

AMBASSADOR CHARLENE BARSHEFSKY  
SPEECHES AND TESTIMONIES  
2000

- 1/27/00 CHINA IN THE WORLD TRADE ORGANIZATION - U.S. Conference of Mayors, Washington, D.C.
- 2/4/00 CHINA'S WTO ACCESSION: TRADE INTERESTS, VALUE AND STRATEGY - National Conference of State Legislators, Washington, D.C.
- 2/8/00 NEXT STEPS AT THE WORLD TRADE ORGANIZATION - House Ways and Means Subcommittee on Trade
- 2/10/00 CHINA'S WTO ACCESSION AND AMERICAN AGRICULTURE - Executive Office Building
- 2/16/00 SIGNATURE CEREMONY FOR US-NIGERIA TRADE AND INVESTMENT FRAMEWORK AGREEMENT - Signature Ceremony for U.S.-Nigeria Trade and Investment Framework Agreement
- 2/11/00 THE U.S. TRADE AGENDA IN 2000 - Louisiana Economic Development Group, Washington, D.C.
- 2/16/00 CHINA'S WTO ACCESSION: AMERICAN INTERESTS, VALUE AND STRATEGY - House Ways and Means committee
- 2/24/00 CHINA'S WTO ACCESSION AND IDAHO AGRICULTURE - Idaho Agricultural Conference, Boise, Idaho
- 2/26/00 BRIDGES TO PEACE: AMERICAN TRADE POLICY IN THE MIDDLE EAST - Hadassah, St. Petersburg, Florida
- 2/29/00 CHINA'S WTO ACCESSION IN AMERICAN PACIFIC STRATEGY - The Asia Society, New York, N.Y.
- 3/2/00 U.S. TRADE POLICY AND THE TRADING SYSTEM - School of Advanced International Studies, Washington, D.C.
- 3/6/00 CHINA'S WTO ACCESSION AND AMERICAN SERVICES TRADE - Institute of International Bankers, Washington, D.C.
- 3/6/00 CHINA'S WTO ACCESSION; AMERICA'S CHOICE - National Association of Counties, Washington, D.C.

- 3/7/00 U.S. AGRICULTURAL AGENDA AT THE WTO - Senate Finance Subcommittee on Trade
- 3/17/00 CHINA'S WTO ACCESSION - Kellogg School of Management, Evanston, Illinois
- 3/16/00 AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION - Economic Club of Washington, Washington, D.C.
- 3/17/00 U.S. TRADE POLICY IN 2000 - The Department of State, Washington, D.C.
- 3/22/00 AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION Los Angeles Town Hall, Los Angeles, California
- 3/22/00 AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION - Pacific and Asian Affairs Council, Honolulu, Hawaii
- 3/4/00 USTR AGENDA AND BUDGET REQUEST FY 2001 - House Appropriations Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies.
- 4/6/00 TRADE AND AMERICAN ECONOMIC STRATEGY THE CASE OF CHINA'S WTO ACCESSION - The Wharton School of the University of Pennsylvania, Philadelphia, Pennsylvania
- 4/11/00 CHINA'S WTO ACCESSION - National Women's Democratic Club, Washington, D.C.
- 4/12/00 TRADE AND AMERICAN NATIONAL SECURITY: THE CASE OF CHINA'S WTO ACCESSION - The Olin Distinguished Lecture in National Security Issues, United States Military Academy, West Point, New York
- 4/13/00 CHINA'S WTO ACCESS IN AMERICAN PACIFIC STRATEGY - John F. Kennedy School of Government, Boston, Massachusetts
- 4/13/00 U.S. TRADE POLICY AND THE TRADING SYSTEM - Brandeis University, Graduate School of International Economics and Finance, Waltham, Massachusetts
- 5/2/00 TOWARD THE FREE TRADE AREA OF THE AMERICANS: THE RECORD AND FUTURE OF HEMISPHERIC INTEGRATION - Council of the Americas, Washington, D.C.
- 5/3/00 CHINA'S WTO ACCESSION AND PERMANENT NORMAL TRADE RELATIONS - House Ways and Means Committee, Washington, D.C.

- 5/5/00 CHINA'S WTO ACCESSION AND PNTR: AMERICA'S CHOICE - National Conference of State Legislatures, Washington, D.C.
- 5/9/00 CHINA'S WTO ACCESSION AND PERMANENT NORMAL TRADE RELATIONS - Senate Banking Committee, Washington, D.C.
- 5/13/00 TRADE POLICY AND THE RULE OF LAW - 2000 Commencement Address, University of Minnesota School of Law, Minneapolis, Minnesota
- 5/16/00 CHINA'S WTO ACCESSION IN AMERICAN ECONOMIC STRATEGY - Economic Strategy Institute Annual Conference, Washington, D.C.
- 5/16/00 CHINA'S WTO ACCESSION AND PNTR: AMERICA'S CHOICE - Women in International Trade, Washington, D.C.
- 5/16/00 CHINA'S WTO ACCESSION IN AMERICAN POSTWAR STRATEGY - Bretton Woods Committee, Washington, D.C.
- 5/17/00 STATEMENT AT MARKUP OF CHINA PERMANENT NTR LEGISLATION - House Ways and Means Committee, Washington, D.C.
- 5/17/00 CHINA'S WTO ACCESSION AND AMERICAN AGRICULTURE - American Farm Bureau Federation, Washington, D.C.
- 5/20/00 REMARKS TO THE MILLENNIAL CLASS - 2000 Commencement Address, Hood College, Frederick, Maryland
- 6/1/00 REMARKS AT US-CHINA BUSINESS COUNCIL DINNER - U.S. China Business Council, Washington, D.C.
- 6/5/00 INFORMATION TECHNOLOGY AND TRADE POLICY: A LOOK BACK, A LOOK AHEAD - Computer and Communications Industry Association, Washington, D.C.
- 6/15/00 AMERICA AND ASEAN: SHARED VISION, SHARED DESTINY - US-ASEAN Business Council, Washington, D.C.
- 6/16/00 TRADE DEVELOPMENT AND SOCIAL PROGRESS - Center for International Private Enterprise, Washington, D.C.
- 6/20/00 U.S. INTEREST AND EXPERIENCE IN THE WTO DISPUTE SETTLEMENT SYSTEM - Senate Finance Committee Trade Subcommittee
- 6/20/00 DIRECTOR'S FORUM LECTURE ON TRADE AND DEVELOPMENT - The Peace Corps, Washington, D.C.

## China in the World Trade Organization

Ambassador Charlene Barshefsky

U.S. Trade Representative

U.S. Conference of Mayors

Washington, D.C.

January 27, 2000

Thank you very much. I am pleased to be here with the Conference, and to see Mayor Webb and Mayor Pulido of Santa Ana, who joined us on the U.S. Delegation to the WTO Ministerial, along with many other friends. Let me also recognize Mayor Oberndorf of Virginia Beach, Chair of the International Affairs Committee and one of America's long-standing leaders on trade policy. Their work on our trade advisory committees, together with that of many other mayors, is invaluable, helping to ensure that cities and towns have a voice as we make policy decisions and move our negotiations ahead.

The Conference recently commissioned a major report on America's metro economies, which finds that cities - as centers both of high-tech production and of transport - have a special advantage in reaching international markets. Thus trade policy is especially important for urban areas. And I am here to speak about a case in point, asking your support for one of the most important trade policy goals in many years: China's accession to the World Trade Organization, together with support for permanent Normal Trade Relations for China.

### ONE-WAY CONCESSIONS

Let me begin with a very brief description of the WTO itself and the steps China will take to join it. I will then offer you some thoughts on the implications of the WTO accession for China; America's trade interests in China; and finally our broader strategic goals.

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT; which in turn dates back to the years just after the Second World War. Its creation was in part a measure to stimulate a return to growth after the war; but it also reflected deeper and broader goals. The postwar leaders who created it - Truman, Churchill, the democratic leaders of Europe - did so in the light of the experience of the 1930s, when the Smoot-Hawley Act in America and similar trade restrictions overseas had deepened the Depression and intensified political tensions.

Their vision was that to open world markets and advance the rule of law would help not only to promote growth and raise living standards, but to strengthen peace. Since then, their successors have added 112 new members to the 23 founding nations: first Germany and Japan, then much of the developing world, and most recently the series of countries in Europe and Asia once governed through communist central planning. Thus, as we abandoned the closed markets of the Depression era, we helped to foster a fifty-year economic boom, during which the world economy grew six-fold, per capita income nearly tripled, and hundreds of millions of families escaped from poverty. And still more important, we have strengthened peace, by giving nations a greater stake in stability and prosperity beyond their borders.

China's commitment to join the WTO will bring the world's largest country, and its fastest-growing trading economy, into this network of opening markets under the rule of law. In the most basic and literal sense, China's WTO accession will secure a broad-ranging, comprehensive series of one-way trade concessions on China's part. In the bilateral WTO accession agreement we reached in November, China agreed to grant the United States substantially greater market access across virtually all sectors - goods, services and agriculture - and stronger guarantees of fair trade. We must only agree to maintain the market access policies we *already* apply to China, and have applied for over twenty years, by making China's current Normal Trade Relations status permanent.

## THE WTO ACCESSION AND CHINESE REFORM

But more fundamentally, however, China's WTO accession represents a profound and historic shift of attitudes within China itself. Its decision to make these trade commitments reflects a policy judgment - still not universally popular within China's government - that the best path to security and prosperity is market liberalization and an opening to the world.

As it joins the WTO, China will sharply reduce trade barriers such as tariffs at the border. It will for the first time since the 1940s permit both foreigners and Chinese businesses to import and export freely from China. It will reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services. It will enable, again for the first time since the 1940s, foreign businesses to securely participate in information industries such as telecommunications and the Internet. And it will allow the decisions of officials and ministries to be tested by impartial dispute panels when necessary.

Taken together, such measures represent a remarkable victory for economic reformers within China. They will help to reform policies dating to the earliest years of the communist era: absolute government control over economic contacts with foreigners, nationalization of major industries, and destruction of private local commerce within China. They give the Chinese people more access to information and more contact with the democratic world. They weaken the ability of hardliners within the Chinese government to isolate the Chinese public from outside influences and ideas. Altogether, they reflect a judgment that China's achievement of prosperity, security and international respect will rest not upon static notions of nationalism, state power and state control; but rather upon greater economic freedom, engagement with the world outside and ultimately development of the rule of law.

The WTO accession, therefore, has potential beyond the world of economics and trade. It can serve as a foundation for the rule of law within China; and it can serve as a precedent for China's willingness to accept and abide by international standards of behavior in many other fields. That is why many Hong Kong and Chinese activists for democracy and human rights - Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison - see the WTO accession as China's most important step toward reform in the past two decades. And it is why our support for WTO accession reflects a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## THE WTO ACCESSION AND AMERICAN TRADE INTERESTS

The results we have achieved, of course, reflect these latter points as well. While China's principal concern is the potential of WTO accession to create jobs and foster sustainable long-term growth through economic reform, ours is also the commercially meaningful commitments that will help Americans export to China and support jobs at home. And in this regard the agreement meets the high standards President Clinton set years ago, when he directed us to seek WTO entry for China.

### 1. Overview

First, our bilateral agreement is comprehensive. It opens markets in agriculture, industrial goods and services; it addresses unfair trade practices including quotas and other non-tariff measures, the application of non-scientific agricultural standards, discriminatory regulatory processes, lack of transparency, export subsidies and other issues as well. It addresses tariffs and other barriers at the border, limits on the right to import products into China and distribute them within China, intellectual property protection, and restrictions on services. To offer some specific examples:

- The industrial tariffs your factory workers face in China will fall from an average of 25% in 1997 to an average of 9.4% by 2005; in information technology, tariffs on products such as computers, semiconductors, and all Internet related equipment will fall from an average of 13% to zero by 2005.
  
- In agriculture, on U.S. priority products such as beef, citrus and dairy, tariffs will drop from an average of 31% to 14% in January 2004. China will also expand access for bulk agricultural products like wheat, corn, cotton, soybeans and others; permit for the first time private trade in these products; and eliminate export subsidies.
  
- In services, the agreement will open the market for distribution, insurance, express delivery, telecommunications, banking, law, accounting, engineering, construction, environmental services, and other industries.
  
- In all, it requires China to reduce its trade barriers to levels comparable to those of major trade partners, including a number of fully developed industrial countries.
  
- And the agreement deals, appropriately, with the special and unusual characteristics of the Chinese economy by including some features unique to this particular accession. It addresses state trading; it bans forced technology transfer; it eliminates investment policies intended to draw jobs and technology to China, such as local content, offsets and export performance requirements. And it provides protections for Americans against import surges from China and from abusive export practices like dumping.

Second, 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 periodic multilateral review of China's adherence to its commitments.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases; and in many cases one to three years.

## 2. Case Study: The Auto Industry

Let me now give you an example of these features in practice. As Mayor Archer knows well, it is now

virtually impossible to export cars to China. Typically we export about 600 cars a year to China, many of them used. This is less than a single average U.S. auto dealership sells in a year, and fewer than the 688 motorized golf-carts we sold to China from January to November 1999. And this is not because China has few cars - Beijing, Shanghai, Guangzhou and other major cities have some of the heaviest traffic in the world. It is because trade barriers which include restrictions at the border, old policy legacies, and more recent industrial policies amount to a virtual ban on auto imports. And in this agreement we take up all of them.

- We reduce barriers at the border: cutting tariffs from 100% today to 25% by 2006; forbid discriminatory value-added taxes; and raise the current prohibitive quota to \$6 billion worth of autos and then eliminate it entirely within five years.

- We commit China to open its distribution markets and grant trading rights, ensuring that auto exporters from the U.S. can move their products within China and import them freely to the areas of greatest demand.

- We open up the services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their products, provide repair and maintenance, and import parts.

- We abolish industrial policies intended to draw auto jobs, investment and technology to China: China will abandon requirements that require firms to set up factories in China in order to sell in China, abolish local purchase requirements, and forced technology transfer.

- We strengthen our guarantees that auto production and jobs in the United States will be secure. On the import side, we include in the agreement a twelve-year "product-specific safeguard" available to all industries -- in this case, a guarantee that if auto imports from China should rise so sharply as to damage domestic firms, we can impose emergency limits; and a guarantee we will be able to employ special "non-market economy" methods of calculating and counteracting dumping for fifteen years.

- And we have enforcement mechanisms for all of these separate and overlapping commitments. This includes our own American laws and the WTO's dispute settlement mechanism.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, although the specific features differ, in every industry of significant concern to the U.S. economy. We cover -

- High-tech industries such as semiconductors, software, chemicals and computers.
  
- Traditional manufacturing, from steel and aluminum to agricultural equipment, wood products, and home appliances.
  
- Artistic fields like books, music and film, as well as other copyright industries like software and video games.
  
- American farm and ranch products, from wheat to specialty agricultural products to citrus, beef, cotton, soybeans and rice.
  
- Services industries, banking, to insurance, express delivery, accounting, law, engineering, environmental, telecommunications, the Internet and other fields.

### 3. The Work Ahead

China has yet to complete bilateral market access agreements, like the one we reached in November, with a number of other WTO members: Europe, India, Mexico and others. And it must complete a multilateral negotiation at the WTO which principally cover commitments regarding a range of WTO rules including on subsidies, technical standards, a mechanism to review implementation, and many other issues. All of this should serve to strengthen the already very strong accession agreement we have negotiated.

However, we have an obligation as well. The United States must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR simply reflects the tariff status we have given China since our normalization of diplomatic relations in 1979; which Congress has reviewed every year since then and found to be in our fundamental national interest; and which every country in the world, but for a very few such as North Korea, Afghanistan and Serbia already have. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR. If Congress were to refuse to grant permanent NTR, our Asian and

European competitors will reap these benefits but American farmers and businesses may well be left behind.

## THE WTO ACCESSION AND THE FUTURE US-CHINA RELATIONSHIP

From the perspective of trade policy, this choice is absolutely clear. China offers a set of one-way trade concessions; in return, we are asked only to confirm the normal trade status we already grant to China.

But trade, of course, is only one element in our economic relationship with China; and economics is only one of many major issues in the totality of our relationship with the world's largest country. And thus, the WTO accession also asks us to think about the future in terms of American security and strategy for the years and decades ahead of us.

Our relationship with China today is free neither of deep-seated policy disagreements, nor moments of tension. This is perhaps natural: we are both great Pacific powers, and our governments reflect vastly different political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4<sup>th</sup> century B.C., such a relationship poses profound questions of relevance to the future peace and stability of a vast section of the earth:

"Eagles do not flock together like birds of lesser wing;

thus it has been since ancient times.

How is the round to fit with the square?

How can different ways of life be reconciled?"

We should not imagine that a trade agreement will cure these areas of disagreement. Rather, as the President has said, we must act on them with candor and a firm assertion of our interests and values.

But as we do so, we also must recognize how important a stable and peaceful relationship with China is -- for the world, for the Chinese, and for us. And thus we have an equally fundamental responsibility to find and act upon areas in which we share interests and benefits.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it as well in the maintenance of peace on the Korean peninsula; in the search for stability in the Taiwan Strait; in the environmental problems of the Asia-Pacific region. And we have seen it in trade policy for a quarter century.

American trade initiatives in China have stretched from the end of the trade embargo in 1972 through our Commercial Agreement and mutual grants of MFN status (now Normal Trade Relations) in 1979 and 1980; through the renewal of NTR for the past 20 years; and through the market access, textile and intellectual property rights agreements of the 1990s. Each step has had a foundation in concrete American economic interests; but each has also helped to promote reform and the rule of law within China, integrate China in the Pacific economy, and thus strengthen China's stake in prosperity and stability throughout Asia.

As such, together with our network of alliances and military commitments, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And WTO accession for China will be the most significant step in this process for many years.

## CONCLUSION

That is the fundamental meaning of this WTO accession; and if we approach it in this spirit, we can see how extraordinary are the possibilities it opens up.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to cities and towns throughout America: stronger guarantees of fairness for our working people and businesses; new export opportunities that mean jobs and growth for Americans.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law, and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us; that is why I am before you today. And it is why I ask for your support and your help as we bring this historic agreement to Congress, and seek on its basis permanent normal

trade relations with China.

## China's WTO Accession: Trade Interests, Values and Strategy

Ambassador Charlene Barshefsky

U.S. Trade Representative

National Conference of State Legislators

Washington, D.C.

February 4, 2000

Thank you very much. Let me thank Representative Paul Mannweiler of Indiana, President of the NCSL. I am especially pleased to be here with the National Conference of State Legislators, because you live and work with the Americans, on the job and on the farm, shaping today's international economy, and thus your advice on trade policy is of great importance to our Administration.

I would like to acknowledge several state legislators who have made especially important contributions to our work: the members of our Intergovernmental Policy Advisory Committee, Representative John Dorso of North Dakota, Hawaii Senator Carol Fukunaga, New York Senator James Lack and Maryland Delegate Kenneth Montague. Oklahoma Representative Clay Pope, recent chair of NCSL's Agriculture and International trade Committee and one of America's leading experts on agricultural trade, and South Dakota Representative Larry Dietrich, who chairs the Trade Committee this year.

I am here to ask your support for one of the most important American trade policy goals in many years: China's accession to the World Trade Organization, together with support for permanent Normal Trade Relations for China.

### ONE-WAY CONCESSIONS

In one sense, this is a simple matter. Our bilateral agreement with China on WTO accession last

November secures broad-ranging, comprehensive and one-way trade concessions on China's part. China agreed to grant the United States substantially greater market access in virtually all sectors, and stronger guarantees of fair trade. We agree only to maintain the market access policies we *already* apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

One might end a discussion of the WTO accession right there; from a purely trade policy perspective, it would not be wrong to do so. But we must also think about the wider implications - and to see these clearly, we must begin at the very beginning.

## AMERICA AND THE TRADING SYSTEM

The World Trade Organization China now seeks to join has its roots in the General Agreement on Trade and Tariffs, or GATT. The leaders who created it in 1948 - Truman, Churchill, Europe's democratic leaders - acted with personal experience of Depression and war. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. And fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has continued for fifty years; and their faith in freedom, open markets and the rule of law is abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. In these years, the world economy grew six-fold. Per capita income nearly tripled. Hundreds of millions of families escaped from poverty. America, as the world's largest exporter, benefits perhaps most of all.

## CHINA'S ROAD: FROM REVOLUTION TO REFORM

China took a very different road. With the Communist revolution, it shut doors it had once opened to the world: among the first steps were to expel foreign businesses from China, and bar direct economic contact between Chinese citizens and the outside world. Inside China were similar policies: destruction of private internal commerce; abolition of private property and land ownership; suppression of the right to object to these policies. In essence, one cannot separate postwar China's deepening isolation from the outside world from the steadily increasing repression and diminishing space for individual life and

freedom within China.

WTO accession thus means a profound and historic shift of attitudes. As it joins the WTO, China will sharply reduce trade barriers at the border. It will, for the first time since the 1940s, permit foreigners and Chinese businesses to import and export freely from China. It will reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services. It will enable, again for the first time, foreign businesses to participate in information industries such as telecommunications. And it will allow us to enforce these commitments through impartial dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers. They will give China's people more access to information, and weaken the ability of hardliners in the Chinese government to isolate China's public from outside influences and ideas. They reflect a judgment that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but the greater economic freedom, engagement with the world and ultimately development of the rule of law inherent in the initiative President Truman began in 1948.

That is why many Chinese activists for democracy and human rights - Martin Lee, leader of Hong Kong's Democratic Party; Ren Wandong, a dissident who has spent years of his life in prison - see the WTO accession as China's most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and fairness for Americans.

## WTO ACCESSION AND AMERICAN TRADE INTERESTS

It also, of course, represents concrete trade goals that will help Americans on the farm and on the job. And let me offer you some specifics on that.

### 1. Overview

First, our bilateral agreement is comprehensive. China will reduce its trade barriers to levels comparable to those of major trade partners, including a number of developed industrial countries, and address all our priority concerns:

- Chinese industrial tariffs will fall from an average of 25% in 1997 to 9.4% by 2005. In information technology, tariffs on products such as computers, semiconductors, and all Internet related equipment will fall to zero by 2005.

- In agriculture, on U.S. priority products such as beef, citrus, specialty products and dairy, tariffs will drop from an average of 31% to 14% in January 2004. China will also expand access for bulk agricultural products like wheat, corn, cotton, soybeans and others; permit for the first time private trade in these products; and eliminate export subsidies.

- In services, China will open markets for distribution, telecommunications, insurance, express delivery, banking, law, accounting, audiovisual, engineering, construction, environmental services, and other industries.

- And the agreement deals with the special characteristics of China's economy. It addresses state trading; it bans forced technology transfer; it eliminates investment policies intended to draw jobs and technology to China, such as local content, offsets and export performance requirements. And it provides protections for Americans against import surges from China and unfair trade practices like dumping.

Second, it is fully enforceable. China's commitments in all areas are specific, measurable, and enforceable through our trade laws, WTO dispute settlement and other special mechanisms.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

Thus, over a very short period of time, those of you who represent university towns and high-tech centers will see new opportunities for semiconductors, software, pharmaceuticals, chemicals and computers.

Those of you with friends and constituents on the factory floor will see export opportunities and strengthened guarantees of fair trade for manufacturing, from steel to autos, agricultural equipment, wood products, and home appliances.

Representatives of rural districts will see new markets for your neighbors on farms and ranches, in

commodities from citrus -- where a Chinese inspection team toured orchards in California, Arizona, Texas and Florida last week -- to wheat, specialty products, beef, pork, cotton, soybeans, rice, dairy and much more.

We also cover the artistic fields - books, music and film, as well as other copyright industries like software and video games - and each of the major services industries, from telecommunications to accounting, audiovisual, banking, express delivery, accounting, law, engineering, environmental and much more.

### 3. The Work Ahead

China has yet to complete similar bilateral agreements with the EU, India, Mexico and others, and a multilateral negotiation at the WTO, principally covering commitments on a range of WTO rules including subsidies, technical standards, a mechanism to review implementation, and many other issues. All of this should strengthen the already very strong accession agreement we negotiated.

What is our part? We make no changes in our market access policies. We change none of our fair trade or export control laws. But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China for 20 years; which Congress has reviewed every year and found to be in our fundamental national interest; and which every country in the world, but for a very few such as North Korea, Afghanistan and Serbia, already has. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR. If Congress were to refuse to grant permanent NTR, our Asian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

### WTO ACCESSION AND US-CHINA RELATIONS

From the perspective of trade policy, this choice is clear. China offers a set of one-way trade concessions; in return, we simply confirm the normal trade status China already has. From the perspective of reform and liberalization in China, the choice is equally clear. As it implements these commitments, China will become more open to the world, and more responsive to the rule of law than it is today.

But we must also look to a deeper issue. China is the world's largest country, and over the past decade the world's fastest-growing major economy. Our future relationship will have great bearing on American security and strategy in the 21<sup>st</sup> century, and we should also judge the WTO accession in this light.

Our relationship with China today is free neither of deep-seated policy disagreements nor moments of tension. These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. And to quote the classical Chinese poet Qu Yuan, writing in the 4<sup>th</sup> century B.C., such a relationship such poses profound questions for future peace and stability across a vast section of the earth:

"Eagles do not flock together like birds of lesser wing;

thus it has been since ancient times.

How is the round to fit with the square?

How can different ways of life be reconciled?"

Where does WTO accession fit in this? We should not imagine that a trade agreement will cure all our disagreements. And as the President has said, when we disagree with China we must act with candor and firm assertion of our interests and values. But as we do so, we must also recognize how important a stable and peaceful relationship with China is -- for the world, the Chinese, and your friends and neighbors. And thus we have a fundamental responsibility to find and act upon areas in which we share interests and benefits.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the search for stability in the Taiwan Strait; the environmental problems of the Asia-Pacific. And we have seen it in trade for a quarter century.

American trade initiatives in China stretch from the end of the trade embargo in 1972 through our Commercial Agreement and mutual grants of MFN status (now Normal Trade Relations) in 1979 and 1980; the renewal of NTR ever since; and the market access, textile and intellectual property rights agreements of the 1990s. Each step had a foundation in concrete American interests; each also helped promote reform in China, integrate China in the Pacific economy, and strengthen China's stake in prosperity and stability throughout Asia. And China's WTO accession will be the most significant step in this process for many years.

## CONCLUSION

That is the fundamental meaning of this event. And if we approach it in this spirit, we can see how extraordinary are the possibilities it opens up.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to cities and towns throughout America: stronger guarantees of fairness for our working people and businesses; new export opportunities that mean jobs and growth for Americans.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law, and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us; that is why I am before you today. And it is why I ask for your support and your help as we bring this historic agreement to Congress, and seek on its basis permanent normal trade relations with China.

## NEXT STEPS AT THE WORLD TRADE ORGANIZATION

Testimony of Ambassador Charlene Barshefsky

U.S. Trade Representative

House Committee on Ways and Means

Subcommittee on Trade

Washington, DC

February 8, 2000

Chairman Crane, Congressman Levin, Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on our agenda at the World Trade Organization over the coming year. I appreciate this opportunity to review our assessment of the WTO after five years, the events at last year's Ministerial Conference, the negotiations and other work we have under way in the year 2000.

### INTRODUCTION

Our agenda for the year 2000 ranges from opening negotiations on agriculture and services as mandated by the Uruguay Round Agreement of 1994; to implementing and enforcing existing agreements, including several now coming fully into force; promoting the full integration of the least developed countries into the trading system; institutional reform at the WTO, with a focus on strengthening transparency; and the accession of new members, in particular China, to the organization. At the same time, we are working with other WTO members for consensus on a new Round. To reach such a consensus, as the President has said, all WTO members will have to show flexibility and accept their share of the responsibility for success.

My testimony will review each of these points, but will open with a more basic review of the record of the WTO over the past five years. And here the immediate point is clear. That is, the trading system is fundamentally sound and our participation in it is profoundly in America's interest. While the Ministerial Conference in Seattle was unable to agree on an agenda for a new negotiating Round, and the WTO has received some criticism from its members and from outside as well, on the whole the WTO is fulfilling its mission of opening new opportunities, promoting sustainable development, raising living standards and strengthening peace.

As the President recently said, there is no substitute for the confidence and credibility the WTO offers the world as trade grows. WTO membership opens world markets to our goods and services, and helps us take advantage of our competitiveness in agriculture, manufacturing and high-tech industries. It advances the rule of law in commerce, and promotes stability during economic crisis. And thus our participation and leadership in the WTO is of critical importance.

Criticisms, both from within the WTO and from outside, deserve a respectful hearing and the WTO must respond to the legitimate issues they raise. But these were not the fundamental reason the Ministerial conference did not launch a new Round. Rather, the WTO's 135 members reached an unfortunate, but familiar, impasse on some of the major policy issues. The impasse will not fix itself; but if WTO members remember history and first principles, focus more intently on the shared benefits we derive from the open markets and rule of law represented by the WTO, and accept the shared responsibilities of developing the trading system, we can break the deadlock and move ahead.

## THE CONTEXT

Our first challenge is to place the Ministerial in its proper context.

Today's WTO has its roots in the General Agreement on Tariffs and Trade, or GATT, created under President Truman after the Second World War. The leaders of the time acted in the light of their personal experience: they had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has proceeded through five decades. Over time, as we and others abandoned the closed markets of the Depression era, we have strengthened peace by integrating first Germany and Japan, then the post-colonial world, and now the countries moving away from communist planning

systems into a modern economic world. And we have fostered what amounts to a fifty-year economic boom during which the world economy grew six-fold, per capita income nearly tripled, and hundreds of millions of families escaped from poverty.

Most recently, with completion of the Uruguay Round and Congress' passage of the Uruguay Round Agreements Act in 1994, we made a fundamental advance: going well beyond the GATT agreements in addressing agriculture and services; protecting intellectual property rights; and strengthening our ability to enforce all the agreements covered by the WTO. In the WTO itself we created a small but efficient organization, with a very small budget and professional staff, to serve as a venue by which governments can agree by consensus on measures in the general interest. This is evident in the substantial further progress we have made since 1995, in conclusion of the landmark multilateral agreements on Information Technology, Basic Telecommunications and Financial Services.

Taken as a whole, these achievements have substantially improved the world trade environment and its institutions, in ways including:

- Expansion of the Rule of Law: In just five years, the 50 year-old trading system has been transformed from a complex set of rules and disciplines that applied fully to a relatively few members to a system where the rules apply to *all* members (subject to transitions) eliminating the potential for "free riders" on the benefits of an open trading system.
- Dispute Settlement: Today, WTO Members rely on a set of procedures for the prompt settlement of disputes, eliminating many of the shortcomings of the earlier GATT system where the process could drag out indefinitely. While improvements to the system are still warranted, the greater certainty of the new system has led to a more prompt resolution of disputes and greater predictability in the application of rules.
- Market Access in traditional and new areas of commerce: Globally, the Uruguay Round is reducing manufacturing tariffs by a third; American farmers and ranchers are finding export opportunities, as a result of the first real commitments to reduce barriers and limit the use of export subsidies; for the first time in the history of the trading system services providers have also recorded real export opportunities, from accounting to telecommunications services providers. New entrants into the global marketplace, particularly small and medium-sized enterprises, are also benefitting from these new market openings and innovations.
- Intellectual Property Rights Protection: WTO member governments have accepted a landmark set of rules for protection of patents, copyrights, trademarks and other forms of intellectual property. This both protects the research and innovation of Americans in our most competitive industries, and creates incentives for further investment and technological progress worldwide.
- Global Membership: The WTO has grown by 50%, from the 90 members which joined to launch the Uruguay Round in 1986 to 135 in 1999, with another 30 members seeking to negotiate entry. More stringent requirements for membership mean acceptance of WTO rules helps to open markets to American products and promote domestic economic reform. This is especially

important for countries emerging from communist planning systems and seeking to establish market-based economies. Thus, membership in the WTO is a key element in newly emerging economies in Eastern Europe, in Asia, and in the Middle East. African nations as well are participating more fully in the WTO than in the past.

- *Creation of a dynamic forum for trade liberalization:* In establishing the WTO, we created a system that is responsive to rapid changes in technology and the needs of the 21<sup>st</sup> century. The WTO first set in motion and then realized agreements in financial services, basic telecommunications services and information technology, whose outcomes are larger in scope than the totality of the results of the Uruguay Round; and by setting a built-in agenda to continue in agriculture and services this year.
- *High Technology:* The dynamism of the WTO has kept the trading system current with technological development, providing real benefits to business and consumers - through its work on the Information Technology Agreement, Basic Telecommunications, Financial Services, electronic commerce and other initiatives. Since the Basic Telecommunications Agreement came into effect, for example, rates paid by U.S. consumers for international service to most foreign destinations have declined significantly. From 1996 to 1998, the average price of an international long distance call declined from 74 cents per minute to 55 cents per minute, a 25% decline. On highly competitive routes, such as the U.S.-UK route, prices have fallen even more dramatically, to as low as 10 cents per minute. Although aggregate data for 1999 are not yet available, indications are that the trend toward lower rates has continued and that the current average price worldwide is well below 55 cents per minute.
- *World Economic Stability:* The WTO has also strengthened the world's ability to address economic crises. During the financial crisis of 1997 and 1998, for example, the respect WTO members, including ourselves, showed for open market commitments helped to prevent a cycle of protection and retaliation similar to that of the Depression era, ensuring affected countries the access to markets they needed for recovery, and minimizing damage to American farmers and manufacturing exporters.
- *Greater Openness and Accountability:* While, as I will note later, we are not satisfied with the WTO's progress toward full transparency, we also recognize that in five years, the WTO has moved forward on these issues by making a majority of its documents available to the public, reaching out via symposia and other means to the NGO community and by creating a Web page. All of the WTO Ministerial Meetings held thus far - in Singapore, Geneva and Seattle - have enjoyed strong NGO participation.

### THE WTO IN AMERICA'S ECONOMIC BOOM

These policy achievements, in turn, have helped to facilitate an expansion of American goods and services exports, despite the effects of the Asian financial crisis, by 55% since 1992. This is especially important, as export-related jobs typically pay 10-15% above the average U.S. wage. Together with domestic policy measures such as the improvement of fiscal discipline since 1993 and increased investment in education, the trading system has thus made a remarkable contribution to our prosperity in the past five years. By opening markets, advancing the rule of law and promoting competition, the WTO has contributed to a record of:

- Growth: The U.S. economy has grown by \$2.2 trillion, from \$7.0 trillion in 1992 to \$9.2 trillion in 1999. To put this figure in context, only two countries in the world apart from the United States have a GDP totaling \$2 trillion or greater.

- Jobs: U.S. employment has grown by over 20 million, as unemployment levels dropped from 7.3% to 4.0%. This is the lowest unemployment rate since January of 1970.

- Rising Living Standards: American living standards are rising, as hourly wages for nonsupervisory workers are up by 6.8%. At the same time, openness to imports has helped to keep inflation low, broaden choice and improve consumer prices especially for basic household necessities. This is especially important for the poorest families.

- Investment: Since creation of the WTO, U.S. non-residential business investment has risen at 10.8% per year.

- Shared Benefit: Americans have broadly benefitted from our expansion, with poverty rates falling to the lowest level measured since 1979, and unemployment at record lows for African-Americans and Hispanics.

A final point to note is that in the past five years, the U.S.' share of world foreign direct investment has sharply increased, with foreign countries investing more than \$400 billion in America. Many had expressed fears that a more open world would promote investment in countries with weaker labor and environmental standards. Investment decisions obviously have many causes, but experience shows that our high standards have not been any sort of a deterrent to investment in the United States.

## REASONS FOR SEATTLE DEADLOCK

Let me now turn to an analysis of the Ministerial, and then to our next steps.

As the record -- both of the past five years and of the past fifty -- indicates, developing the trading system has been work of profound importance. It has therefore always been difficult: nations always have entrenched interests which benefit from the status quo, and at each point along the road,

governments must make politically difficult choices to serve the greater good.

It should therefore be no surprise that we at times have encountered deadlocks. This happened at the creation of the trading system, in which the founding of the GATT in 1948 built upon a failure to set up an "International Trade Organization" in 1947. The creation of the WTO five years ago followed a failed attempt to launch a Round in 1982, a mid-term breakdown in 1988, and failures to conclude the Round in 1990 and 1993. More recent negotiations on financial services and telecommunications also broke down in 1996 and 1997, in all cases to be followed by success.

The experience in Seattle was similar to many of these previous negotiating deadlocks. While broadly supportive of a Round, a number of major WTO members were reluctant to commit themselves to a negotiating agenda covering issues that are genuinely difficult.

Most important, any new Round must clearly have as a central goal the rapid reform of agricultural trade. This is a commitment the WTO made long ago, when in 1995 it adopted a "built-in agenda" requiring the opening of agricultural talks this year. This poses a special challenge to the European Union and Japan. However, developing countries also have diverse interests and agendas, which a Round must take into account, and we in the U.S. have sensitive areas as well. All of us must be willing to look hard at our agendas and consider ways to accommodate a number of the concerns of our trading partners to move forward.

We knew well before the Ministerial, of course, that a new Round would involve difficult issues. But an agenda that does not take on the difficult issues is one of little real-world consequence. Over the long run, WTO members have been able to overcome their differences; on this occasion they did not. WTO members began to harden their positions rather than coming to consensus, and the negotiations proved unable to bridge the gaps.

## WTO AGENDA FOR 2000

Since then, we have been consulting with our trading partners and with Director-General Moore on ways to move ahead. As we do so, we view it as of fundamental importance that the WTO acts on the issues immediately before it: the implementation of core agreements under the Uruguay Round, the opportunity to promote development and integration for the poorer countries, the decision by China and a number of other countries to join the WTO and the commitment made in 1995 to open negotiations on agriculture and services this year.

### 1. Implementation of Agreements

To begin with, a set of WTO agreements covering intellectual property, trade-related investment measures, customs valuation and other issues come fully into force this year, when remaining transitions expire. It is crucial that this proceed smoothly. We are meeting our own commitments, of course, in areas such as textiles. And in case of outright refusal to keep promises, we will not hesitate to use dispute settlement to enforce compliance.

But we also recognize that these agreements are complex. Some countries have genuine difficulty implementing them despite making sincere efforts to do so. In such cases, our preferred approach is to work through the problems on a practical, constructive and pragmatic basis. That is the best way to ensure that we address the fundamental concerns countries have, and preserve the integrity of the balance of rights and obligations all of us have taken up. Likewise, we are willing to review concerns others may have about our own implementation of agreements.

## 2. Least Developed Nations

WTO members must also act with greater generosity of spirit toward the least developed countries.

Part of this is greater market access for the poorest countries. We are prepared to do this unilaterally, as the President stressed in his State of the Union Address, by securing passage this year of legislation further opening U.S. markets to goods from Africa and the Caribbean. This is of fundamental importance to growth and sustainable development for the people of these regions, and will also help them become better markets for our own products.

Equally crucial, we must develop better means to help these countries participate fully in the trading system. Many of them come to the table with less experience in trade policy and at times fewer resources to devote to it. They often rightly feel they have difficulty in asserting their rights and interests in the WTO. A proposal we introduced last year, together with Bangladesh, Lesotho, Nigeria, Senegal and Zambia, to improve the technical assistance and capacity-building programs available from the WTO and other international institutions, can serve as a starting point.

## 3. WTO Accession for China and Others

Likewise, the WTO is considering the accession of 31 economies. A number of these negotiations are well advanced: we expect Jordan and Georgia to enter in the very near future; we have also completed

our bilateral negotiations with Albania, China, Croatia, and Taiwan; and have had significant progress with a number of other countries. Each case will mean significant trade liberalization, bounded by the rule of law.

Let me say a few special words about the completion of China's entry into the WTO. This is a critical goal for the WTO this year. The economic liberalization and opening to the world China will make as part of its WTO accession have the potential to support reform in China, create opportunities for China's trading partners, and ultimately help to stabilize peace in the Pacific. And simply from the perspective of the trading system, a status quo in which the world's third-largest economy does not need to follow WTO rules is an enormous source of distortion and uncertainty. The China accession is thus a central task for the WTO, and must move ahead this year.

This will require expeditious action, first of all by those WTO members which have yet to complete their own negotiations with China, and second by the entirety of the WTO's membership on rules issues. It is a complex task, but one which is manageable for the WTO and should be completed soon. As part of this process, the United States must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China's commitments through WTO dispute settlement, among other means. If Congress were to refuse to grant permanent NTR, our Asian and European competitors will reap these benefits of the agreement we negotiated with China, but American farmers and businesses may well be left behind.

#### 4. Built-In Agenda Negotiations and Work Toward New Round

Finally, with this work proceeding, we must look to the future. The core elements of the negotiating agenda are before us, in the opening of talks on agriculture and services, as required under the "built-in agenda" WTO members agreed upon in 1995. These are the sectors in which markets remain most distorted and closed, and in which the opening of trade will mean perhaps most to future prospects for rising living standards, technological progress, and sustainable development.

I am pleased to report that WTO Members are moving forward on this agenda. The WTO General Council yesterday set dates for the initial meetings for the negotiations on services and agriculture, and our expectation is that the important work for those negotiations will proceed. That will include the development of negotiating proposals this year, a matter on which we will be consulting with Members, the private sector and other interested Americans in the days ahead. The work has just begun, and we will soon publish a notice in the Federal Register seeking comments from all interested parties as we begin the process of developing proposals for these negotiations. But our view of the initial steps is as follows:

- In agriculture, the WTO Agreement on Agriculture, with binding commitments on market access, export subsidies and domestic support, provides the basis on which to pursue further agricultural reform. Useful preparatory work has already been accomplished through the WTO Committee on Agriculture over the last three years, where countries have identified key issues and their interests.

We are now working with other countries to ensure discussions in Geneva focus on substantive reform proposals. Our work last year enabled us to identify general negotiating objectives, such as eliminating export subsidies; reducing tariffs; expanding market access opportunities for products subject to tariff rate quotas, including better disciplines on the administration of those TRQ's; reducing trade-distorting domestic support levels; and ensuring that the operation of agricultural state trading entities are more market-oriented. We also want to ensure access for biotechnology products.

We are now developing specific proposals to implement these objectives. While specific negotiating timelines have not been established by the Uruguay Round, the expiration of the agricultural "peace clause" in 2003, and continued domestic farm reform efforts in the United States, Europe and other countries, should help to move the negotiations forward.

- In services, we are developing negotiating proposals for a wide range of sectors where our companies have strong commercial interests, including, energy services, environmental services, audiovisual services, express delivery, financial services, telecommunications, professional services, education and training, private healthcare, travel and tourism, and other sectors. Our companies are poised to be among the primary beneficiaries from stronger services commitments in the WTO.

Broadly speaking, our objectives are to remove restrictions on services trade and ensure non-discriminatory treatment. We also need to ensure that the commitments we obtain accurately reflect our companies' range of commercial activities. For example, the GATS definition of environmental services does not include recycling services, an area where U.S. companies are leaders. We want to fix this and similar deficiencies in the GATS.

Our proposals must also reflect the many different means U.S. service providers use to meet the needs of their foreign customers. This includes U.S. companies that establish operations overseas - for example, as a branch or subsidiary; that deliver their services electronically - by phone, fax, or the Internet; or that depend on individual personnel to "export" services - for example, Americans that perform short-term consultancy services in a foreign country.

Beyond these mandated negotiations, we have pressing needs to address market access concerns in non-agricultural products, electronic commerce, issues related to trade and the environment, trade facilitation, and perhaps other topics as well. Thus, while there are a number of different options for

proceeding with trade liberalization beyond the agricultural and services sectors, we working to build consensus for a new Round.

To build a consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink some of their positions, focus more fully on the shared benefits of success, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, and expect our trading partners to do the same.

## WTO REFORM

Finally, let me turn to the criticisms the WTO has received and the questions of institutional reform.

The protests and internal criticisms of the WTO were not at the heart of the negotiating impasse in Seattle. However, they raise issues that require a response. Only through openness and willingness to listen to its critics will the trading system retain the broad support of the public and its member governments over time.

This does not mean that all criticisms are valid. Indeed, part of the response must be a rejection of unsubstantiated and more radical criticisms. The core vision of the trading system is right: opening markets in the past decades has sparked growth, reduced poverty and strengthened peace. The creation of the WTO here in the United States has brought this still further: by cutting tariffs, it has been the equivalent of a \$750 billion global tax cut, whose benefit goes largely to less prosperous families which devote more of their income to food and basic necessities. It has helped America's farmers, working people and businesses find new markets overseas. And as our import growth has shown, it has helped to raise living standards, dampened inflationary pressures and broadened consumer choice, while creating new opportunities for our trading partners. Most recently, during the Asian financial crisis the respect WTO members showed for open market commitments helped to prevent a cycle of protection and retaliation similar to that of the Depression era, ensuring affected countries the access to markets they needed for recovery, and minimizing damage to farmers and manufacturing exporters worldwide.

To begin reversing the work we have done would be irresponsible and damaging in the extreme. Workers in poorer countries would lose jobs as industrial markets closed; living standards of the poor in America and other industrialized countries would fall as the price of food, clothing, shoes and other essential goods rose. Hopes of rising labor and environmental standards would be deferred, as countries which suffer from grinding poverty have little time or resources for clean air enforcement and factory inspection. And a crucial support for peace would weaken, as the stake nations now have in one another's prosperity and stability beyond their borders diminished.

But the WTO must also be willing to listen to and act upon legitimate criticisms and incorporate new ideas. Most immediately, it must address concerns about transparency which are valid and can be easily remedied. This is especially important in dispute settlement, where the current practice is to close arguments to the public. Historically, the practice dates from an earlier era, in which dispute settlement largely meant mediation and negotiation. But today, dispute settlement is a more adjudicative process. In such a process, what once was privacy becomes a harmful secrecy that reduces public confidence in decisions.

If this remains unchanged, public confidence in the system will erode. As a first step, at our US-EU Summit in December, we proposed that we and the EU, as the largest users of WTO dispute settlement, immediately agree to open the arguments in our transatlantic disputes. Thus far, to our regret, the EU has refused. But it is quite clear that this issue threatens to erode public confidence in the WTO and its work, and must be addressed sooner rather than later.

Likewise, the WTO's internal processes can be improved and updated. Since 1986, when the Uruguay Round opened, the WTO has grown by over 50%, from 90 to 135 members, with more to follow this year. It is not only larger but more diverse, ranging from the world's most developed to its poorest countries, and covering each point of the spectrum in between. Each of these members has different priorities and interests, adding to the complexity of negotiations. Over time we should develop a more effective means of ensuring both participation and efficient consensus-building. Director-General Moore has begun consultations with WTO members toward this end. However, as we address the issue, we must be careful not to alter the principle of consensus for decision-making in the WTO. And we must also ensure that such procedural discussions do not distract us from taking immediate action on core policy issues.

There are also clear areas in which the WTO can do more to help environmental protection. These include elimination of environmentally abusive subsidies, such as fishery subsidies which contribute to over-fishing; elimination of barriers to trade in environmental goods and services; and the disciplining of agricultural subsidies, including the elimination of agricultural export subsidies.

And we believe the WTO can contribute to the advance of internationally recognized core labor standards. Its current refusal to discuss the links between trade and labor cannot be justified. It can also cooperate more actively with the International Labor Organization on a number of issues.

We should also, however, draw lessons for the future from our experience in Seattle in these areas. While our environmental proposals won a substantial amount of support, we received at times intense criticism for pressing to open a discussion of trade and labor. If we are to move forward, I believe we must address more effectively the reasons many developing countries are suspicious of these

discussions. Few want to specialize in low-wage industries; almost all would prefer highly skilled, healthy and prosperous work-forces. But most also fear discrimination against their products that would block development and perpetuate poverty. Clearly, our proposals in this area have no such intention and would have no such effect. But if the trading system is to play a role in achieving the shared goal of improving labor standards -- as it should -- we must find ways to allay these concerns.

## USTR BUDGET

Finally, Mr. Chairman, in the context of our ability to meet the totality of these challenges, let me raise one final issue.

Yesterday, the president transmitted his budget to the Congress. In it, he is recommending funding for USTR at \$28.3 million and 190 staff. This represents an increase of \$2.8 million and 12 full-time positions. In addition, the President's initiative on enforcement includes additional resources for our agency. Thus, this budget, like the previous two the President has submitted, calls for funding increases, to match the escalating workload our agency has at home and worldwide.

As you know, USTR is certainly one of the leanest and I believe most cost-effective agencies in the Federal government. When we began, we were an agency designed to coordinate policy, drawing on the resources of other agencies. Today, we have tremendous statutory obligations, together with complicated and demanding interactions with nearly 200 foreign trade partners and a very wide spectrum of Americans. As the Appropriations Committee begins considering this budget request, I ask your support as our authorizers for the addition of these 12 new positions to our team. To fulfill our mission most effectively, we need additional support not only at the WTO, but with respect to agriculture, Africa, China, Japan and several other areas. I hope you will support this request.

## CONCLUSION

In conclusion, then, the WTO faces a number of challenges in the coming year, from proceeding on the built-in agenda for agriculture and services, to implementing prior agreements, bringing in new members, improving the ability of the least developed countries to participate, reforming its institutions, and working toward a new Round. To meet these challenges is a responsibility that all WTO members share. None of these are easy or simple; but others have shouldered equally difficult tasks in the past.

And the record of the past fifty years should give us a great deal of confidence. Taken as a whole, the multilateral trading system has promoted the rule of law, created new opportunities for worldwide

economic growth, and created opportunities for Americans. This amply justifies the decision Congress took five years ago to support creation of the WTO as a successor to the GATT. And it should remind us how significant will be the rewards of success as we take up the challenges of the new century.

## China's WTO Accession and American Agriculture

Ambassador Charlene Barshefsky

U.S. Trade Representative

Old Executive Office Building

Washington, DC

February 10, 2000

Good morning. Thank you, Secretary Daley; thank you Mary Beth. Let me also thank and give special recognition to Congressmen Stenholm and Combest not only for appearing today, but for the guidance and advice they have given us throughout our WTO negotiations with China. The quality of its agricultural commitments is in large part a tribute to the support Members of Congress have given us, and to the pressure Members have put on China over the past years.

Most of all, of course, thanks to each of you here today, for coming here today and for your commitment to the success of China's accession to the WTO. I am going to take just a few minutes to give you a status report on the WTO negotiations: the place of our bilateral agreement in the broader process of China's WTO accession; the work which remains for China in its negotiations with other leading WTO members; and the importance of permanent NTR to American farmers and ranchers.

### WTO ACCESSION IN CONTEXT

Let me begin, by putting the technical issues in some broader context.

In one sense, our support for China's WTO accession is an element of our broader strategy for peace and security in the Pacific. In this sense, it represents our commitment to a stable and long-term relationship with Asia's largest country and fastest-growing economy: one in which we assert our values and interests

when we differ, but also find and act on areas of mutual interest and benefit.

In another sense, it represents our support for reform and liberalization within China. With WTO accession, China adopts specific, enforceable commitments that together represent open markets, economic freedom, and the rule of law. These are elements of an open society, which were smashed in the years after the communist revolution and which post-Mao reforms have only partially rebuilt. And that is why many Hong Kong and Chinese activists for democracy and human rights see the WTO accession as the most important reform measure in the past twenty years.

But while it has these very profound implications, the WTO accession is bottom a trade agreement. It will open China's market -- 1.2 billion people, and the world's third-largest economy -- in a way we have not seen since the 1920s. It will thus help Americans find new opportunities for jobs, growth, and fair trade; and no-one more so than American farmers and ranchers.

## WTO ACCESSION AND AMERICAN AGRICULTURE

Secretary Glickman will offer a broad look at the implications of this accession for American agriculture. Let me therefore simply give a general description of the bilateral agreement we concluded last November.

Overall, it represents a comprehensive set of trade commitments. It covers agriculture, manufacturing, and services industries such as telecommunications, finance, the professions and others. It includes a product-specific safeguard in the event of import surges, an agreement to continue using "non-market economy" dumping methodologies for fifteen years, and much more. In every case, the commitments are specific and enforceable; will be implemented rapidly; and hold China to the same standard we expect of all new WTO members.

With respect to agriculture in particular, we will open China's market for all commodities of significant export interest to us, and address a range of broader policy issues of concern to American producers. To review the results briefly:

- China will make significant cuts in tariffs, and complete them by January 2004. In the commodities of top concern to the United States - everything from beef and pork to citrus, processed foods, wine and dairy - tariffs will fall from an average of 31% to 14%.

- China will set up a tariff-rate quota system for bulk commodities like wheat, corn, cotton, barley, and rice. To give you just one example, China imported 2 million tons of wheat last year, and will set up a TRQ of 7.3 million tons immediately on entering the WTO. This will ultimately rise to over 9.6 million tons. The agreement gives a share of the TRQ to private traders, and has specific rules for TRQ operations and transparency.

- China will guarantee the right to import and distribute products without going through a state-trading enterprise or middle-man. Thus we can sell high-quality beef directly to hotels on the coast, or wheat to Chinese mills.

- And China has agreed to eliminate SPS barriers that are not based on scientific evidence and no export subsidies on agricultural products. We took, as some of you know, a very significant step forward in this area last month, when a Chinese team began its visit to California, Arizona, Texas and Florida to begin implementing the agreement which abolishes unscientific restrictions for citrus.

Thus our bilateral agreement addresses the full web of trade barriers in the China market: barriers at the border, unfair restrictions on marketing within China, and unscientific inspection standards. As it goes into effect, a fifth of the world population - now largely blocked from buying our agricultural goods - will become a new market for farmers, ranchers and food companies all over the United States.

#### WORK REMAINING

But the work is not yet done. And in my remaining time I would like to outline for you the tasks which remain before us.

First, China must complete bilateral market access agreements, like the one we reached in November, with a number of other WTO members. In addition to the United States, China has reached agreement with Japan, Canada, Australia, Brazil and some smaller countries. It must do the same with the European Union, India, Switzerland, Argentina, Chile, and a number of other WTO members.

Obviously we cannot offer a precise date for the completion of this work. Others are doing the negotiating and will do so at their own pace. The EU has made some progress, but still has some negotiations ahead. The others have far fewer issues to resolve with China, and may be able to act relatively rapidly.

Second, together with these bilateral agreements, China must complete a multilateral negotiation at the WTO to draft a "Protocol" and a "Working Party Report." These negotiations principally cover the commitments China makes regarding WTO rules including on subsidies, technical standards, a mechanism to review implementation, and other issues. We will work to push this ahead as rapidly as possible when China concludes its bilateral market access agreements. However, of course, it is a multilateral process which involves all interested WTO members and we cannot dictate the pace of progress.

Once these parts of the package are complete, the Working Party forwards it to the WTO General Council for final action. China must then complete the steps required under its law to become a WTO Member.

### PERMANENT NTR

Third, while no changes to U.S. law or import policies need to be made for China to become a WTO Member, we risk losing the full benefits of the agreement we negotiated if we do not grant China permanent Normal Trade Relations.

If Congress were to refuse to grant permanent NTR - that is, to make the current tariffs on Chinese products permanent - our Asian, Latin and European competitors will reap these benefits but American farmers, ranchers and other businesses may well be left behind. And it is unacceptable for American producers to face a situation in which competitors from dozens of other countries - from Argentina and Canada to Europe and Australia - have a built-in advantage in the world's largest nation. The short-term cost to farm incomes would be substantial, and the implications for long-term sales relationships still more profound.

### CONCLUSION

China's WTO accession is, therefore, a critical issue of incomes and livelihoods for America's farm families. That is reason enough to support it. But in a larger sense, it is also a test of statesmanship for our country.

We have areas of profound political and moral disagreement with the Chinese government. These cannot be evaded, and the WTO accession will not solve them all. Yet it will help us to address some of them.

- As it opens markets and opportunities for Americans, WTO accession will also offer China's people greater freedom and opportunity in daily life.

- It will help China to strengthen the rule of law, which is the basis of decent government and lasting reform.

- And in our relationship with the world's largest country, it will set a pattern by which we, as we assert our own interests and values when we differ with China, also act upon mutual interests and shared benefits.

And that in turn will give our people, and the world, a strengthened hope not only for prosperity but for peace.

Thank you very much. Let me now return the platform to Secretary Daley.

## **Signature Ceremony for US-Nigeria Trade and Investment Framework Agreement**

**Ambassador Charlene Barshefsky**

**U.S. Trade Representative**

**The Indian Treaty Room**

**Old Executive Office Building**

**Washington, D.C.**

**February 16, 2000**

Good afternoon, friends and honored guests.

I am very proud and pleased to be here with Vice President Abubakar and our many distinguished guests, as we sign this landmark Trade and Investment Framework Agreement.

Nigeria is our second largest African trade partner. Over the past decade, though, we have seen little growth in bilateral trade. This is a cause for some regret; but it is also a sign that we have untapped potential. And today, we have the best opportunity in many years to take advantage of that fact.

President Obasanjo and Vice President Abubakar have set in motion a remarkable and courageous program of democratization, economic reform and opening to the world. Our Administration supports and applauds this work. And the Trade and Investment Framework we sign today is both a sign of our confidence in the reform initiative; and a practical, mutually beneficial means of helping it succeed.

With the stronger trade and investment relationship this agreement helps to create, we can give new opportunities to Nigeria's farmers, artisans and industries in the American market.

We can do the same for America's businesses and working people as Nigeria rebuilds its infrastructure.

And we can identify shared interests and goals at the WTO, building upon the proposal we have made together to reform the WTO's technical assistance and capacity-building programs for the least developed countries. One milestone in the near future will be our sponsoring, together with USAID of a WTO Workshop for Nigerian officials.

The Trade and Investment Framework Agreement will help us in all these areas. It will create the legal and institutional foundation for a permanent trade policy dialogue spanning the range of issues before us today. Areas of shared interest and cooperation at the WTO. Agricultural and industrial standards. The development of electronic commerce and Internet capability. Intellectual property rights, which is especially important to both our countries as world leaders in music, film and literature. Customs procedures and trade facilitation, investment promotion, and much more as well.

And as we address these practical and concrete issues, we will also take a step of great symbolic consequence for Africa and for the world.

As Africa's largest nation and most richly endowed economy, Nigeria's success is crucial to the success of Africa as a whole. Our recognition of this, and our commitment to the success of the reform effort, is absolutely clear in the State Department's designation of Nigeria as a priority country for our diplomacy this year.

And it is clear in this agreement as well. A strong partnership between our two countries is absolutely fundamental to our hopes not only for bilateral relations, but for a broader and closer relationship with all of Africa in this new century. This is already clear in the strong support and momentum the Vice President and President Obasanjo have given to the African Growth and Opportunity Act.

Our agreement today will help us deepen that partnership. And thus it will help us advance together towards the future of peace, prosperity and development which all of us hope to see; and which the voters of Nigeria and the United States have asked our Administrations to help create.

Mr. Vice President, honored guests, I thank you all for coming to this ceremony today. And I look forward to a relationship that grows and deepens every year.

## The U.S. Trade Agenda in 2000

Ambassador Charlene Barshefsky

U.S. Trade Representative

Louisiana Economic Development Group

Washington, DC

February 11, 2000

Thank you all very much.

I am very grateful to Senator Landrieu for inviting me to speak with you today. Over the past four years, she has earned a reputation as one of Congress' most thoughtful and independent leaders, on issues ranging from early childhood development to fiscal policy. This has included the trade agenda, from development of policy in areas like the Caribbean Basin Initiative, to promoting Louisiana interests in rice exports to Japan and many other areas. I feel honored that she has asked me to meet with you this afternoon, and I look forward to your ideas and advice.

Let me also recognize Senator Breaux, one of the Senate's long-time leaders and experts on trade policy. His advice, guidance and friendship over the years has been invaluable to me and to American trade policy, as well as in health care, Social Security and many other fields; not to mention Louisiana's rice farmers, sugar industry and manufacturing.

Louisiana is also very lucky to have one of the House's most hard-working and effective delegations. I have the pleasure of working closely with Congressmen Bill Jefferson and Jim McCrery, who serve on the Ways and Means Committee. Louisiana also has two of the most senior members of the House in Billy Tauzin and Richard Baker, who hold important subcommittee chairmanships with great influence over America's high-tech industries in the case of Congressman Tauzin, and in Congressman Baker's case the financial sector. And all of you know how important agriculture is to Louisiana; and in John Cooksey and Chris John, you have two great advocates for Louisiana's farmers and exporters. And let

me also recognize Louisiana's newest Representative, Johnny Isakson.

## USTR INTRODUCTION

I want to begin with a brief introduction of my job and the agency I head, and then turn to some of the major issues we will be addressing this year.

As U.S. Trade Representative, I lead one of the smallest agencies in government. We have 178 full-time employees and a budget of \$26 million; which is in fact not much more than the Defense Department spends on stationery every year. With this we address \$2 trillion in U.S. trade with the world; we monitor and enforce hundreds of agreements; and with help and advice from Senator Landrieu, Senator Breaux and others in Congress, we develop the American agenda for the future.

Our work rests on a philosophical belief in open and fair competition, together with strong standards to ensure protection for our consumers, workers and environment. At home we are committed to an open market which increases competition and choice; overseas, we create opportunity for American businesses, working people and farmers as we remove trade barriers, cut foreign subsidies and fight unfair trade practices.

Under President Clinton, these principles have helped us negotiate nearly 300 separate trade agreements, including five of truly historic importance: the North American Free Trade Agreement, which cemented our strategic relationship with our neighbors Canada and Mexico; the Uruguay Round, which created the World Trade Organization; and three multilateral agreements on Information Technology, Basic Telecommunications and Financial Services.

In part because of this, our country's exports grew to nearly a trillion dollars in goods and services last year, 55% more than in 1992. Louisiana, with its highly competitive farmers and growing high-tech economy, has seen exports rise by nearly \$1 billion since 1992. Together with the elimination of the federal deficit beginning in 1993 and strengthened federal commitment to education, the opening world market has helped our country develop a record of:

-- Growth: Our economy has grown from \$7.0 trillion to \$9.2 trillion in real terms, during the longest expansion in American history. To put this in context, only two nations in the world other than the United States have an economy larger than \$2 trillion.

- -Jobs: We have created over 20 million new jobs, with nearly 300,000 more Louisiana men and women on the job, and Louisiana unemployment falling from 8.2% to 5.5%.
- Rising Living Standards: Hourly wages for nonsupervisory workers are up by 6.8% and poverty rates have fallen to the lowest levels in 30 years.

## CHINA WTO ACCESSION

Where do we go from here? Let me give you a look at two of our top priorities.

First, we have an exceptionally important initiative in our bilateral agreement with China on membership in the World Trade Organization. We will be asking for help and support from each member of the Louisiana delegation on it. The agreement has broad implications for reform and liberalization within China. And it is a key element in America's security interest in a stable and mutually beneficial relationship with the world's largest nation. But it is at bottom a trade agreement, and let me give you some of the highlights for Louisiana.

- China's industrial tariffs will fall from an average of 25% in 1997 to an average of 9.4% by 2005. For Louisiana's high-tech community, tariffs on computers and computer equipment will fall from an average of 13% to zero by 2005. And China will cut chemical tariffs by more than half, from a current average rate of 14.74% to 6.9%.

- In agriculture, tariffs on U.S. priority products will drop from an average of 31% to 14% in January 2004. China will also expand access for bulk agricultural products. It will create a tariff-rate quota of 743,000 metric tons of cotton, nearly four times the 1998 import total of 200,000 tons; and raise it to 894 thousand tons by 2004. For rice, China imported 250,000 tons in 1998; it will create a TRQ ten times bigger - 2.66 million metric tons - after joining the WTO. And it will double this to 5.32 million by 2004.

- Likewise in services, the agreement will open the market for distribution, insurance, express delivery, telecommunications, banking, law, accounting, engineering, construction, environmental services, and other industries.

- We also address the special and unusual characteristics of the Chinese economy with measures to address state trading; a ban on forced technology transfer; the elimination of investment policies

intended to draw jobs and technology to China, such as local content, offsets and export performance requirements. We strengthen protections for Americans against import surges from China, and we ensure that we retain strong measures to fight abusive export practices like dumping remain in .

Let me give you a case study of how it all fits together for one particular Louisiana industry. Last year, China was an important market for American crayfish farms: the Chinese bought 107,000 kilos, more than all but three other countries. But that is a pretty small figure next to the 1.6 million kilos we imported from China. And our WTO accession agreement gives us an opportunity to even the field a bit.

- First, we strengthen the guarantees American producers have that China will play fair. We create a special safeguard which crayfish producers (like auto factories, steel mills and any other industry) can use in the event of an import surge from China. And we guarantee our right to use special procedures to fight dumping.

- Then, we open China's market. We begin by cutting China's tariff on frozen and fresh crayfish from 30% to 16%, and bar China from imposing any new quotas. Then we get China to agree, for the first time in fifty years, that Chinese hotels and restaurants can import crayfish and other foods directly from the United States. And we ensure that China's border inspections will rest on scientific judgments rather than attempts to exclude our products.

So in essence, one part of the WTO agreement is a comprehensive trade agreement on trade in crayfish. We go on from it to similar agreements in every major industry, from rice and cotton to chemicals, cars, computers and all the rest. And these are essentially one-way deals: China changes its policies across the board, while we change no market access policies, amend none of our fair trade or export control laws.

But we do have one obligation. The United States must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China's commitments through WTO dispute settlement. This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China every year for the past twenty years, and which every other country but for a very few such as North Korea, Afghanistan and Serbia already have. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR. If Congress were to refuse to grant permanent NTR, our Asian, Latin and European competitors will reap these benefits but American farmers and businesses may well be left behind.

CARIBBEAN BASIN INITIATIVE

Second, and central to this meeting, we are building the framework of a more open and free western hemisphere.

Ultimately, our most important relationships are always those with our neighbors. This is true in daily life; and it is true in trade. The North American Free Trade Agreement has helped Louisiana to double its exports to Mexico and Canada over the past six years. And as the western hemisphere opens up more fully, Louisiana stands to gain millions of dollars and thousands of jobs.

So as we work to open overseas markets like China's, we are also working with our closest neighbors to our mutual benefit. This ties in very closely with events like the IADB meeting later this year in Louisiana, which help create the personal ties and specific projects that build long-term relationships. And our most immediate priority here is the enhancement of the Caribbean Basin Initiative, through passage of a law helping to strengthen our trade relationships with Central America and the Caribbean islands.

This initiative capitalizes on one of the past decade's most remarkable and positive developments, in the emergence of Central America from endemic poverty and civil wars to a new era of growth and hope. This has had, among other things, a remarkable set of concrete economic benefits for Americans: although they are small countries, the CBI countries taken together are a larger export market for Louisiana than any country but Japan.

The Caribbean Basin Initiative or "CBI", over the years, has helped to lay the foundation for this progress. By opening markets for their products, it has helped to spur investment and growth, giving the people of the region a new and broader set of economic opportunities. And our planned enhancement of CBI, including measures the Louisiana delegation has supported to ensure that regional textile exporters to the U.S. use American yarn, will help these countries maintain their competitiveness and development as a much broader project begins.

## FTAA

That is the creation of a Free Trade Area of the Americas.

This is an extraordinarily ambitious and complex initiative, bringing together all of the 34 democratic nations of the Western Hemisphere. In the largest sense, it is an effort to capitalize on a unique hemispheric convergence of values and ideas - democratic governance, free and open markets, shared

destiny. In more concrete economic terms, it is a project of growth and rising living standards for the entire Western Hemisphere. By 2005, it will create a single trade zone which includes nearly a billion people; and which deepens a trading community that already takes nearly half of all America's goods exports, and nearly \$2 billion worth of Louisiana's goods and farm products.

Over the course of the next year, we will be working out a draft text for an agreement; and that in itself is a remarkable achievement. Geography, especially if you live at the mouth of the Mississippi, makes hemispheric free trade a very logical idea. The final agreement will place Louisiana at the center of one of the world's largest and most rapidly developing trade zones in the world, creating opportunities for the state's farmers, businesses, port workers and high-tech firms.

And therefore others have thought about it before. In fact, we were discussing the hemispheric free trade concept as far back as the 1830s, when New Orleans had been American for less than thirty years and South America independent for just over a decade. But different political systems, economic ideas and misperceptions on both sides always kept the idea from moving beyond rhetoric. This is the first time in that long stretch of history when we have been able to sit down to the work itself.

We have a great deal of work ahead; and to ensure that the momentum does not flag, as we begin the policy negotiations we are also agreeing upon a series of practical business facilitation measures.

- Last year, we already agreed to immediately implement eight separate customs reforms, from ensuring that visa and customs requirements are posted on the Web to streamlined customs procedures for express shipments and commercial samples.

- This year, we hope to go further, toward such measures as adopting OECD privacy principles, electronic signatures, eliminating redundant testing and certification requirements, and ensuring duty-free cyber-space.

## CONCLUSION

Such measures will have immediate and concrete benefits for businesses, and for men and women on the job, in Louisiana and every other American trading community. And together with the negotiations underway that open markets, promote the rule of law, and develop shared prosperity throughout the hemisphere, they also reflect a broader vision that America has advanced for many years.

That is the combination of high ideals, enlightened self-interest and patient, detailed work that moves our country, our neighbors and the world towards a future of rising living standards, sustainable growth and strengthening peace.

This is not an easy vision to achieve; and in fact, nothing important is ever easy. But with support and guidance from Congress, and advice from all of you personally and directly involved in the development of hemispheric trade, we are coming closer every day.

Thank you very much, and now let me take your questions.

# China's WTO Accession: American Interests, Values and Strategy

Testimony of Ambassador Charlene Barshefsky

U.S. Trade Representative

House Committee on Ways and Means

Washington, D.C.

February 16, 2000

Mr. Chairman, Congressman Rangel, Members of the Committee, thank you for this opportunity to testify on one of the most important American trade policy goals in many years.

## CHINA'S ONE-WAY TRADE CONCESSIONS AND BROADER STRATEGIC GOALS

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

China's WTO accession is a clear economic win for the United States. Together with permanent NTR, it will open the world's largest nation to our goods, farm products and services in a way we have not seen in the modern era. Without permanent NTR, our competitors in Asia, Latin America, Canada and Europe will reap these benefits but American farmers and businesses may well be left behind. That is the fundamental choice before us as we debate permanent NTR.

But China's WTO accession also has deeper implications. Our relationship with China, given China's size and economic weight, affects all of America's foreign policy and security goals in Asia: from broad strategic interests to regional issues in Korea, Southeast Asia and elsewhere; human rights and religious freedom; weapons proliferation; environmental issues; labor rights; crime and narcotics trafficking; and many others. We have serious differences with China in a number of these issues, and have found areas of common ground as well. And we have a fundamental responsibility to develop a stable, mutually beneficial relationship in which we act upon areas of shared benefit and mutual interest. WTO accession will allow us to do so, as it complements and supports long-standing American goals in China policy:

- By helping to open and liberalize China's economy, WTO accession will create new economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by state power and control. A number of leading Chinese and Hong Kong advocates of democracy thus endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.

- By integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. It will thus, together with our military presence in the Asia-Pacific and our regional alliances, be a factor in favor of long-term regional peace.

## AMERICA AND THE TRADING SYSTEM

Let me begin my detailed review by putting the WTO accession in its historic context.

The World Trade Organization China now seeks to join has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the personal experience of President Truman and his European counterparts in Depression and War. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

But the development of the trading system has had equally important effects worldwide. As it has developed over the past fifty years, the world economy has grown six-fold; per capita income nearly tripled; and hundreds of millions of families escaped from poverty. And perhaps the best testimony to this success is that many of the new applicants to join the WTO are nations which are abandoning the postwar experiment in communist central planning.

## CHINA'S ROAD: FROM REVOLUTION TO REFORM

And that brings me to China.

With the Communist revolution, China set out upon a very different road than the one President Truman and his colleagues had charted. After 1949, it shut doors it had once opened to the world. Among its new leaders' first steps were to expel foreign businesses from China and bar direct economic contact between Chinese citizens and the outside world. Inside China were similar policies: destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of the right to object to these policies.

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: 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.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

A bipartisan American trade policy over the past thirty years has contributed to these positive trends. Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful

agreements that open opportunities for Americas. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, trade agreements in the 1980s; and to a series of more recent agreements including:

- Intellectual Property - In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property works cost our industry hundreds of millions of dollars and led to trade confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1992 and 1995, and then won further commitments in 1996 that led China to pass world-class copyright, patent and trademark laws; close the vast majority of pirate production facilities; cease the export of pirated products and significantly improve enforcement - the principal focus of the agreements.

- Textiles - Likewise, textile transshipment and market access barriers have historically been a problem in our textile trade relationship with China. While problems remain, two separate agreements, in 1994 and 1997, combined with sustained enforcement efforts by the U.S. Customs Service and the Administration, as well as imposition of triple charge penalties, have helped to mitigate these problems. The 1997 agreement, in fact, committed China for the first time to significantly reduce its textile import restrictions.

- Agriculture - Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to unscientific sanitary and phytosanitary measures. As in the cases of intellectual property and textiles, we are holding frequent consultations with the Chinese authorities charged with implementing the agreement.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done. China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only \$10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

WTO accession thus represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date. As it joins the WTO, China will do much more than reduce trade barriers at the border. For the first time since the 1940s, it will:

- Permit foreigners and Chinese businesses to import and freely into China;
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services;
- Enable foreign businesses to participate in information industries such as telecommunications including the Internet; and
- Subject its decisions in all areas covered by the WTO to enforcement, including through formal dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. China's domestic reforms have moved away from a number of policies from the era of the Cultural Revolution and Great Leap Forward. Its WTO accession will go further, helping to reform policies dating to the earliest years of the communist era: absolute government control over economic contact with foreigners, nationalization of major industries, and destruction of private local commerce within China.

Altogether, this will give China's people more access to information, and weaken the ability of hardliners in government to isolate China's public from outside influences and ideas. More deeply, it reflects a judgment -- although one still not universally shared within China or its leadership -- that prosperity, security and international respect will not come from the static nationalism, state power and state control over the economy China adopted after the war. Rather, China is more likely to gain these from the greater integration with the world, rising economic freedom at home, and ultimately development of the rule of law inherent in the initiative President Truman began in 1948 with the founding of the GATT.

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights - Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison - see WTO accession as China's most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## WTO ACCESSION AND AMERICAN TRADE INTERESTS

It also, of course, represents the achievement of specific American economic interests. While China's principal concern is the potential of WTO accession to create jobs and foster sustainable growth through economic reform, we have sought commercially meaningful and enforceable commitments that help Americans on the farm and on the job export to China, by addressing the many layers of trade barriers and policies which limit access.

The bilateral WTO agreement builds upon and consolidates reforms obtained in all our previous negotiations, and reflects our experience with the enforcement of those agreements. Clearly, to win its full benefits we must be vigilant in monitoring and enforcing compliance. And the bilateral agreement gives us all the tools necessary to do so. Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago.

## 1. Overview

First, our bilateral agreement is comprehensive. It will reduce Chinese trade barriers across the range of goods, services and agricultural products; eliminate or sharply reduce restrictions on freedom to import and distribute goods within China; address industrial policies intended to draw jobs and technology to China; and strengthen our guarantees of fair trade practices. All these reflect the ideas, advice and guidance we have received over years of negotiations from Members of the Committee and Congress as a whole.

Second, it is fully enforceable. China's commitments in all areas are specific and include timetables and final dates for full implementation. These commitments are enforceable through our trade laws, WTO dispute settlement and other special mechanisms including periodic multilateral review of China's implementation and compliance. These will, of course, require vigilance and constant commitment to enforcement by the United States as well as by China's other trading partners in the WTO. We are committed to vigorous monitoring and enforcement, and are already preparing for this through a number of different means: for example, the President's budget this year requests a tripling of the Commerce Department's budget for China trade enforcement, and an additional full-time China officer at USTR.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

Let me now offer some of the details in each major sector.

## 2. Industry

In industrial goods, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005 and bind them at these new, lower levels. It will eliminate quotas and other numerical restrictions. And it will allow American firms to import and distribute their products freely in China. This is essential, as American companies, farmers and workers need the ability to import, export and distribute goods in China to compete effectively -- rights currently denied but which will be permitted under the agreement, allowing our businesses to export to China from here at home, and to have their own distribution networks in China, rather than being forced to set up factories there to sell products through Chinese partners. Some highlights include:

Trading Rights - China will grant American companies, over a three-year phase-in period, rights to import and export most products without Chinese middlemen. Currently, the right to engage in trade (importing and exporting) is strictly limited; only companies that receive specific authorization or who import goods to be used in production have such rights. This limits not only the ability of U.S. companies to do business in China, but in particular has limited U.S. exports.

Distribution - As in the case of trading rights, the right to distribute products is critical to our ability to export successfully to China. After accession, China will allow American firms to market, wholesale, retail, repair and transport their products -- whether produced in China or imported. At present, China generally prohibits companies from distributing imported products or providing related distribution services such as repair and maintenance services. China will permit enterprises to engage in the full range of distribution services over a three-year phase-in period for almost all products.

Tariffs - China will make substantial tariff cuts on accession with further cuts phased in, two thirds of which will be completed in three years and almost all of which will be completed within five years. On U.S. priority industrial 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 low 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 by 2003 in most cases and 2005 in a few others.

Autos - China will reduce tariffs on autos from rates of 80%-100% today to 25% in 2006, and on auto parts to an average of 10% from an average of over 23%.

Wood and Paper Products - China will reduce high tariffs on wood and paper to levels generally between 5% and 7.5%. As noted below, China will also implement any sectoral APEC Accelerated Tariff Liberalization initiative adopted by the WTO in this sector.

Chemicals - China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%-35% to an average rate of 6.9%. These reductions include reductions on all priority U.S. chemical exports.

Furniture - China will reduce its current average tariff rate of 22% to 0% on all furniture items covered by the Uruguay Round sectoral initiative, by 2005.

Accelerated Tariff Liberalization -- China has agreed to implement the Accelerated Tariff 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 upon accession for top U.S. priorities including certain fertilizers and fiber-optic cable by 2002, and by 2005 in all cases.

### 3. Agriculture

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

Tariffs - China's agricultural tariffs will fall from 31% to 14% for our priority items. All cuts occur over a maximum of four years, and will be bound at the applied levels. To cite a few examples:

Current Level Under the Agreement

Beef 45% 12%

Citrus 40% 12%

Apples 30% 10%

Cheese 50% 12%

Wine 65% 20%

Beer 70% 0%

TRQs - China will liberalize its purchase of bulk agricultural commodities like wheat, corn, rice, cotton and so on, through tariff-rate quotas - that is, very low tariffs (1% for bulk commodities) on a set volume of commodities. We include in this portion of the agreement provisions to maximize the likelihood that these TRQs are filled. In particular, a portion of each TRQ is reserved for importation through private traders, and TRQs which have not been filled will be redistributed to other end-users with an interest in importing on a first-come, first-served basis. Some salient examples include:

1998 Total Imports Initial TRQ 2004 TRQ Private Share

Cotton 200,000 mt 743,000 mt 894,000 mt 67%

Wheat 2,000,000 mt 7,300,000 mt 9,636,000 mt 10%

Corn 250,000 mt 4,500,000 mt 7,200,000 mt 25%, grows to 40%

Rice total 250,000 mt 2,660,000 mt 5,320,000 mt ----

short/med grain 1,330,000 mt 2,660,000 mt 50%

long grain 1,330,000 mt 2,660,000 mt 10%

Export Subsidies - China will eliminate agricultural export subsidies. This is an important achievement in its own right, and a step toward our goal of totally eliminating export subsidies worldwide.

Domestic Support - China has committed to cap and reduce trade-distorting domestic subsidies. China also committed to provide greater transparency to make its domestic support measures more predictable.

Sanitary & Phytosanitary Standards - China will agree to apply sanitary and phytosanitary standards based on science. Among other things, this will give us additional means of enforcing the Agreement on Agricultural Cooperation and its commitment to lift longstanding bans on American meats, citrus fruit and Pacific Northwest wheat.

#### 4. Services

In services, China will open markets across the spectrum of distribution services, financial services, telecommunications, professional, business and computer services, motion pictures, environmental services, and other industries.

Grandfathering - China will protect the existing activities and market access of all service providers operating in China at the time of accession.

Distribution - As noted above, China now generally prohibits firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air 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.

Insurance - Currently only two U.S. insurers are operating in China's market. With WTO accession, China agrees to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued; progressively eliminate geographic limitations within three years; and permit internal branching consistent with the elimination of these restrictions; over five years expand the scope of activities for foreign insurers to include group, health and pension lines of insurance. For non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary permitted within two years from date of accession. For life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.

Banking - Currently foreign banks are not permitted to do local currency business with Chinese clients, and only a few can engage in local currency business with their foreign clients. China also imposes severe geographic restrictions on the establishment of foreign banks. With this agreement, China commits to full market access in five years for U.S. banks. China will allow internal branching and provide national treatment for all newly permitted activities. It will also allow auto financing on accession, and allow local currency business with Chinese enterprises starting two years after accession, and allow local currency business with Chinese individuals from five years after accession. Both geographic and customer restrictions will be removed in five years.

Securities - China will permit minority foreign owned joint ventures to engage in fund management on the same terms as Chinese firms. Minority joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade other securities (debt and equity). As the scope of business expands for Chinese firms, foreign joint venture securities companies will enjoy the same expansion in scope of business. China has also agreed to hold regular consultations with the U.S. Treasury Department under the auspices of our Joint Economic Commission with China. The purpose of this is to exchange information and assist the development of China's financial and capital market.

Telecommunications - China now prohibits foreign investment in telecommunications. With WTO accession, it 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 two 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, allowing 49% foreign investment in all services and 50% foreign ownership for value added and paging services in two years.

Audiovisual - China does not now allow foreign participation in distribution of sound recordings. Under the agreement, 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. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Other - Also covered is a broad range of other services - architecture, engineering, accounting, legal, travel and tourism, computer and business services, environmental services, franchising, express delivery and many more. In each, China has made specific, enforceable commitments that open markets and offer competitive American industries important new opportunities.

## 5. Protocol Issues

Finally, our bilateral agreement deals, appropriately, with the special and unusual characteristics of the Chinese economy. These include the high degree of state participation in the Chinese economy; a series of industrial policy measures intended to draw jobs and technology from the U.S. and other trading partners to China, such as local content, offset and export performance requirements as well as forced technology transfer; and special measures to address import surges from China and unfair export practices like dumping.

Altogether, no agreement on WTO accession has ever contained stronger measures to strengthen guarantees of fair trade and to address practices that distort trade and investment. China's major commitments in this regard include:

Import Surge Protection - China agrees to a twelve-year product-specific safeguard provision, which ensures that the U.S. can take effective action in case of increased imports from China which cause market disruption in the United States. This applies to all industries, permits us to act based on the lowest showing of injury, and act specifically against imports from China.

Non-Market Economy Dumping Methodology - China's WTO entry will guarantee our right to continue using our current "non-market economy" methodology in anti-dumping cases for fifteen years after China's accession to the WTO.

Subsidies - Likewise, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account. Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share of those benefits, the United States could take action under our unfair trade laws. The agreement also establishes that the U.S. can determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

Investment Reforms - China will reform a large number of policies intended to draw jobs and technology

away from China's trading partners. It will, for example, implement the WTO's Agreement on Trade-Related Investment Measures agreement on accession; eliminate mandated offsets, local content and export performance requirements and refuse to enforce contracts containing these requirements; and not condition investment licenses on performance requirements of any kind. All of this will make it significantly easier for Americans to export to China from home, rather than seeing companies forced to set up in China in order to sell products there.

Technology Transfer - China will abolish requirements for technology transfer for U.S. companies to export or invest in China. This will better protect our competitiveness and the results of U.S. research and development.

State-Owned and State-Invested Companies - China commits that state trading companies and state-invested enterprises will make purchases and sales solely on commercial terms, specify that purchases by these companies are not government procurements and thus are not subject to any special or different rules that could undercut the basic commitment, and provide U.S. firms the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

Textiles - Under our agreement, quotas will remain in effect for Chinese textiles as for those of other WTO members until 2005. From then until January of 2009, we will have a special safeguard enabling us to address market-disrupting import surges from China in the textile sector. This is in addition to the broader product-specific safeguard noted above.

## CASE STUDY: THE AUTO INDUSTRY

To illustrate more clearly the cumulative effect of these commitments, let me offer a case study of the present situation and the changes WTO accession will make for the automobile industry.

At present, a combination of trade barriers and industrial policies adopted to draw auto investment to China makes it virtually impossible to export cars to China. Typically, we export about 600 cars a year to China, many of them used; last year, the figure was likely below 400. This is far less than a single average U.S. auto dealership sells in a year, and fewer than the 688 motorized golf-carts we sold to China from January to November 1999. Our bilateral agreement addresses the policies which have limited our export capability as follows:

- We reduce barriers at the border: cutting tariffs from 80-100% today to 25% in 2006; forbidding discriminatory value-added taxes; and raising the current virtually prohibitive quota to \$6 billion worth

of autos and then eliminating it entirely within five years.

- We commit China to open its distribution markets and grant trading rights, ensuring that firms and dealerships in China can import autos directly from the United States, and that Americans can move their products freely within China to the areas of greatest demand.

- We open up services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their products, provide repair and maintenance, and import parts.

- We abolish certain industrial policies intended to draw auto jobs, investment and technology to China: China will abandon requirements that require firms to set up factories in China in order to sell in China, and abolish local purchase requirements and forced technology transfer.

- We strengthen our guarantees that auto production and jobs in the United States will be secure. On the import side, we include in the agreement a "product-specific safeguard" available to all industries for 12 years -- in this case, a guarantee that if auto imports from China should rise so as to cause market disruption, we can impose emergency limits; and a guarantee we will be able to employ special "non-market economy" methods of calculating and counteracting dumping for fifteen years.

- And we have enforcement mechanisms for all of these separate and overlapping commitments. This includes our own American trade laws and the WTO's dispute settlement mechanism.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, although specific features differ, in every industry of significant concern to the U.S. economy.

## ENFORCEMENT

Of course, trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China, and our trading partners in general. And with China's WTO membership, we will gain a number of advantages in enforcement we do not now enjoy.

First is the WTO dispute mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment and ultimately imposition of sanctions if necessary.

Second, of course, is our continued right to use the full range of American trade laws, including Section 301, Special 301, and our countervailing duty and anti-dumping laws.

Third, we gain substantial new leverage by creating the product-specific safeguard, as well as guaranteeing our right to use non-market economy antidumping methodologies. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China's implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 135 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 134 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China's commitments.

Fifth, the specificity of China's commitments in this bilateral agreement will help us ensure that China complies. Experience shows that agreements with China are enforced most satisfactorily when obligations are concrete, specific, and open to monitoring. Our bilateral agreement therefore includes highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor China's compliance and present clear evidence of failure to comply.

Finally, however, enforcement as in any agreement depends on U.S. commitment. We are already preparing for the monitoring and enforcement effort this will require through President Clinton's request for new enforcement and compliance resources at the USTR, the Commerce Department, USDA and other branches of government with enforcement responsibilities. The President is requesting resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and also import administration issues such as dumping and countervailing duties.

#### NEXT STEPS

As comprehensive as this bilateral agreement is, China's work to join the WTO is not yet done.

First, it must reach bilateral market access agreements with other WTO members. While it has finished such agreements with approximately 15 WTO members including Japan, Brazil, Canada and other major trading partners, it must still complete talks with the EU, India, Mexico and others. China must also complete a multilateral negotiation at the WTO, principally covering commitments on a range of WTO rules. Each of these steps is proceeding, and upon completion, should strengthen the already very strong accession agreement we negotiated.

### PERMANENT NORMAL TRADE RELATIONS

By contrast to this comprehensive set of enforceable one-way concessions on China's part, the U.S. commitment is merely to continue our present policies. Thus, the U.S.:

- Makes no changes in our current market access policies.
- Preserves our right to withdraw market access for China in the event of a national security emergency.
- Requires no changes in our laws controlling the export of sensitive technology.
- Amends none of our fair trade laws.

But we do have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin, Canadian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

### WTO ACCESSION AND AMERICAN STRATEGIC INTERESTS

From the perspective of trade policy, then, this choice is absolutely clear. China offers a set of one-way, enforceable trade concessions. In return, we are asked only to confirm the normal trade status we already grant to China; and if we do not, we run a substantial risk of permanently disadvantaging hundreds of American industries and their American workers.

From the perspective of reform and liberalization in China, the choice is equally clear. As it implements these commitments, China will become a country which is more open to the world, whose people enjoy more choices in daily life and more contacts with the outside world, and whose government in a number of important fields is more responsive to the rule of law than it is today.

But we must also look to a still deeper issue. China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21<sup>st</sup> century, and in this regard WTO accession offers us a great deal.

Our relationship with China today is free neither of deep-seated policy disagreements nor moments of tension. These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. Such a relationship, however, poses profound questions for future peace and stability across much of the earth.

We should not, of course, imagine that a trade agreement will cure all our disagreements. Rather, as the President has said, when we disagree with China we must act with candor and a firm assertion of our interests and values. But as we do so, we must also recognize how important a stable and peaceful relationship with China is -- for the world, the Chinese, and ourselves. And thus we have a fundamental responsibility to find and act upon areas of shared interest and benefit.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the search for stability in the Taiwan Strait; the environmental problems of the Asia-Pacific. And we have seen it in trade for over a quarter century.

American trade initiatives in China stretch from the end of the trade embargo in 1972 through our Commercial Agreement; the renewal of NTR for the past 20 years; more specific trade agreements in the 1980s; our support for China's participation in APEC; and the market access, textile and intellectual property rights agreements of the 1990s. Each step had a foundation in concrete American interests; but each also helped to promote reform and the rule of law within China, integrate China in the Pacific

economy, and strengthen China's stake in prosperity and stability throughout Asia.

As such, together with our network of alliances and military commitments, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession will be the most significant step in this process for many years.

## CONCLUSION

That is the fundamental meaning of this WTO accession.

It will create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy, which offers practical, concrete benefits to cities and rural areas throughout America: stronger guarantees of fairness for our working people, farmers and businesses; new export opportunities that mean jobs and growth for Americans.

It will promote deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And it will offer the prospect of a relationship with the world's largest nation which

## China's WTO Accession and Idaho Agriculture

Ambassador Charlene Barshefsky

U.S. Trade Representative

Idaho Agricultural Conference

Boise, Idaho

February 24, 2000

Good afternoon, and let me thank Senator Crapo for inviting me to speak with you today. The Senator has been a great advocate for Idaho's farmers and ranchers in trade policy, in issues ranging from our disputes with Canada to his work on barriers to wheat sales to China and many other topics. And I am honored by his invitation to speak with you today.

I would also like to offer special greetings and thanks to Governor Kempthorne. Dirk is one of our nation's real leaders on trade policy, and plays a key role in helping to develop and guide policy as a member of our Intergovernmental Policy Advisory Committee.

### USTR INTRODUCTION

Let me begin with a brief introduction of my job and the agency I head, and then turn to our central challenge for the year ahead: China's decision to join the World Trade Organization, and the implications of this event for Idaho's farmers and ranchers.

As U.S. Trade Representative, I lead one of the smallest agencies in government. We have 178 full-time employees and a budget of \$26 million; which is in fact not much more than the Defense Department spends on stationery every year. With this we address \$2 trillion in U.S. trade with the world. We monitor and enforce hundreds of agreements, on subjects ranging from cattle and wheat sales to Canada,

to opening the Japanese market to American semiconductor. And, with help and advice from Senator Crapo, Governor Kempthorne, Congressman Simpson and the Idaho Congressional delegation as a whole, we develop the American agenda for the future.

Our work rests on a philosophical belief in open and fair competition, together with strong standards to ensure protection for our consumers, workers and environment. At home we are committed to an open market which increases competition and choice; overseas, we create opportunity for American businesses, working people and farmers as we remove trade barriers, cut foreign subsidies and fight unfair trade practices.

Under President Clinton, these principles have helped us negotiate nearly 300 separate trade agreements, including five of truly historic importance: the North American Free Trade Agreement, which cemented our strategic relationship with our neighbors Canada and Mexico; the Uruguay Round, which created the World Trade Organization; and three multilateral agreements on Information Technology, Basic Telecommunications and Financial Services.

In part because of this, our country's exports grew to nearly a trillion dollars in goods and services last year, 55% more than in 1992. Idaho, with its highly competitive farmers, natural resource industries and high-tech economy, has fully joined in this growth, with exports rising by more than \$320 million since 1992.

## WTO ACCESSION IN CONTEXT

And the opening of China's market through WTO accession will allow us to go much further.

In one sense, our support for China's WTO accession is an element of our broader strategy for peace and security in the Pacific. Here, it represents our commitment to a stable and long-term relationship with the world's largest country and fastest-growing major economy: one in which we assert our values and interests when we differ, but also find and act on areas of mutual interest and benefit.

In another sense, it represents our support for reform and liberalization within China. With WTO accession, China adopts specific, enforceable commitments that together represent open markets, economic freedom, and the rule of law. These are elements of an open society, which were smashed in the years after the communist revolution and which China's current reforms have only partially rebuilt. And that is why many Hong Kong and Chinese activists for democracy and human rights see the WTO accession as the most important reform measure in the past twenty years.

But while it has these very profound implications, the WTO accession is at bottom a trade agreement. It will open China's market -- 1.2 billion people, and the world's third-largest economy -- in a way we have not seen since the 1920s.

## WTO ACCESSION AND AMERICAN AGRICULTURE

China is already becoming an important market for Idaho products, with exports more than doubling since 1997 and substantial purchases of Idaho's processed food, paper, leather and high-tech products. But with WTO accession, this can go much further.

The bilateral agreement we reached in November is our first comprehensive agreement with China. It covers not only agriculture, but manufacturing, and services industries such as telecommunications, finance, the professions and others. It includes a product-specific safeguard to help us fight off import surges, a guarantee that we can use strong measures to fight dumping, and much more. In every case, the commitments are specific and enforceable; will be implemented rapidly; and hold China to the same standard we expect of all new WTO members.

The agreement's benefits will extend to all of our industries. Semiconductor firms like Micron will see tariffs on their products fall from about 13% to zero by the year 2005, and Idaho sawmills will see China -- already the world's third largest wood importer -- cut tariffs on wood and wood products from an average of 10.6% to 3.8%. China has also agreed to join any effort to eliminate tariffs on wood products completely, and allow builders and other users to buy directly from our mills.

But no one will benefit more than America's farmers and ranchers, and Idaho's producers among them.

Our agreement opens China's market for all commodities of significant export interest to Idaho producers. It addresses all the related policies that block our exports -- value-added taxes, sanitary and phytosanitary standards, export subsidies, domestic supports, state trading, and trade in bulk commodities. And it strengthens our ability to ensure fair trade by dealing with import surges, dumping and more. To review just some of the results:

Tariffs: Beginning this year, and finishing by January 2004, China will cut tariffs on the commodities of top concern to the United States from an average of 31% to 14%. To give you a few specific examples:

- Tariffs on frozen beef will fall from 45% to 12%, and tariffs on pork from 20% to 12%.
- Tariffs on potato flour, meal and flakes will drop from 30% to 15%, and on frozen french fries from 25% to 13%.
- And Idaho's specialty producers will see similar benefits, with tariffs on lettuce falling from 16% to 10% and sweet corn from 25% to 10%.

Bulk commodities: China will set up a tariff-rate quota system for wheat, corn, cotton, soybean oil, barley, wool and wool tops, and rice that creates major new opportunities for American producers. To give you just one example, China imported 2 million tons of American wheat last year. It will set up a TRQ of 7.3 million tons, with tariffs fixed at 1%, immediately on entering the WTO. By 2004 this will rise to over 9.6 million tons. And the agreement includes specific provisions to give us every chance of making sure these TRQs are filled, for example by reserving part of each TRQ for private traders, and distributing TRQs which have not been filled to other end-users well before the end of the marketing year.

State trading, trading rights, and distribution: China will guarantee the right to import and distribute products without going through a state-trading enterprise or middle-man. Today almost no Chinese business, or foreign business operating in China, has these rights. Instead they have to ask the government's permission or request a state trading enterprise to buy for them. After this agreement goes into effect, that will change - so we can sell high-quality beef, potatoes and pork directly to hotels on the China coast, or wheat to Chinese mills.

Subsidies and domestic supports: China has committed to cap and reduce trade-distorting domestic subsidies, and to provide greater transparency to make its domestic support measures more predictable. And it will eliminate export subsidies completely.

Science-based sanitary and phytosanitary standards: China has agreed to eliminate SPS barriers that are not based on scientific evidence and no export subsidies on agricultural products. That includes eliminating unfair barriers to beef, lamb, pork and poultry, as well as to wheat from Idaho and its neighbors. We are taking a very significant step forward in this area next week, when a Chinese research team visits the United States to begin implementing the agreement which ends a thirty-year ban on wheat from the Pacific Northwest. We have also begun a discussion with the Chinese on a protocol for exporting table stock and seed potatoes to China.

Biotechnology: As we look ahead to biotechnology issues, China - a significant user of these

technologies - will be on our side against potential attempts by Europe or others to put up scientifically unjustifiable barriers to our products.

Thus our bilateral agreement addresses the full web of trade barriers in the China market. It goes from barriers at the border, to unfair restrictions on marketing within China, unscientific inspection standards and the agricultural technologies of the future. As it goes into effect, a fifth of the world population - now largely blocked from buying our agricultural goods - will become a new market for farmers, ranchers and food companies from Idaho and all over America.

### WORK REMAINING

But the work is not yet done.

First, China must complete bilateral market access agreements like ours with a number of other WTO members, including Europe. It must also complete a multilateral negotiation at the WTO, principally covering commitments on rules. These steps are proceeding.

Second, we also have one obligation. No changes to U.S. law or import policies need to be made for China to become a WTO Member: we change none of our market access policies, lower no tariffs, change none of our laws controlling the export of sensitive technologies, and amend none of our fair trade laws. But we risk losing the full benefits of the agreement we negotiated if Congress does not grant China permanent Normal Trade Relations.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China in every year since normalization of diplomatic relations in 1979, and which the vast majority of countries already have.

But the Congressional vote on permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in each other's markets. And if Congress refuses to grant China permanent NTR, we therefore risk losing the full benefits of the agreement we negotiated, including comprehensive market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

In practical terms, that means our Asian, Latin and European competitors will reap these benefits of the

agreement we negotiated, but American farmers and ranchers -- as well as other businesses from auto manufacturers, to semiconductor companies, sawmills, aluminum companies and other businesses -- may well be left behind. We can all imagine the consequences if American producers face a situation in which our competitors from dozens of other countries - wheat growers in Argentina and Canada, cattle ranchers in Australia, farmers in Europe already taking advantage of export subsidy programs - have a built-in and potentially permanent advantage in the world's largest nation. The short-term cost to farm incomes would be substantial, and the implications for the long term even greater.

## CONCLUSION

China's WTO accession is, therefore, a critical issue of incomes and livelihoods for America's farm families. It will come at a time when rural America has suffered more than its share of troubles -- from lost exports as a result of the financial crisis, to natural disasters in several parts of the country -- and many farm families are wondering how they will hang on.

For me that is reason enough to support it. But in a larger sense, the China accession is also a test of statesmanship for our country.

The WTO accession, together with permanent NTR, has the potential to create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy, creating a remarkable set of new opportunities for American farmers, ranchers and working people.

But it can also promote deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese. By speeding economic change, the agreement also has the potential to encourage China to evolve into a more open society. By advancing the flow of information, the pace of privatization, and the force of competition, this agreement will accelerate a process that is removing government from vast areas of people's lives - enabling them to farm their own lands, find their own jobs and decide their own futures - and bring the information revolution to cities and towns across China.

And it can offer the prospect of a relationship with the world's largest nation which may have moments of tension, but through which we also find common ground and strengthen hopes for peace.

That is the prospect before us. These are the stakes as Congress considers permanent NTR. And this is an opportunity our country must not miss.

Thank you very much.

## **Bridges to Peace: American Trade Policy in the Middle East**

Ambassador Charlene Barshefsky

U.S. Trade Representative

Hadassah

St. Petersburg, Florida

February 26, 2000

Good evening, everyone.

This is a very proud moment for me, as I join friends and family here tonight. Let me say to begin with how much I have always admired Hadassah. Hadassah members have been committed for nearly a century to the security and well-being of the Jewish people everywhere in the world. The organization's vision of charity, goodwill and peace for the Middle East; its faith in civic involvement; and the opportunities it has always offered to young people, make Hadassah the world's leading Jewish women's group today and will do so for many years to come.

### **PROGRESS TOWARD PEACE**

This work has continued without a break for nearly ninety years. It has been marked by idealism and accomplishment at every point. And as Hadassah enters its second century, we are living through perhaps the most remarkable period since the foundation of the State of Israel fifty-two years ago.

In the short years during which I have served in the Administration, we have seen more progress towards peace -- uncertain and marked by reversals and disappointed hopes as it often is -- than anyone might have imagined. As Martin Indyk, our Ambassador to Israel, says, "peace between Israel and all her neighbors is in sight."

Since the Declaration of Principles in Washington in 1993, we have seen Israel and Jordan create a strong and stable peace. A process of negotiations with the Palestinian Authority has proceeded from the interim agreement through the Wye Protocol, always marked by difficulty and tension, but also consistently moving forward. We have even seen the opening of negotiations with Syria, for so many decades a militarized, rejectionist state.

We should never overstate the positive of course, nor mistake current trends for permanent peace. There is much work to do and difficult decisions ahead in Israel's negotiations with its neighbors. And not much further away, other nations maintains a hostility to Israel which has not lessened in the slightest.

### ADMINISTRATION PRINCIPLES

But while we should be realists, we must not be cynics. And our Administration will work as vigorously as it can to help transform today's positive trends become long-term, stable realities.

This begins with a fundamental commitment to the security of Israel, which all American Administrations have shared; and it includes this President's personal commitment - over the past seven years and for every day remaining in his Administration - to work with all the parties in the peace process to help them facilitate peace.

The work we do in trade policy, of course, has only a modest role in this. But as time goes by, and if the commitment to peace in the region continues to grow, our contribution can become greater. And that is because the foundation of an enduring peace must be more than agreements between governments: it must rest just as firmly on shared interests, shared values when possible, and the bridges created by human exchange, including cultural areas, tourism, student exchange programs and the world of trade and investment.

### U.S. TRADE POLICY PRINCIPLES

Let me begin with some thoughts on American trade policy more generally.

Our modern trade policy rests on a commitment to open markets under the rule of law: as, most immediately, a means of fostering growth and rising living standards, but more fundamentally as a support to peace. We can date the establishment of this policy in essence to the Administration of Franklin Roosevelt. To quote one of his wartime Fireside Chats, looking ahead to the task of reconstruction:

"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."

This vision in turn was put into action under President Truman, with the foundation of the General Agreement on Tariffs and Trade at the beginning of 1948 - a few months before Truman also took the historic step of recognizing the new State of Israel. And since then, we have tried to build up a system in which trading nations rely on law and contract rather than on coercion in good times; and in moments of crisis, the world has a shield against the fears that can lead to cycles of protection and the "beggar-thy-neighbor" policies of the 1930s. And as countries trade more with their neighbors, they gain an interest in prosperity and stability beyond their borders, strengthening the chances of peace.

When the work began, our postwar leaders faced a world fragmented and impoverished by the Second World War; the communist experiment in Russia and soon China; and the older economic divisions among the Allies created after World War I through the colonial preference schemes of Britain and France, and then the American Smoot-Hawley tariffs of the Depression era. And slowly but steadily, as one region after another has committed itself to the principles of the trading system, peace and stability have strengthened - first in Western Europe; then Southeast Asia; most recently Latin America and Central Europe.

## TRADE POLICY IN THE MIDDLE EAST

The Middle East, unfortunately, has been one of the regions least willing to participate in this work. And thus it appears today much like a smaller version of the world economy of the 1930s.

The region is deeply fragmented, most of all because of the boycotts and isolation Israel's neighbors imposed on it fifty years ago, but also because the countries of the Middle East retain high trade barriers which close their economies to one another and to the outside.

To reduce these barriers and promote a greater degree of integration, both within the region and with the outside world, would be to strengthen the stake that Middle Eastern governments would have in peace and regional stability. And that, in essence, is what our trade policy in the Middle East aims to do, by promoting regional economic integration and growing trade and investment relationships among Israel and its neighbors.

## U.S.-ISRAEL FREE TRADE AGREEMENT

The foundation of this work is our economic relationship with Israel, embodied in the U.S.-Israel Free Trade Agreement of 1985. This agreement was our first FTA with any foreign country, predating Canada and Mexico by four years and Mexico by eight. Since it went into effect, our bilateral trade with Israel has quintupled, rising from \$3.5 billion in 1985 to a likely \$17 billion last year. And both sides are winners.

Our \$7 billion in exports to Israel -- everything from aircraft to pharmaceuticals, scientific equipment and even \$100 million worth of oil -- includes \$120 million worth of Florida's high-tech products, capital equipment, telecommunications equipment and other products, thus supporting a likely two thousand Florida jobs.

Israel has done just as well - in fact, slightly better, with our imports from Israel at \$8 billion in 1998, and passing \$9 billion last year. This makes us a larger market for Israel than the European Union. Israel sells us everything you can imagine, and some things that might surprise you. While last year's trade statistics are still incomplete, our imports from Israel from January to November 1999 included at least:

- \$4 billion worth of diamonds, nearly half of all America's diamond imports;
- 2.5 million kilograms of hot peppers and 500,000 kilograms of parsley;
- \$1 billion worth of electronics and more than half a billion dollars worth of X-ray tomography machines, optic fiber, lasers, microscopes and other scientific and medical equipment;
- 2.5 million Bibles

- 10 million kilograms of rope and fishing line, \$50 million of inorganic chemicals, and 350,000 pounds of zinc;

- 23 million greeting cards, 12,000 umbrellas and 128,000 sets of drums.

Each of these drumsets, x-ray machines and pounds of zinc mean jobs; new opportunities; and long-term relationships and personal ties that help to cement the enduring links between our governments. With that, of course, comes the occasional disputes we have with any trade partner.

We are working hard, for example, to help Israel improve its intellectual property protection, as this will both protect American rights and help Israel's technological base advance more rapidly.

We look for Israel to develop a more open agricultural market and apply its regulations fairly and evenly.

And we feel the "access fees" Israel's telecommunications carrier charges are a little unreasonable, forcing Americans and Israelis to pay a four-cent per minute fee for all international phone calls, and a seven-cent fee for calls to the United States and Canada. This is a significant burden especially for young people spending the summer in Israel, but also for people simply looking to spend a few minutes with friends and family.

But these types of disputes are quite typical of any major trade relationship. And on the whole, both of us can be very proud of the work we have put in over the years to make it a success.

### QUALIFYING INDUSTRIAL ZONES

The story of our diamond trade is especially interesting in several ways. It is in part a result of the Russian emigration to Israel of the past decade, which has led Israel to become a center for the finishing of Russian gems - many of the diamonds we import from Russia are mined in Russia, cut in Israel, and then sent to jewelry stores in the United States.

Russian emigration, of course, also brought Israel one of the most remarkable figures in modern Jewish history: the extraordinary Natan Sharansky, the former Soviet dissident and human rights activist. And it was my great privilege of working with him as Trade Minister in the Netanyahu government to begin a project that has continued under Prime Minister Barak. That is, the development of our strong existing trade relationship into something still broader.

Sharansky saw the same potential in trade integration that we have: trade and investment, as he put it, are both "the fruits of peace" and the human ties that make peace agreements last. He recognized the potential of trade to cement peace, and acted on this insight in the aftermath of the peace agreement with Jordan. The late King Hussein of Jordan had precisely the same insight; and we were of course enthusiastic about the prospect as well.

And thus, almost exactly two years ago, I joined Minister Sharansky and Minister Mulki of Jordan to formally inaugurate what we call a "qualifying industrial zone." This was an industrial project called the Irbid Park, half of which is in Israel and half in Jordan, whose products receive duty-free treatment when they enter the United States.

At that time, the Irbid Park employed about 1100 people, at eight factories making clothing, watches, telecommunications equipment and other goods. Within a year it outgrew its original boundaries to include more than fifty factories, including a textile factory with a direct American stake. We had predicted employment might grow rapidly to 1700 workers; but today Irbid employs more than 4,000 people. As Minister Sharansky said, with the Irbid project "the fruits of peace are evident to anybody with eyes to see and ears to hear."

Since then we have expanded the Irbid zone further, created a second called the Gateway Project a year ago, and then three more last year. This year we are working toward creation of two new zones, one of which will be in Aqaba-Eilat, on both sides of the border. And we are looking ahead, with the support of King Abdallah and Prime Minister Barak, to broader initiatives that will further strengthen the Jordanian economy; help us develop stronger trade ties with countries committed to peace; and set an example for the region which shows the practical benefits of peace in terms of rising living standards, job creation, and better lives.

## LOOKING AHEAD

Irbid and the Gateway Project are, in essence, examples of what the Middle East should be. Israelis and Arabs are working together; prospering together; building a future together. As they do so, common interests are growing, international understanding deepening; and peace strengthening. And as we look further ahead, we may find new opportunities.

The region's economic isolation, generated by the historical suspicion of many of Israel's neighbors to both Israel and the west, is beginning to relax. The Gulf Cooperation Council countries have abandoned their secondary and tertiary boycott of Israel altogether. And Israel has opened commercial contacts with all but a very few Arab countries, including the establishment of trade offices with Morocco, Tunisia, Oman and Qatar.

A number of Arab countries are at the same time reforming their economies. As they do so, we are working with several of them toward membership in the World Trade Organization. Jordan is the most advanced of these and will enter very soon, but we have also made a great deal of progress with Oman and held productive discussions with Saudi Arabia. And we have begun a program of bilateral agreements, including Trade and Investment Framework Agreements and Bilateral Investment Treaties, with such countries as Egypt, Morocco, Tunisia and Bahrain.

Altogether, these trends hold out the hope of a far more open region; in which Arab countries interact more freely and openly with one another, with Israel and with the outside world. And thus, one in which the entire region gains new sources of hope, growth and therefore political stability.

Israel's role in this future would be central. Israel's strengths in science and technology, higher education and management make it a natural center for economic development, integration and growth throughout the region. Together with resource-rich nations like Syria, Turkey and the Gulf States, and with labor-intensive countries like Egypt, these strengths can help to create a Middle East entirely different from the region we see today: a region prosperous, at peace, and able to offer the world lessons in overcoming legacies of violence and frustration.

## CONCLUSION

We must not, of course, be naively optimistic. The current peace negotiations are complex and difficult; and beyond them, the Middle East still includes some of the world's most belligerent and benighted governments. So it is all too easy to imagine a future much like the past, dominated by fundamentalists, demagogues and tyrants; in which war is a constant threat; and in which the hopes of ordinary people for freedom from fear remain simply hopes.

But if you look ahead and if - as Hadassah members have been for 90 years - you are a bit of an optimist, you can see that if peace and trust are not inevitable, neither are suspicion and war. What leadership and vision are creating for Israel and Jordan today, we may someday help create for the Middle East as a

whole. As in the small projects Natan Sharansky and King Hussein began in 1998, this would be a future in which Israelis and Arabs live together; work together, and build a peaceful future together.

That was, of course, the hope that Herzl and Weizmann and Hadassah's founder Henrietta Szold had for the Middle East. It is a dream deferred; and its realization today remains uncertain. But it was then and it remains now, as the new century opens, a possible dream.

Thank you very much.

## China's Wto Accession in American Pacific Strategy

Ambassador Charlene Barshefsky

U.S. Trade Representative

The Asia Society

New York, NY

February 29, 2000

Good afternoon, everyone, and thank you all for coming.

Let me express my special gratitude to the Asia Society and Carl Spielvogel for this Leadership Award. I am grateful not only for myself but because, in providing me with this recognition, America's premier association for the study of Asian politics, culture and economic affairs also recognizes the hard work of our China negotiating team over many years. And I also very much appreciate the chance to offer you some thoughts and exchange ideas on one of the most important American trade and foreign policy goals - China's accession to the World Trade Organization and permanent Normal Trade Relations status.

### ONE-WAY CONCESSIONS

In the most basic sense, when we consider China's WTO accession and permanent Normal Trade Relations, we are facing a clear choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access

policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so; but we must also think about the wider implications.

China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21<sup>st</sup> century. And our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4<sup>th</sup> century B.C., such a relationship poses profound questions for future peace and stability across a vast section of the earth:

"Eagles do not flock together like birds of lesser wing;

thus it has been since ancient times.

How is the round to fit with the square?

How can different ways of life be reconciled?"

Such questions dominate our China debate today. And many thus ask why we would proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. It is fair -- I believe necessary -- to judge the WTO accession in light of these questions as well. And we can begin by tracing back to its origin the institution China now seeks to join.

## AMERICA AND THE TRADING SYSTEM

Today's World Trade Organization has its roots in the General Agreement on Trade and Tariffs, or GATT. And its creation in 1948 reflected the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war.

One of the failures they had seen in the 1930s was the inability of global leaders to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which had deepened the Depression and contributed to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

Thus the GATT was one in a series of related policies and institutions that have served us well for nearly six decades:

- Collective security, reflected by the United Nations, NATO and our alliances with Japan, South Korea, and other Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

The work they began in 1948 has continued for over fifty years; and their faith in freedom, open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. In these years, the world economy grew six-fold. Per capita income nearly tripled. Hundreds of millions of families escaped from poverty. America, as the world's largest exporter and importer, benefits perhaps most of all. And together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, the work of trade policy has helped to make the world substantially more prosperous, stable and peaceful than before.

## CHINA FROM REVOLUTION TO REFORM

China, of course, took a very different road.

With the Communist revolution in 1949, it shut the doors it had once tentatively opened to the world.

Among its new leaders' first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies - destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. And all this had international effects as well: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, the commitment of our postwar leaders to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China's rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China's domestic reforms since the 1970s have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. Reform has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and enabling private business to revive in villages and cities. A number of earlier policies, notably bans on foreign investment and private export trade, have been substantially relaxed although not abandoned entirely.

American trade policy over 30 years has worked together with this advancing domestic reform, to create trade opportunities for Americans as China's market began to open and support the efforts of reformers within China. This has been bipartisan and consistent, from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; the renewal of NTR ever since; our support for China's APEC membership; and most recently a series of more detailed agreements on market access, intellectual property, textiles and agriculture.

## RESULTS TO DATE

Each of these steps has been taken with specific and concrete American trade interests in mind. But each has also helped to create new opportunities for Americans, support Chinese domestic economic reform, promote the basic concepts of the rule of law, and integrate China into the Pacific regional economy.

The results have been profoundly positive. In an economic sense, of course, reform and foreign investment have helped 200 million Chinese men and women escape from poverty; for our part, we always benefit from reduction of poverty overseas, as demonstrated in the Chinese case by America's \$10 billion in export growth since our commercial agreement. But China's economic opening has helped

to foster advances that go beyond simple material gain.

Within China, much of the political system remains repressive and authoritarian. This is detailed in comprehensive form by the State Department's Human Rights Report; it is why we once again are sponsoring a resolution in the UN Human Rights Commission condemning China's human rights record, and why we have sanctioned China as a "country of particular concern" under the International Religious Freedom Act.

But it is also fair to note that as reform has proceeded, respect for a number of basic rights and liberties cited in the Universal Declaration has grown. This is true with respect to property rights, with farmers able to farm their own land, entrepreneurs able to start businesses, and families able to pass on their property to their children; openness to information, with Chinese citizens able to listen to foreign radio and TV and more recently to access foreign web-sites; and some aspects of freedom of association, as Chinese meet and exchange ideas with foreigners as well as people from Hong Kong and Taiwan.

And China has become a more integrated, responsible member of the Pacific community. With reform and opening to trade, Japan, South Korea and the ASEAN states became China's customers and investors; concurrently, China moved away from the revolutionary foreign policy of the 1950s and 1960s. While we at times differ with China on issues as profound as stability in the Taiwan Strait and weapons proliferation, we also recognize that China plays a positive, stabilizing and important part on issues as various as the maintenance of peace in Korea, the Asian financial crisis and its role on the U.N. Security Council.

## CURRENT TRADE BARRIERS AND ECONOMIC CHALLENGES

But reform remains incomplete.

Some policy legacies of the 1950s remain in force: bans on foreign participation in the information industries; control over economic contact with foreigners; and restrictions on the ability of both foreign and Chinese businesses to distribute their products and trade with one another. Others are only partly reformed - foreign companies may now invest in China, but lose the right to import the parts they choose and market their products as they see fit. Beyond this, China's trade barriers remain very high, and have been joined by newer industrial policies requiring that investors transfer technology, purchase parts only from Chinese sources, and so forth, which work together to prevent exports and force investment, employment and technology into China.

Thus our \$10 billion in export growth since 1980, while substantial, is far less than our export growth to Europe, China, South Korea, the ASEAN nations, Canada, Mexico or Taiwan over the same period. And China's external and internal trade barriers block not only American exports but - as China's senior leaders realize - have led to corruption and economic inefficiencies which block China's own prospects for sustainable growth, job creation and technological progress.

## THE WTO ACCESSION

The WTO accession will help both countries address these problems, through a comprehensive set of commitments covering the range of industrial goods, services, farm products and unfair trade practices; and addressing all major barriers to American exports. Under the bilateral agreement we reached last November:

China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005, with tariffs for information technology products falling to zero; auto tariffs dropping from 80-100% to 25%; and on across the spectrum of industries.

China will also eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose, free of requirements to go through government middlemen.

In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. China will also expand access for bulk agricultural products such as wheat, corn, cotton, rice, soybean oil and others, through tariff-rate quotas that offer dramatic opportunities to producers of these products and permit for the first time private trade in these products. It will also end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base border inspections on science.

In services, China's markets will open for distribution services, telecommunications, financial services, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. In fields such as distribution, telecommunication and several others, this represents the first opening to direct foreign participation since the 1950s.

And the agreement strengthens protection of American workers and businesses against import surges and unfair trade practices. It addresses state enterprise policies, prohibits forced technology transfer as a

condition of investment, and eliminates local content, offsets and export performance requirements. It provides, for 12 years, a special product-specific safeguard to address market-disrupting import surges from China. And it guarantees our right to use special non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

All of these commitments are fully enforceable, through our trade laws, through WTO dispute settlement, through periodic multilateral review of China's adherence as well as multilateral pressure from all 135 members of the WTO, through increased monitoring by the U.S., with the President's request last month for a tripling of funds for China compliance and enforcement in his budget last month, and of course through other mechanisms such as the special anti-dumping and anti-import surge remedies.

Results under the agreement will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

And the work ahead for China -- bilateral market access agreements with several other WTO members, most notably the European Union, and a multilateral negotiation on additional rules - should strengthen the already very strong accession agreement we negotiated.

#### PERMANENT NORMAL TRADE RELATIONS

By contrast to this historic set of commitments, we do very little. We make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our fair trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

Permanent NTR, in terms of our policy toward China, is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

## WTO ACCESSION AND CHINESE REFORM

And the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

Just as our role in the foundation of the GATT was closely linked with the Universal Declaration on Human Rights and our postwar alliances -- and just as China's economic isolation in the early years of the Cold War contributed to domestic repression and international upheaval -- China's WTO accession today will help us as we consider broader questions of human rights and security. As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. They reform policies dating to the earliest years of the communist era. They will give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather the economic opening to and engagement with the world and ultimately development of the rule of law inherent in the initiative President Truman began in 1948.

The WTO accession, therefore, has potential beyond economics and trade. It can serve as a foundation for the rule of law within China; and as a precedent for willingness to accept and abide by international standards of behavior in many other fields. That is why many Hong Kong and Chinese activists for democracy and human rights - Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison - see the WTO accession as China's most important step toward reform in twenty years. It is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

### WTO ACCESSION AND AMERICAN STRATEGY

And it is why WTO accession forms part of the answer to the profound question posed by Qu Yuan 2300 years ago, with respect to the ways in which our very different countries can find the accommodations necessary to peace and stability.

We should never imagine that a trade agreement will cure all our disagreements. And when we disagree with China we must act with candor and firm assertion of our interests and values - as we did when China fired missiles into the Taiwan Strait four years ago; as we are doing at the UN Human Rights Commission a few blocks away. But this is only part of our approach; as Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20<sup>th</sup> century:

"We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights."

In this spirit, we recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon areas in which we share interests and benefits. We saw this responsibility clearly in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the environmental problems of the Asia-Pacific; and, for over a quarter century, in trade.

Each step since the lifting of the trade embargo has rested upon concrete American interests; helped to promote reform and the rule of law within China; and integrate China in the Pacific economy. Thus, each step has strengthened China's stake in prosperity and stability throughout Asia. Together with our network of Pacific alliances and military commitments, in tandem with our advocacy of human rights,

and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world.

And China's WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process for many years.

## CONCLUSION

And so, if we have the confidence and the wisdom to make the right choice in the debate ahead, we will open an extraordinary set of possibilities.

A new and fundamentally improved trade relationship with the world's largest country, which offers practical, concrete benefits to communities throughout America: stronger guarantees of fairness for our working people and businesses; new export opportunities that mean jobs and growth.

A decisive step toward deeper and swifter reform within China, strengthening the rule of law; offering new opportunities and hope for a better life to hundreds of millions of Chinese; and making China a country freer, more open to the world, and more responsive to the rule of law than it is today.

And a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us. These are the stakes. And that is why I ask for your support as we pursue permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.

## **U.S. TRADE POLICY AND THE TRADING SYSTEM**

Prepared for Delivery

Ambassador Charlene Barshefsky

U.S. Trade Representative

School of Advanced International Studies

Washington, D.C.

March 2, 2000

Thank you very much. I am very pleased to be here with Dean Wolfowitz, for so many years a leading light in American foreign affairs and national security. Equally, I am very happy to meet and exchange ideas with so many of the young men and women who will guide our country as activists, analysts and policymakers in this new century.

This morning, we are proud to release President Clinton's "Trade Policy Agenda" report to Congress. The report looks back on the record of the past seven years; and ahead to lay out the trade agenda at the beginning of a new century. As Congress has directed, we also include in this report a special five-year review of our work at the WTO. Today I would like to highlight this report with some thoughts on the trading system, its importance to us historically and today; and its role as we look ahead to a 21<sup>st</sup>-century world economy not only more open and prosperous but more just and sustainable.

### **AMERICAN TRADE PHILOSOPHY**

Our work at the WTO, to begin with, has rested upon a foundation laid down under President Franklin Roosevelt of American commitment to open markets, freer trade, and the rule of law in world commerce.

Americans have taken this position, in one sense, as a matter of clear economic logic. Open markets abroad offer us opportunities to export, and exports are essential to a strong domestic economy. Almost 80% of world economic consumption, and 96% of the world's population, is outside the U.S.; foreign tariffs and other trade barriers are substantially higher than ours. As markets open more fully to Americans, farmers will face less risk of gluts that drive down prices, workers will see opportunities for higher-wage employment, and firms will gain economies of scale that help them invest in plants, jobs, and research.

Open markets at home are equally important. Imports create the choice, price and competition that raise family living standards -- for all families, but most especially the poor -- and help to dampen inflation. Accompanied by commitment to education and job training, imports help American workers specialize in the most technologically sophisticated and financially rewarding fields. And they give businesses access to inputs -- raw materials, parts, business equipment -- that reduce costs and thus improve efficiency and competitiveness.

But our trade policy has had implications going beyond economics to broader aspirations; and to understand why we must trace today's World Trade Organization back to its beginnings.

## **DEVELOPMENT OF THE TRADING SYSTEM**

The WTO has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the lessons President Truman and his counterparts in 22 other nations -- the World War II Allies, a number of Latin American countries, a few Asian nations -- drew from personal experience in Depression and war.

In the 1930s, they had seen a cycle of trade protection and retaliation, beginning with the Smoot-Hawley Tariff in the United States and continued through European colonial preference schemes, which had cut global trade nearly 70%. Within a few years, the world was transformed into something like a series of island economies, deepening the Depression, intensifying political tensions, and contributing to the political upheavals of the era.

Eighteen years later, Truman and his colleagues believed that by reopening world markets they could restore economic health and raise living standards; and that, together with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen. Thus the foundation of the GATT was one in a series of related policies

and institutions that have served us well for nearly six decades:

- Collective security, reflected by the United Nations, NATO and our alliances with Japan, South Korea, and other Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

Together, these made up a coherent vision of a peaceful and open world; a vision which over half a century of experience has fully vindicated.

Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era. We brought down barriers between the Allied nations, to the point where over a billion dollars worth of goods and services crosses the Atlantic every day. We brought Japan and Germany back into the world economy; responded to the end of colonialism; and have now turned to the great task of support for reform and integration in Russia, China, Central and Eastern Europe, Indochina and other nations breaking with strict communist planning to return to the market.

If we take the long view, we see that the opening of world markets has helped to foster a fifty-year economic boom. Since the foundation of the GATT, the world economy has grown six-fold; per capita income nearly tripled and hundreds of millions of families escaped from poverty. And social progress in this era reflects this growth. As families and governments have gained the resources to improve health, invest in education, protect the environment and advance other social goals, life has improved nearly everywhere in the world: since the 1950s, world life expectancy has grown by twenty years; infant mortality dropped by two-thirds; famine receded from all but the most remote or misgoverned corners of the world.

Weighed in the most profoundly important scale of all, the trading system, together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, has helped to make the world substantially more prosperous, stable and peaceful than before.

## **THE WORLD TRADE ORGANIZATION**

This is the legacy we inherited seven years ago. It is the legacy we built upon through the Uruguay Round of negotiations to create a trading system that does more to open markets; to strengthen the rule of law; to create opportunities for technological advance; to support reform in nations moving away from communist planning; and to make our people more prosperous and secure. That is today's World Trade Organization; it is an institution of fundamental and irreplaceable value for the United States; and let me touch upon each of these areas for a moment.

## 1. Opening World Markets

To begin with, through completion of the Uruguay Round -- a monumental negotiation lasting eight years, and suffering three breakdowns before its completion in 1994 -- we took a GATT system less and less able to meet the demands of a more integrated, technologically progressive world; and fundamentally reformed, updated and modernized it to create the WTO.

Thus, the Uruguay Round continued a tradition of opening markets and creating opportunity worldwide. It eliminated quotas and cut industrial tariffs by a third. It broadened the commitments of its members to areas the GATT covered only partially or not at all, notably agriculture, services and intellectual property rights.

And the work is not done: as commitments phase in, we are moving on to the negotiating agenda of the next decade. Its core elements are before us, in the agreement last month to open global talks on agriculture and services. These are the sectors in which markets remain most distorted and closed, and in which the opening of trade will mean perhaps most to future prospects for rising living standards, technological progress, and sustainable development. And in each of them we have set ambitious goals.

Beyond these negotiations, we have pressing needs to address market access concerns in industrial products, electronic commerce, trade facilitation, and other topics as well. One especially important, and universally recognized, need is for the WTO's wealthier and more advanced members to open their markets more fully to the products of the poorest and least developed nations, and for the WTO as a whole to ensure that these countries can take full advantage of existing market access opportunities, and to fully assert their rights and interests in the policy work of the system. Thus, while there are a number of different options for proceeding with trade liberalization beyond the agricultural and services sectors, we are continuing our work to build consensus for a new, more broadly based Round.

To build international consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink their negotiating positions, focus more fully on the

shared benefits of the trading system in creating new sources of growth and opportunity and the shared responsibilities of reaching these goals, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, and expect our trading partners to do the same.

## **2. Strengthening the Rule of Law**

At the same time, by creating the WTO we strengthened the rule of law. We took a GATT system with a limited set of essentially unenforceable rules that applied differently to different members, and created a more comprehensive set of rules which are enforceable and apply to every single member. Together with this are an array of oversight bodies which we use to monitor the commitments our trading partners have made, identify potential problems, and offer technical assistance or other expertise when necessary to help ensure compliance and implementation of commitments.

And we also created a strong dispute settlement mechanism which we have used in 49 cases to preserve and enforce our rights. The cases in which we have been involved, of course, have helped us to advance concrete American trade interests. But beyond this, they have helped us to confirm basic principles: that all WTO members must keep their commitments; that trade policies must be nondiscriminatory; and that we and other trading nations have a fundamental right to set the highest standards of environmental protection and consumer safety.

## **3. Building The 21<sup>st</sup>-Century Economy**

In the WTO we also created a permanent forum in which governments find new areas of shared interest and benefit. And we have used this in the past five years to reach four agreements of central importance to technological progress, growth and rising living standards in the 21<sup>st</sup> century. These are:

- The Information Technology Agreement, eliminating tariffs on \$600 billion worth of trade in high-tech manufactured goods such as computers, semiconductors, computer equipment, integrated circuits and telecom equipment, and so forth, on which we are now building toward an ITA II with still broader product coverage;

- The Agreement on Basic Telecommunications, opening world markets in a sector dominated for 60 years by monopolies and promoting pro-competitive regulatory principles. In just two years, it has eroded the ability of dominant carriers in foreign countries to keep rates artificially high and depress

demand for telecommunications services and electronic commerce, helping to bring down rates to levels as low as 10 to 20 cents per minute, for calls between the U.S. and countries such as Japan and Mexico;

- The Financial Services Agreement, covering nearly \$60 trillion in financial transactions -- a figure half again as great as total world GDP -- per year, which has already helped U.S. services suppliers expand commercial operations and find new market opportunities through both ownership of or investment in foreign banking institutions, brokerage and insurance sectors, and through cross-border trade.

- And the WTO's commitment in 1998 to "duty-free cyberspace," helping to ensure that electronic commerce develops freely as a means to promote trade, strengthen the power of consumers, and help the most impoverished and remote regions take advantage of world markets.

#### 4. End of the Cold War

The WTO has also been of cardinal importance in our response to one of the greatest political challenges of the present era. That is the end of the Cold War, with the opportunities it creates for a more stable and enduring peace; and the questions it raises about the future course of some of the world's greatest and oldest nations.

This is a task for our time whose consequences will be as great as those of the GATT's reintegration of Japan and Germany in the 1950s. Ten years after the fall of the Berlin Wall, nations which have completed the transition from communist planning systems to the market -- Poland, Hungary, the Czech Republic - attest that the open markets, economic engagement with the outside world, transparency, and rule of law WTO membership promotes are also those which help reform succeed at home. As Poland's Trade Minister has said:

"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... Our participation in the GATT/WTO framework has helped to consolidate the reform."

This is work of great complexity: the transition economies have chosen different paths, some emphasizing political change and others delaying or hoping to avoid it. Thus it is a task which proceeds slowly and with occasional setbacks. But it is also achievable and well underway. Since its creation in 1995, the WTO has admitted six transition economies: Slovenia, Bulgaria, Mongolia, the Kyrgyz Republic, Latvia, and -- ten years to the day after the fall of the Berlin Wall -- Estonia. Georgia will enter

soon; and the accessions of Albania and Croatia are almost complete. We have made significant progress with Armenia, Lithuania and Moldova; and held fruitful discussions with Russia and Ukraine as well.

And in our recent bilateral agreement on WTO accession with China, we have an opportunity of vast consequence for the world's future peace and stability. This is a comprehensive agreement covering agriculture, services, industrial goods, unfair trade and investment practices and other rules, with specific and enforceable commitments that phase in rapidly in each area. Together with extension of permanent Normal Trade Relations, it will open China's markets in a way unprecedented since the 1940s, creating new opportunities for American farmers and businesses as it strengthens our guarantees of fair trade. And perhaps still more important is its potential beyond trade.

Within China, the WTO accession will support reform. China's commitments will alter policies dating to the earliest years of the communist era. They give China's people more access to information, and weaken the ability of hardliners to isolate China's public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared within the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the 1949 revolution; but rather the economic opening to the world and ultimately development of the rule of law inherent in the initiative President Truman and his colleagues began a year earlier.

And internationally, the WTO accession will deepen and speed a process of integration that has helped China become a more integrated, responsible member of the Pacific community. Over thirty years, as China has reformed its economy and opened to the world, its stake in the region's stability and prosperity has grown. At the same time, China's economic reforms have helped to move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and as a member of the UN Security Council. And the WTO accession will be the most important step in this process in twenty years.

## **5. Prosperity and Economic Security**

Finally, of course, the WTO has been an institution of great practical economic benefit to Americans and to our trading partners.

We see this in our own economy, as the opening of world markets has helped to catalyze a 55% expansion of American goods and services exports since 1992, to a record total of \$958.5 billion last year, as our two-way trade grew by nearly \$1 trillion. Together with -- and inseparable from -- domestic policies including fiscal discipline and investment in education and job training, the opening of world

markets has contributed to a remarkable record.

If I can run off a few statistics: we have seen \$2 trillion in economic growth, during the longest economic expansion in American history; the creation of nearly 21 million new jobs; a \$400 billion expansion in our manufacturing industry; wages for non-supervisory workers up 6.5%; and broadly shared benefits, with poverty rates at the lowest levels since 1979, and unemployment at record lows for women, African-Americans and Hispanics. And just as important as these positive figures is what Arthur Conan Doyle in one of his Sherlock Holmes stories called "the dog that didn't bark."

That is, in the Asian financial crisis of 1997-99, with 40% of the world in recession and five major Asian economies contracting by 5% or more, the world faced a crisis unlike any since that which sparked the great Depression in the 1930s. The temptations to open a cycle of protection and retaliation like of the 1930s were equally great. Instead, WTO members generally remained true to their commitments; affected nations had the access to markets necessary for a speedy recovery; and the political strife that can erupt in economic crisis never emerged.

This is a remarkable tribute to the work of the past seven years, and the foundation of the past fifty as well: the world in the 1990s passed a test it failed sixty years earlier. And if the GATT founders were here to see the results of their work, they could be forgiven for taking considerable pride in it.

### **CIVIL SOCIETY CONCERNS**

But with this accomplishment come new challenges. In particular, the growing concerns of civil society about the world economy, and the WTO's responsibility to develop means to address these concerns, are now central.

In his essay "The Two Cultures," the British author and physicist C. P. Snow wrote of his surprise at how little his literary and scientific friends had in common: those who did research had read no Shakespeare; those who wrote could not identify the Second Law of Thermodynamics. As Snow wrote:

"The clashing point of two subjects, two disciplines, two cultures ought to produce creative chances... The chances are there now. But they are there as it were in a vacuum, because those in the two cultures don't talk to each other."

That is not so far from the divisions which confront us today on the world economy. One group of people points to its blessings: the sharp increases in world per capita income, the more rapid growth and technological progress; rising literacy rates, growing life expectancy and falling infant mortality rates in virtually all nations that participate in trade.

But another points to questions that concern all of us: the 250 million children working overseas today, tens of millions of them in exploitive conditions up to and including slavery; growing threats to fisheries, biodiversity, the climate and other environmental resources; and the fact that less-skilled and less-educated Americans and others are struggling in an economic golden age.

## **THE ROLE OF THE WTO**

Neither of these views is entirely wrong; both must be respected and addressed if we are to bring the work of the past fifty years successfully into a new century.

### **1. Quality of Life**

And as we approach the task, we can draw important lessons from our experience at home.

Since the last time our unemployment rate touched 4%, in January of 1970, our economy has grown from \$3.7 to \$9.2 trillion, manufacturing output nearly tripled, and 50 million men and women joined the work-force. At the same time, the percentage of our rivers and streams fit for fishing and swimming doubled; the number of citizens living in cities with unhealthy air fell by half; many endangered or threatened species, including the bald eagle, are recovering; we created modern consumer safety laws and key regulatory policies; and the number of workplace deaths fell 60%.

More recently, as our economy opened further with the trade agreements of the 1990s, we also wrote a stronger Safe Drinking Water Act, strengthened clean air standards and protection of wild lands; passed the Family and Medical Leave Act; and raised the minimum wage. And despite fears that a more open world would reward countries with lower wages or weaker labor and environmental standards, America's share of world foreign direct investment rose sharply, with foreign countries investing well over \$500 billion in America between 1994 and 1998.

There is absolutely no reason the world economy of the next decades cannot see the same combination

of growth, better environmental protection, safer factories, stronger labor protection, and job creation. While the principal driving forces for these changes are, of course, domestic policies, the trading system also has a role to play.

## **2. Environmental Protection**

It can do more to help us protect the environment.

Here the work has begun reasonably well. The WTO already cites sustainable development as a fundamental goal of the global system. Its agreements explicitly recognize the fundamental right of all its members to set any level of environmental protection and consumer safety desired, including at higher levels than international norms. And the WTO created a Committee on Trade and the Environment in 1994.

Progress has continued ever since, with discussions in the Committee on Trade and the Environment; last year's convening of a first-ever WTO High Level Symposium on Trade and Environment in Geneva; and the encouragement of closer collaboration between the WTO and the UN Environmental Program, which reached a cooperation framework agreement in December of 1999.

Looking ahead, we have developed a series of proposals for trade liberalization measures with direct environmental benefits, calling for the elimination of barriers to trade in environmental goods and services, of fishery subsidies which contribute to overcapacity, and of agricultural export subsidies. And this past fall we established a broad conceptual framework for systematically integrating environmental concerns into our trade negotiations. First, the President's Executive Order on the Environmental Review of Trade Agreements institutionalizes procedures for careful assessment of the environmental impacts of major, environmentally significant, trade agreements, that will ensure timely consideration of these issues in development of U.S. negotiating positions. And second, the White House Policy Declaration on Environment and Trade sets out principles on trade and the environment that will guide U.S. participation in policymaking and trade negotiations, particularly within the WTO. Application of these principles will help us ensure that trade rules remain supportive of environmental protection both at home and abroad.

## **3. Labor Issues**

The WTO can address more effectively the concerns of many workers.

Today, in a formal sense, the WTO does not recognize that links between trade and labor exist. This is not a position which can endure: it is intellectually indefensible, and it will over time weaken public support for the trading system. Our task, therefore, is to ensure that the WTO formally recognizes the relationship between trade and labor policy and acts upon it -- recognizing the concerns developing countries have about discrimination against the poorest countries and workers; without pretending there are easy answers; but also understanding that all of us will ultimately benefit from such a discussion.

Thus we are building on the work we have done to date -- at the WTO, using the regular Trade Policy Reviews to raise concerns about labor practices; using our own domestic programs such as the Generalized System of Preferences to win specific labor reforms in countries all over the world, from Honduras, to Swaziland, and Pakistan; and at the Singapore WTO Ministerial Conference in 1996, helping the WTO for the first time recognize the importance of labor standards and cooperative work with the International Labor Organization.

We are now seeking to build upon this, through closer collaboration between the WTO and the International Labor Organization, but also creation in the WTO of a Working Group on Trade and Labor to examine, in cooperation with institutions like the World Bank and the ILO, the relationship between trade and internationally recognized core labor standards, and the best means of adjustment to heightened competition. There is no reason to fear this; there is every reason to believe honest and forthright work in this area will be of great value in its own right and for the trading system's future health and credibility.

#### **4. Transparency and Institutional Reform**

Finally, the WTO must fully reflect the basic principles of openness and transparency which are essential to the success of any institution.

As trade grows and the impacts of globalization intensify; as trade becomes more important to all nations; and as improving education and modern telecommunications open all institutions to ever greater scrutiny and debate -- the need for openness, accountability and public access is greater every year.

The WTO does not yet fully meet this test, and that is, ultimately, a challenge to its future. Thus we are working for greater transparency throughout the system, through the progressive attainment of some practical goals: ensuring rapid release of documents, enhancing the input of citizens and citizen groups; providing the opportunity to file amicus briefs in dispute settlement proceedings, and opening those proceedings to public observers. These are the measures which create the foundation of public support

for the institutions of government at home; and they will do the same for the institutions of the trading system.

The WTO, with our strong encouragement, has made some substantial improvements. It now makes a majority of its documents available to the public; has reached out through public symposia on such issues as development and trade and the environment; and other means to the NGO community and by creating a Web page. This is a good start. But it is not enough, and one practice in particular is very troubling: that is, the fact that arguments before dispute panels are closed to the public.

The practice of closing arguments before dispute settlement panels may have been appropriate in an age when dispute settlement was more a negotiation than adjudication. But today, what was once privacy becomes a harmful secrecy that reduces public confidence in decisions. If people are to have faith that decisions are reasonable and fair, they have to see the process that leads to those decisions. If the WTO does not change this process, support for the WTO will erode. Misconceptions and unfounded suspicions will grow. And the future of the WTO as an institut