spirit and letter is essential to trust and progress in the bilateral relationship. Failures of implementation lead to rapid erosion of trust and rising tension.

And Japan, the world's second largest economy, has not played the leadership role it should in supporting Asian recovery or in the Asia-Pacific Economic Cooperation (APEC) forum. Last year, the United States increased its imports of East Asian products by \$6 billion. Japan's purchases from the region fell \$19 billion. The APEC sectoral initiatives offer opportunities to Japan as a leader in pollution control technologies, energy equipment and other areas.

They are just as important for their concrete and rapid benefits to developing countries in fish and fishery products, wood products, and other sectors. This is essential to give the ASEAN countries and others opportunities to recover, and to strengthen their stake in the trading system.

Just as we should acknowledge our progress over the past months, we must also meet our challenges squarely. Much negative can arise from failure. Immensely positive things -- growth in Japan, strengthening of this most crucial relationship in Asia for the next century, a foundation for a new era of progress in the multilateral trading system -- can come from success.

AGENDA FOR A NEW ROUND

With that, I will turn to the topic that brought me here this week: the future of the WTO.

Since 1995, the WTO has proven itself a fundamental improvement over the GATT. It has created opportunities for growth and advanced the rule of law. It has helped contain the Asian financial crisis' threat to world prosperity.

And its balance of market access commitments and phase-ins give both developing and industrial countries confidence the system is generally fair. As one of the world's leading trading nations, Japan understands the value of this very well.

But the WTO is by no means perfect. It is incomplete. It does not include a number of major economies -- China, Russia, Saudi Arabia, Ukraine, and others -- and we are working toward commercially meaningful accessions in each case. And we are all aware of broader challenges the WTO must meet. From pressures created by the financial crisis, to persistent trade barriers, frustration in many developing countries over access to industrial markets, and concerns in many developed nations over sustainable development and working conditions, more effective safety nets, and transparency in the trading system.

THE QUAD MEETING AND A NEW ROUND

Thus, if we do not improve the system, we may not only lose opportunities but see the strength of the system erode.

Japan's government and business community, I believe, recognize this as well. And in this context we, together with the European Union and Canada, have come to Tokyo to begin developing the agenda for a new Round.

In the past two days I have listened closely to Japan's ideas, and those of Canada and Europe. From our perspective, we are looking to a manageable agenda, which addresses the major priorities of the Quad members and developing countries. One which can be completed in three years and which uses the institutional structure of the WTO to work in three different dimensions: ongoing results, accelerated negotiations, and improvement of the WTO as an institution.

1. Ongoing Results

The ongoing results should include, for example, efforts to reach consensus on an agreement on transparency in government procurement. They should include extension of the WTO's standstill on tariffs applied to electronic transmissions, so development of trade over the Internet is not slowed by trade barriers. This is a significant shared interest. And it should include work toward consensus on an "Information Technology Agreement II" to further ensure access for all to the most modern technologies.

Finally, progress on the Accelerated Tariff Liberalization initiative begun in APEC and now under

consideration at the WTO is very important. Japan's reluctance to participate in the wood products and fishery sectors has been very damaging. As I noted earlier, it has deprived Asia's developing countries of an important market during crisis, and raised questions about Japan's leadership and commitment to reform of key inefficient areas of its economy. In accordance with our agreement at Kuala Lumpur, we are looking to make progress on this initiative at the WTO. Japan's constructive participation is essential.

2. Accelerated Negotiations

The agenda of the Round itself will clearly be founded in a few basic issues, which offer opportunities to our own countries and to developing countries.

One is agriculture, where reform is fundamentally important to the future economic efficiency of Japan.

Another is services, whose importance to Japan can only grow as economic restructuring continues. Japan's own "Big Bang" in financial services represents its understanding of this reality. Here we can work together to seek deeper and broader commitments to liberalization and national treatment, addressing some of the weak regulatory practices which helped spark the financial crisis, easing commerce and growth through open, competitive distribution and transport systems.

Our interests also coincide in many aspects of industrial trade. Our industries share great interest in reducing tariffs; and we also share a responsibility to ensure access in areas of competitive advantage for developing countries.

Other areas we are discussing include government procurement. This is an area where we can build on the foundation of an agreement this year on transparency; the scheduled review of the Uruguay Round's agreement on intellectual property -- with the principal focus on implementation of commitments; and the proper treatment of issues such as competition and investment policies.

3. Institutional Reform of the WTO

The final dimension is institutional reform, to strengthen the WTO's ability to support real-world commerce, improve its cooperation with other international institutions, and broaden its public support.

Japan's stake in this is immense -- as a nation which depends on industrial exports, Japan requires a strong trading system as a bulwark against protectionist sentiments in difficult times. And to preserve its strength, the trading system requires the support of constituencies and citizens outside the worlds of business and government.

Here we hope to take up such issues as:

-- Trade facilitation.

-- Capacity-building in developing countries.

-- Coordination between the WTO and the international financial institutions, where sensible trade policies can help advance and complement financial stabilization.

-- The intersection between trade and environmental policies: trade liberalization can complement work to ensure clean air, clean water and protection of our natural heritage.

-- The intersection between trade and labor: as it has in America and Japan, growth should go with elimination of exploitative child labor and respect for core labor standards.

-- Finally, reform and openness in the WTO itself to create a broader base of public understanding and support. Some practical steps -- rapid release of documents, finding other ways for civil society to contribute to the WTO's work, and opening dispute settlement proceedings to public observers -- can have large implications for a stronger trading system in the next decade.

CONCLUSION: THE MINISTERIAL AND THE YEARS READ

This is the work that begins with our role as host and Chair of the WTO's Third Ministerial Conference this fall. And Japan -- as the world's second largest economy, the economic leader of Asia, our second-largest trade partner -- is crucial to success.

In the year ahead, we will pursue our bilateral agenda of deregulation and market opening in Japan; and we will create the agenda for the trading system in the years ahead. Indeed, as we cap forty years of alliance for peace and security in the Pacific and work together to extend it into the 21st century, we can also reform and improve our trade relationship, and open a new era of reform, growth and opportunity as the next century begins.

It is a great opportunity -- and one we must not miss.

**A STRONGER PEACE:
AMERICAN TRADE POLICY AND THE TRANSITION ECONOMIES**

Ambassador Charlene Barshefsky

U.S. Trade Representative

Financial Women's Association of New York

New York, NY

May 19, 1999

Thank you very much, Janet.

I am deeply grateful to the Financial Women's Association for this award; and I want to congratulate Abby Joseph Cohen, who has been a trailblazer for women in the financial industry, on her recognition as Private Sector Woman of the Year. The combination of intellect, optimism and realism she brings is wonderful, and I am very proud to be in such company.

Let me also say how appreciative I am to be recognized by such a distinguished women's organization. Janet, of course, was a pioneer in bringing the Internet to government in the first term of the Administration; each of you is a person of accomplishment and distinction. So I feel deeply honored by this award.

I should also say that my work in trade, of course, is as part of a team. The President and Vice President personally are committed to American leadership in the world economy. Our career USTR negotiators are superb -- some of the most talented and resourceful people in government. And none of us could succeed without the support of the private sector, Congress, and the public.

INTRODUCTION

This year, that support will be more crucial than ever. We are preparing for the WTO's Third Ministerial Conference in Seattle and a new Round of global trade negotiations. We have regional initiatives proceeding in Europe, Africa, Asia, the Western Hemisphere and the Middle East, and an active bilateral agenda in Japan.

This evening, I would like to offer some thoughts on one of the most complex challenges: the integration of the transition economies - China, Russia, Vietnam, the former Soviet republics - into the world economy and the trading system. And let me begin at the beginning:

"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."

THE ACCOMPLISHMENT

This observation -- made by Franklin Roosevelt in a 1944 Fireside Chat -- outlines, in a few sentences, the foundation of America's postwar trade policy. For living standards and growth, trade is not a luxury but a necessity; for national strategy, it is an invaluable support to peace. And ever since, that Fireside Chat, from the creation of the General Agreement on Tariffs and Trade in 1948 up to today's World Trade Organization, we have led in the development of a worldwide trading system, built upon the basic American tenets of transparency, opportunity and the rule of law.

The system has grown in membership, from the original 23 GATT members to today's 134 economies and 4.5 billion people. And it has grown in scope: tariffs, now reduced by an average of 90%, remain central to its work, but are now joined by agreements on agriculture, services, sanitary and phytosanitary standards, intellectual property, technical barriers to trade, the Information Technology, Basic Telecommunications, and Financial Services agreements, as well as dispute settlement, oversight bodies for each agreement, and a forward work-program on newer issues.

And the results have fully justified Roosevelt's vision. An opening world economy gives each WTO member export markets, helping speed technical progress and raise wages. And it has let imports raise the standard of living for consumers -- especially the poor -- and industries find the best price for inputs and become more efficient. Global trade has grown fifteen-fold since 1960, world economic production has quadrupled; and per capita income more than doubled.

This in turn provides families and governments resources to improve health, invest in education, protect the environment and advance other social goals. And in consequence, life has improved nearly everywhere. World life expectancy has grown twenty years; infant mortality dropped by two-thirds; and famine receded from all but the most remote or misgoverned corners of the world. And as regions of the world once known for poverty and conflict -- Central Europe, Latin America, Southeast Asia -- have become industrial centers with rising living standards, stabilizing governments and strengthening peace.

America fully shares in these benefits. Trade, together with the President's commitment to fiscal discipline and education, has helped create the best economic environment we have ever had: eight years of uninterrupted growth; 18 million new jobs; four consecutive years as the world's most competitive economy.

And in the financial crisis, the trading system proved its worth in another way. Today's strong rules have helped ensure that - despite 40% of the world in recession, six major economies contracting by 6% or more, and the American trade imbalance rising -- we have so far seen no broad reversion to protectionism. This has prevented enormous economic damage at home, guaranteed affected countries the markets essential to recovery, and helped avert the political tensions that can arise in economic crisis.

NEW ROUND

The question, of course, is whether these accomplishments are enough. As the President's call for a new global Round of trade negotiations indicates, we believe they are not.

To begin with, the WTO can do more. Trade barriers remain high, especially in agriculture and services. Science every day creates new products and methods of trade. And the WTO itself can be reformed to make it more transparent, more able to help developing countries make and comply with commitments, and more effective in cooperation with institutions in related fields like the International Labor Organization or the IMF and World Bank.

TRANSITION ECONOMIES

Just as important, however, the trading system is incomplete.

The GATT's original members were in essence the World War II Allies and Latin America. Since 1948, it has responded to two of the great developments of the postwar era: the reintegration of Japan and Germany, and decolonization. And today we face an equally profound challenge: the end of the Cold War.

The largest group of countries outside the system comprises the so-called transition economies -- China, Russia, Vietnam, Ukraine and other former Soviet republics. They make up 18 of the 30 applicants for WTO membership and represent the vast majority of the 1.5 billion people outside the system. To have them outside creates a large and dangerous distortion of world trade; leaves them with weaker guarantees of access to markets today and more so in the future, as the WTO's coverage of agriculture and services industries grows. Ultimately, it raises questions about their stake in a stable and prosperous world. By contrast, their entry, on commercially meaningful grounds, together with membership in regional associations like the European Union, APEC and ASEAN, will strengthen reform at home; strengthen the WTO; and strengthen peace by giving them greater interests in stability beyond their borders.

EUROPE

The importance of these steps is clear in the experience of the Central European countries -- Poland, the Czech Republic, Hungary, Slovakia, Romania -- where reform is essentially complete, which have been WTO members for many years, and are now preparing for entry into the European Union. Their successful reforms have strengthened prosperity and stability throughout Europe. As Poland's Trade Minister said last May:

"Poland's accession to GATT in 1967 helped us to retain institutional links with the international marketplace at the time when my country was still subjected to a political and economic system alien to the aspirations and entrepreneurial spirit of its people... [and] after the transformation process, our participation in the GATT/WTO framework has helped to consolidate the reform."

The integration of the remaining countries is technically complex and, especially with respect to the larger economies, politically charged as well. But it is profoundly in our interest and that of world peace and stability in the next century. And it is also well underway.

Since its creation in 1995 the WTO has admitted five transition economies: Slovenia, Bulgaria, Mongolia, Kyrgyzstan and Latvia. Each case has set important precedents and lessons for the future. This year, we have completed bilateral talks with Estonia, and made significant progress with Albania,

Armenia, Croatia, Georgia, Lithuania and Moldova. Their governments -- some in the Balkans and the Caucasus operating under the most difficult of circumstances -- deserve immense credit. And we have continued negotiations with Russia and Ukraine, although internal politics in both cases has kept the process a bit slower.

INDOCHINA

With Vietnam, Laos and Cambodia, the process is less advanced but also moving ahead. We are beginning with support for their regional integration into ASEAN, and with the negotiation of bilateral commercial agreements as precursors to WTO membership.

We have already completed such agreements with Cambodia and Laos, and will work with Congress toward Normal Trade Relations (formerly MFN status) for Laos this year. Cambodia already has the status and has begun to develop its trade with the US as a result, although this of course has been hampered by political events.

We are also negotiating actively with Vietnam. Late last year we entered into force a bilateral copyright agreement, making American software, books, music and films the first foreign works ever protected in Vietnam. Our next goal is a comprehensive agreement including goods, services and rules that would allow us to endorse MFN status and lay a foundation for Vietnam's eventual WTO accession. In the past months, Vietnam has taken important steps forward, for example on non-tariff barriers, intellectual property and customs procedures. We anticipate another meeting with the Vietnamese in the weeks ahead, and hope for commitments to move in the right direction in other areas, such as trading rights and key service sectors, so we can conclude the agreement.

CHINA

At the same time, of course, we are in the midst of negotiations on WTO accession with the largest transition economy: the People's Republic of China.

The potential benefits of China's accession to the WTO are evident in the costs of China's Cold War economic isolation. Until the 1970s, China's economy was almost entirely divorced from the outside world. The consequent loss of foreign markets and investment impoverished China at home, and meant that Asia's largest nation had little stake in prosperity and stability beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

With the reform beginning in 1978, this is changing. China is one of the world's major exporters; its Asian neighbors are among China's markets and leading investors. The result may well be evident in China's response to the financial crisis: where once it might have seen revolutionary opportunity, China now sees a threat to its own economic interests, and has thus contributed to IMF recovery packages and maintained currency stability. American policy has encouraged this over the years, from the lifting of trade embargo in the 1970s, through the grant of normal trade relations (MFN) in 1980 and its renewal ever since; China's participation in APEC; and our agreements on intellectual property, textiles and market access in the 1990s.

But China remains insecurely and only opportunistically integrated in the world economy. Trade barriers remain high in agriculture and manufacturing, and its service market is among world's most tightly closed, depriving China of the jobs, efficiency and innovation competition could bring to the domestic economy. In the broader sense, a weakly developed rule of law threatens long-term growth and attractiveness to foreign investors. Likewise, these problems block exports of American goods and services, and bar China's neighbors from a market which is especially important during a time of crisis and recession in Japan.

WTO accession, on commercially meaningful terms, will help us address these problems in a way that serves all our interests.

In economic terms, China's WTO accession will open up major new export opportunities in virtually every sector, manufacturing, high technology, financial services, telecom, agricultural commodities and more. For China, it will help create new jobs and a more efficient economy, offering a short-term source of confidence in a difficult year as it fundamentally advances China's long-term domestic reform agenda. And it will strengthen China's long-term access to world markets; and to give an idea of how important this is to China's future, China's exports to the U.S. this year will make up roughly 5% of Chinese GDP -- the equivalent of nearly half of all US exports to the world.

At the same time, WTO accession will contribute to critical strategic goals. The concepts WTO commitments embody -- transparency, greater openness, public and enforceable commitments -- will help develop the rule of law within China and advance international standards of behavior in commerce. And by more firmly integrating China into the Pacific and world economies, WTO accession will strengthen China's stake in peace and stability, complementing our larger diplomatic and security policy efforts in the Pacific region.

PROGRESS THUS FAR

We have made very significant progress in this accession. In April we substantially completed a market access package on agriculture, industrial goods, and services as well as fair trade rules. This includes a commitment by China to participate in the Basic Telecom and the Financial Services Agreement as well. While some issues remain unresolved, including certain financial services issues, we have the outlines of an agreement with four major characteristics.

- It is comprehensive, covering agriculture, industrial goods and services; trade barriers including tariffs, non-tariff measures, transparency and others; unfair practices including export subsidies, forced technology transfer, offsets and local content requirements; and protection against import surges.

- It grants no special favors. It requires China to reduce its trade barriers to levels comparable to those of major trade partners.

- It is fully enforceable. China's commitments are specific and will be enforceable through our trade laws, WTO dispute settlement and other mechanisms.

- -And its results will be rapid. China has already lifted import bans on wheat, citrus and meat are now in effect. And on accession to the WTO, China will begin opening its market from day one.

The work is not yet done. Some important issues, including in financial services, remain unresolved. As in all accessions, conclusion depends on the acceding government, and China must meet the concerns of other WTO members as well. But we have the prospect of completing the work soon.

NEXT STEPS

The political environment surrounding the WTO talks, of course, is clearly complicated by the events in Belgrade ten days ago. This was a tragic mistake and the President has apologized for it on behalf of our country; but expressions of grief and anger in China over the event are understandable. At the same time, the volley of media accusations in Beijing have raised questions in the minds of many Americans whether China will maintain the momentum toward improved relations with the United States.

This is a test for the broader US-China relationship, and the ability of leadership in both capitals to focus on longer-term interests. As emotions cool, I believe we will both look ahead to the relationship the

United States and China should have in the next century - one in which we realize the interests we share in our bilateral relationship and in the broader area of Pacific stability and prosperity.

The WTO accession is part of this. Completing it, on commercially meaningful grounds, will benefit both countries, and in the long term can create new areas of mutual interest. This remains a shared view, as we continue the talks with a goal of entry this year.

CONCLUSION

This negotiation is in the best tradition of American trade policy.

The China accession offers concrete commercial benefits to both partners and the potential for a more secure and stable future relationship. And together with our negotiations with the transition economies of Europe and Indochina, it forms part of a larger vision which is in the interest of these nations, of the United States, and the world.

As they integrate themselves into a prosperous and open trading system, reform will advance and their people will have better futures. Likewise, Americans will have new opportunities and stronger guarantees of fairness. And the world's chances of peace, prosperity and the rule of law in the next century will be far greater.

These are the principles which have guided our trade policy throughout the postwar era, and have done so much for Americans and the world. Today, as fifty years ago, they offer us the hope of freedom from want, and freedom from fear.

I am very proud and grateful that the Association has chosen to recognize me, and indirectly the USTR, for such part as we have played. And I am just as grateful for your support and your help in the work ahead.

Thank you.