

## CHINA'S WTO ACCESSION AND AMERICAN SERVICES TRADE

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Good morning, and thank you very much.

I am very pleased to be here with the Institute this morning, and for the opportunity to speak with you and exchange views on one of the most important American trade and foreign policy goals in many years: China's accession to the WTO.

### 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 services, industrial goods 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.

## DEEPER ISSUES

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 much 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.

Together, these made up a coherent vision of a peaceful and open world; which over half a century of experience has fully vindicated. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And -- as Truman and his colleagues predicted -- in tandem with a consistent security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

## **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 undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. And American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with this trend, to create trade opportunities for Americans, and support reformers in China.

## CHINA ACCESSION

The bilateral agreement we reached with China last November is the culmination of this patient, detailed work. It is a comprehensive agreement covering the spectrum of industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports.

In services, China's markets will open for distribution, telecommunications, financial services, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. Here we take advantage of some of the trading system's newest features, in the WTO's Agreements on Financial Services and Basic Telecommunications.

The Financial Services Agreement, covering nearly \$60 trillion in banking, insurance and securities transactions each year, is history's largest single trade agreement ever. Though it went into force just a short time ago -- the little fellow's first birthday was just last Wednesday -- it has already helped American banks, securities firms and insurance companies expand operations and find new market opportunities, through ownership of and investment in foreign banking institutions, brokerage and insurance sectors, as well as through cross-border trade. Its direct value is already becoming evident in

statistics: in 1998, Americans exported \$13.7 billion worth of financial services; and while we do not have final figures for 1999, as the Financial Services Agreement went into effect, this may have grown fully 10%, to about \$15 billion.

The Agreement on Basic Telecommunications is equally significant. 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. It has already, for example, helped 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.

These are commitments China will accept as well. In some services fields -- for example, audiovisual -- China joins only a very few countries in making market access commitments. In some of them, including through participation in the Basic Telecom and Financial Services Agreements it will open markets now almost entirely closed -- as witness the rather pathetic total of \$49 million in financial service exports to China in 1998. To look at the financial industry:

- Today, only two U.S. insurers operate in China's market. China reserves the right to deny licenses on almost entirely arbitrary grounds, to restrict operations to particular cities and to terminate existing rights when it chooses to do so. 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 as these restrictions lift. Further commitments will enable foreign insurers to offer group, health and pension lines of insurance within five years; for non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary within two years. And for life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.

- The status quo in banking is equally restrictive. Foreign banks cannot now conduct local currency business with Chinese clients, and only a few can engage in local currency business even with foreign businesses or individuals. As in the case of insurance, 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 allow local currency business with Chinese enterprises starting two years after accession, and with Chinese individuals after five years.

- And in 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. And China will 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.

And our bilateral agreement deals with our concerns in each other sector too.

For manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. 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 through tariff-rate quotas; agree to end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and abide by the WTO's Agreement on Sanitary and Phytosanitary Standards.

And the agreement strengthens protection of American workers and businesses against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special product-specific safeguard to address market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use special non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

The results of this agreement will be rapid. Immediately on accession to the WTO, China will begin opening its market 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.

All 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.

## **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. In terms of our China policy, this 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.

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 factory workers, as well as service providers, might 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. 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 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 economic opening to and engagement with the world, and ultimately development of the rule of law.

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.

### **WTO ACCESSION AND AMERICAN STRATEGY**

That it is why WTO accession forms part of the answer to the 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. 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 shared interests and mutual benefit. We saw this responsibility clearly in the Asian financial crisis. We see it in

the maintenance of peace on the Korean peninsula; the environmental problems of the Pacific; and we have seen it for over a quarter century, in trade.

Each step since 1972 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 has strengthened China's stake in prosperity and stability throughout Asia. Together with our 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 NTR, will be the most significant step in this process for many years.

## CONCLUSION

So, if we have the confidence and the wisdom to make the right choice, we 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.

## China's WTO Accession; America's Choice

Ambassador Charlene Barshefsky

U.S. Trade Representative

National Association of Counties

Washington, DC

March 6, 2000

Thank you all very much. It's a pleasure to be back before the NACo; I very much enjoyed my last visit with NACo's plenary a couple of years ago. I would like to begin by acknowledging those county officials who have played a leading role on international trade issues, most recently by participating in the Global Centers Forum this past December, organized jointly by NACo and the U.S. Conference of Mayors. The purpose of the forum was to highlight the importance of metropolitan areas as engines of economic growth through trade and to share counties' and cities' strategies for success, and many NACo members participated.

Let me give special recognition to NACo President C. Vernon Gray, President-elect Jane Hague, Executive Wayne Curry of NACo's Large Urban County Caucus, and King County Executive Ron Sims for their leadership on this. Ron also serves on USTR's Intergovernmental Policy Advisory Committee on trade, a federal trade committee which advises myself and the President on trade issues. I also would like to acknowledge other friends at NACo, such as Past President Randy Johnson of Hennepin County, and Executive Director Larry Naake.

It is my great pleasure to be here with you today, because as county government leaders you live and work with the Americans, on the job and on the farm, shaping today's international economy; and you see first-hand the potential of trade policy to create new opportunities and strengthen guarantees of fairness for Americans.

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.

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 negotiate, monitor and enforce hundreds of agreements; and with help and advice from the business, agriculture, and labor communities, state and local government, non-governmental organizations, Congress, and the interested public, 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. And 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. And this in turn, together with strengthened support for education and fiscal discipline, has played a part in the remarkable record of prosperity, job creation and economic renewal our country has built in the past decade.

## 2000 AGENDA

In the months ahead, we will go further. Congress is considering legislation to strengthen our trade relations with Africa and the Caribbean Basin. It will soon review the contribution our membership in the World Trade Organization has made to our economic record. And, with a comprehensive agreement to open China's markets, it will vote on permanent Normal Trade Relations with China. Let me offer you a few thoughts on each of these in turn.

## 1. Africa & CBI

To begin with, we are working with Congress for legislation to enhance the Caribbean Basin Initiative or CBI. For fifteen years, CBI has helped to promote growth and diversification in some of our closest neighbors; and has thus been of extraordinary value in supporting the progress Central America has made toward peace and democratization. We benefit from this as well: the Caribbean Basin was the destination for \$19 billion in American exports last year, making the region a larger market for our goods and services than countries like France or Brazil. To strengthen CBI therefore is to help the region continue a remarkable era of progress; and to further develop one of our most important trade relationships.

The Africa bill is an equally great opportunity. While at present, our trade relationship with the continent is relatively small, sub-Saharan Africa, with a population of approximately 640 million people, over 10 percent of the world's population, represents a market of great potential for the United States. In a larger sense, as so many African countries are making economic and political reforms, we have not only an opportunity but a moral obligation to give them support.

That is the background of President Clinton's broad economic initiative in Africa, combining assistance, debt relief, and trade agreements with leading reformers like South Africa, Ghana, Mozambique and most recently Nigeria. Our principal goal for this year in Africa policy is Congressional passage of the African Growth and Opportunity Act (AGOA). This Act, which has now passed both Houses of Congress, will strengthen each part of our African trade initiative: helping African countries find new markets, strengthening our political dialogues, and encouraging investment and development in Africa.

## 2. WTO & Section 125

Congress is also scheduled to make a five-year review of our work in the World Trade Organization.

The WTO has had quite a bit of attention lately, so rather than give you a very detailed summary of our work, let me rather trace it back to its beginnings. The WTO's origins go back to 1948, when the United States, under President Truman, led in creation of the General Agreement on Tariffs and Trade or GATT. President Truman and Europe's democratic leaders acted with the 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 generate unprecedented wealth and economic growth over the last five decades.

Today, the WTO system of trade rules, which succeeded the GATT in 1995, helps make sure our trading partners play by the rules; creates expanded export opportunities for working people, businesses and farmers; and enables us to gain the advantages of imports which keep down inflation, increase consumer choice and raise living standards, especially for the poorest Americans. The benefits it has brought us are clear in the remarkable record of growth, job creation and rising living standards we have built in the past seven years. In our ability to prevent a cycle of protection and retaliation in the recent financial crisis which would have done immense damage to American farmers and manufacturing exporters. And in the fact that when nations become one another's customers and investors, they gain stronger interests in prosperity and stability beyond their borders.

It would be unthinkable and catastrophic if the U.S. were to isolate itself from the global system we created. At the same time, we must continue to ensure that the rules-based system responds to legitimate and growing calls for greater openness and accountability.

#### ONE-WAY CONCESSIONS

And that brings me to our central policy goal for the coming year: China's WTO accession, and permanent Normal Trade Relations.

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.

In China, we have the world's largest nation; the world's fastest-growing major economy over the past decade; a country whose future course is central to our interest in a peaceful, stable, prosperous Pacific region; and an often repressive government with which we have significant policy disagreements. And it is fair to judge the WTO accession in this light as well.

Our bilateral agreement is, first of all, in the interest of reform and liberalization in China. China's commitments go well beyond its economic reforms thus far, to address policies that date to the earliest years of the communist era. As it joins the WTO, for the first time since the 1940s China will:

- Permit foreigners and Chinese firms to import freely into China;
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and 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 impartial review, including through formal dispute settlement when necessary.

This agreement, of course, is not by itself a human rights policy. As we promote these changes, we are also sponsoring a resolution in the UN Human Rights Commission condemning China's human rights record, and sanctioning China as a "country of particular concern" under the International Religious Freedom Act.

But the agreement does represent a remarkable victory for economic reformers in China. It 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. More deeply, it reflects a judgment -- although one still not universally shared in the Chinese government -- that prosperity, security and international respect will not come from static nationalism and state power; but greater integration with the world, rising economic freedom at home, and ultimately development of the rule of law. And that is why a number of leading Chinese dissidents and Hong Kong advocates of democracy endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.

WTO accession is also in America's broader strategic interest. For thirty years, American trade policy -- from the lifting of the trade embargo in 1972, to the grant of Normal Trade Relations in 1979, through our more recent agreements on intellectual property, agriculture and textiles -- has helped integrate China into the Pacific and world economies. As China's neighbors became China's customers and investors, China gained a stronger stake in regional stability and prosperity. Concurrently, it moved away from a revolutionary foreign policy to play an important and constructive role in such areas as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

WTO accession will carry this much further. And so, together with our military presence and our alliances with the Asia-Pacific democracies, China's WTO accession will be a factor in favor of a more stable regional peace in the years to come.

### OVERVIEW OF BILATERAL AGREEMENT

Let me now turn to the agreement itself, because as important as it may be for reform and our broader strategic interest, WTO accession must ultimately be judged on its economic merits. And here, I believe, it meets the high standards we should set.

Our bilateral agreement is comprehensive. It covers the full range of industrial goods, services, farm products and unfair trade practices; addressing the barriers that block American exports in each of these sectors. It strengthens American guarantees of fair trade. And it will be rapidly implemented and fully enforceable.

China's industrial tariffs will fall from an average of 24.6% in 1997 to 9.4% by 2005. Tariffs on information technology products fall from an average of 13% to zero by 2005; on autos from 80-100% to 25%; on wood products from 10.6% to 3.8%.

Of equal importance, the agreement addresses other barriers. For example, in order to export American companies, farmers and workers need the ability to import, export and distribute goods in China -- rights now denied but which the agreement will secure for us. Thus our businesses will be able to export to China from here at home, rather than being forced to set up factories there to sell products through Chinese partners.

In agriculture, tariffs on U.S. priority products will drop from an average of 31% to 14% in January 2004. To cite a few examples, China will cut tariffs on beef from 45% to 12%; on wine from 65% to 20%; on dairy from 50% to 12%; on peaches and almonds from 30-12%; on shrimp and crayfish from

30% to 16%. 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. And China will agree to end import bans -- we just saw the first tangible result last week, with China's first purchase of Pacific Northwest wheat in over sixty years. And China will go on to cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base its agricultural inspections on science.

In services, the agreement will open the market for distribution, financial services, telecommunications, professional, business and computer services, motion pictures, environmental services, 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 as we open these markets, we also strengthen guarantees of fair trade for our companies and working people at home. For example, we secure a ban on forced technology transfer as a condition of investment, together with elimination of other 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 guarantee our right to use strong measures to fight unfair export practices like dumping.

All of this will be rapid. Immediately on accession to the WTO, China will begin opening its market 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.

## ENFORCEMENT

And all of this is fully enforceable. Let me expand on this for a moment.

All trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments in China 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 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 anti-import surge safeguard, as well as guaranteeing our right to use strengthened antidumping methodologies. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, 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. And as the 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 previous disputes over compliance with agreements, notably those over intellectual property, we had to act alone. With China in the WTO, we will work with 134 other members, many of whom will be concerned about the same issues we raise and all of whom will share our interest in China's full implementation of its commitments.

Fifth, agreements with China are best enforced when China's obligations are concrete, specific, and open to monitoring. Our bilateral agreement thus has highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor compliance and present clear evidence of failure to comply.

Sixth, of course, enforcement of this agreement or any other depends on U.S. commitment. We are already preparing for this through President Clinton's budget request for new enforcement and compliance resources at USTR, the Commerce Department, USDA and other agencies with enforcement responsibility. This will give us the 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.

Last, under WTO rules, the U.S. retains the right to exclude products made from prison labor, and to withdraw benefits in a national security emergency.

#### PERMANENT NTR

By contrast to these one-way concessions, we simply agree to continue our present policies. As China

enters the WTO, we make no changes in our market access policies. We change no laws controlling the export of sensitive technology, and likewise amend none of our trade laws. Our one obligation is this: we must grant China permanent NTR or 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.

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. 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 of each other's markets. Were Congress not to grant permanent NTR, our competitors -- Japanese automakers, Argentine ranchers, Canadian wheat growers, European high-tech firms -- will reap these benefits but American farmers and businesses may well be left behind.

#### BENEFITS FOR AMERICANS

If we have the wisdom and confidence to make the right choice, in a very short time 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.

Those of you who represent university towns and high-tech centers will see new opportunities for semiconductors, software, pharmaceuticals, chemicals and computers.

And representatives of rural districts will see new markets for your neighbors on farms and ranches, in commodities from citrus to wheat, specialty products, beef, pork, cotton, soybeans, rice, dairy and much more.

#### CONCLUSION

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.

At the same time, WTO accession will mean 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.

But most important of all, it can help us build a relationship with the world's largest nation which may have moments of tension, but in which we also find common ground and strengthen the hopes of the next generation for peace.

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

## **U.S. AGRICULTURAL AGENDA AT THE WTO**

Testimony of Ambassador Charlene Barshefsky

U.S. Trade Representative

Trade Subcommittee of the Senate Committee on Finance

Washington, DC

March 7, 2000

Chairman Grassley, Senator Moynihan, Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on our agenda for agriculture at the World Trade Organization over the coming year. I look forward to working closely with you as we move ahead through the launch of agriculture negotiations in Geneva, and completion of WTO accession for China and other prospective WTO members.

### **INTRODUCTION**

To begin with, Mr. Chairman, agriculture has been at the center of American trade policy under President Clinton.

American farmers and ranchers are the most competitive and technically advanced in the world. We produce far more than we can ever eat; and we therefore must have the ability to export to the 96% of humanity that lives beyond our borders if American farm families are to prosper. American producers lead the world in commodities products ranging from grains to oilseeds, meat, dairy, fruits and vegetables, and forest products. Our farmers and ranchers therefore depend on open markets worldwide. This is clear in the record, with one in three American farm acres producing for foreign markets, with U.S. export sales close to \$50 billion last year, despite a drop from the record levels of 1996 and 1997 due to the effects of the Asian financial crisis and record harvests in several countries.

Open world agricultural markets are in the long-term interest of our trading partners as well, as experience shows us that an open, fair trading system for agriculture is among the world's strongest defenses against hunger. Countries which are open to agricultural trade diversify their sources of supply -- ensuring that consumers will have reliable access to food at market prices, and helping to guarantee that natural disasters or other interruptions of supply from any one source of food will not mean famine.

## **AGRICULTURAL TRADE POLICY GOALS**

When the Administration took office, however, agriculture was a sector in which trade was more restricted and distorted than almost any other.

Non-tariff measures such as quotas, import bans and uncapped variable levies effectively insulated inefficient producers from world markets and could be used to stop all imports. Our trading partners had no constraints on their ability to use export subsidies to dump surplus production in world markets. American exporters had no effective recourse to challenge import restrictions that were disguised protectionist barriers. No limits existed on production subsidies in agriculture. And we had no effective forum in which to resolve our disputes on these issues.

Thus, throughout the Administration, we have pursued a strategic program, with our major trading partners, in our regional trade initiatives, and in the trading system, to reform and open agricultural trade. We have given additional resources to agricultural issues, including the first ever appointment of an Ambassador-level Special Trade Negotiator for Agriculture. And we have pursued a systematic effort to:

- reduce tariffs and other barriers to trade;
- ensure that sanitary and phytosanitary standards are based on science;
- promote fair trade by reducing foreign export subsidies and trade-distorting domestic supports;
- ensure greater transparency and fairness in state trading; and
- help guarantee that farmers and ranchers can use new technologies such as biotechnology, when evaluated through a fair, transparent and science-based approach to regulation, without fear of trade discrimination.

At the same time, our colleagues at the FDA and the Department of Agriculture are intensifying food

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

## ADMINISTRATION AGRICULTURAL TRADE RECORD

The results of this work are substantial.

### Opening World Markets

With the passage of the North American Free Trade Agreement in 1993, we won preferential access to our immediate neighbors. As a result, our agricultural exports to Mexico and Canada have grown by nearly \$4 billion since 1993. Together, these two countries -- with a total population of 120 million -- now buy over a quarter of our agricultural exports and provide American farmers with at least a partial shield against overseas economic crisis.

Bilateral agreements worldwide have also opened up new opportunities in a very large range of commodities. Examples include:

- Beef in Korea;
- Apples and cherries in China;
- Tomatoes and apples in Japan;
- Almonds in Israel;
- Citrus and other fruits in Brazil, Chile, Mexico and other countries;
- A veterinary equivalence agreement with the European Union addressing sanitary issues blocking US live animal and animal products.

Our December 1998 agricultural agreement with Canada shows how much practical, real-world value these initiatives can yield for our farm communities. This agreement addressed a range of market access barriers, discriminatory regulatory policies and sanitary and phytosanitary issues; and since its conclusion, our agricultural trade relationship has fundamentally changed.

- Feeder cattle are moving into Canada in record numbers. Before the agreement, Canada took virtually no American feeder cattle. So far this marketing year, over 170,000 head of feeder cattle, including 114,000 from Montana alone, were shipped to Canada.
  
- We have also achieved real market access for hogs. Canada has eliminated burdensome regulations and now allows hogs from states free of pseudorabies to move easily into Canada for slaughter.
  
- Wheat sales have dramatically increased, with shipments from Montana, North Dakota and Minnesota farmers rising from virtually nothing in the 1997-1998 marketing year, to 303,000 tons in 1998-1999.
  
- Under the In-Transit Program for Grains, the U.S. shipped over 720,000 tons of North Dakota, Montana, and Minnesota wheat and barley on the Canadian rail system since January 1, 1999.
  
- We are making progress on a number of regulatory initiatives as well, dealing with Canadian phytosanitary requirements for wheat, including changes to regulations on cereal screenings, karnal bunt, the elimination of Canada's barley quota, extension to more states of the ability to ship wheat more on the Canadian rail system, and streamlining complex requirements to export U.S. wheat through Vancouver.

### **Uruguay Round**

All of these initiatives, furthermore, help us to set precedents and build the international consensus necessary for fundamental reform of agricultural trade through the trading system.

This is now underway. With the completion of Uruguay Round in 1995, after forty-seven years of developing the trade system, we began to bring agricultural trade under fair and internationally accepted rules, in each area crucial to American agriculture:

- First, through the Agreement on Agriculture, the Uruguay Round abolished quotas, ensuring that countries use only tariffs to restrict imports; and going on to reduce and bind these tariffs. It subjected export subsidies and trade-distorting domestic support measures to specific limits, and reduced them as

well.

- Second, through the Agreement on Sanitary and Phytosanitary Measures, the 135 members of the WTO agreed to use science-based sanitary and phytosanitary standards to protect human, animal and plant life and health rather than to bar imports.

- Third, the Uruguay Round created an effective, impartial dispute settlement mechanism to address trade disputes.

- And fourth, all participants in the WTO agreed to a "built-in agenda" mandating further negotiations in agriculture, as well as services, beginning this year.

### **Enforcement**

With the Uruguay Round complete, we set up a special monitoring unit to ensure full implementation of these commitments, and we have spent considerable time over the past five years monitoring and enforcing compliance. When we have encountered reluctance to comply with commitments, we have not hesitated to assert our rights through dispute settlement.

In most cases, our trading partners have met their obligations. However, for those cases in which they have not, the U.S. has used the strong WTO dispute settlement mechanism to ensure that WTO members meet their commitments or suffer a penalty for failure. To be specific, we have used the dispute settlement mechanism in the past four years to enforce the Agriculture and SPS Agreements in thirteen separate cases from fruit sales to Japan, to pork in the Philippines, dairy in Canada, and of course the still unresolved banana and beef cases with the European Union.

The banana and beef cases are important not only for their concrete economic importance to American agriculture, but because they concern fundamentally important principles and precedents. Most notably, these are the only cases in which a WTO member has not complied with its obligations after an adverse panel ruling -- in agriculture or anywhere else in the system. We expect full implementation of each decision and are taking measures to ensure it, beginning with WTO-authorized retaliation against the EU in the banana and beef cases.

### **NEXT STEPS**

The Uruguay Round also included a commitment by all members to begin a second set of negotiations on agriculture and services in the year 2000. We have seen fulfillment of this commitment as fundamental to the credibility of the WTO as a whole, in addition to the essential part these negotiations will play in the reform and opening of world agricultural trade.

Despite the progress made in the Uruguay Round and elsewhere, agricultural trade remains substantially restricted and distorted. Tariffs average 50% worldwide for agricultural products. Tariff-rate quotas have created access for imports, but often subject to restrictive conditions. The European Union continues to use export subsidies intensively, displacing more competitive producers from cash markets, harming the interests of American farmers and ranchers and imposing a special burden on agricultural producers in the poorest countries. Trade distorting subsidies continue to encourage over-production in some key countries, lowering prices for all other producers. State trading enterprises control a large share of world trade in certain commodities. And the developing application of biotechnology techniques to agriculture raises new challenges for trade policy.

### **BUILT-IN AGENDA**

Over the course of 1999, we presented formal proposals in Geneva on the range of issues raised by these policies, reflecting the advice and goals we received in a range of consultations with Congress, agricultural producer groups throughout the nation, and other interested parties. The WTO did not, of course, launch a Round last year. But we are very pleased by the decision its General Council took last month to formally open the agriculture and services negotiations to which WTO members committed themselves in the Uruguay Round. This is essential not only to the interests of American agriculture, but to the credibility of the WTO itself.

The General Council's decision calls for the first meeting of the agricultural negotiations to be held on March 23<sup>rd</sup>. At this meeting, in addition to addressing procedural issues, including discussions about chair, time-frames and the structure of proposals, we will continue our work with other countries to find common ground on reform objectives. While no deadline for the conclusion of negotiations has yet been established, the expiration of the peace clause at the end of 2003 should encourage countries to proceed expeditiously.

While the work has just begun, our fundamental principles for agricultural trade reform in these talks are clear:

- Eliminate Agricultural Export Subsidies - A principal goal of the U.S. will be to completely eliminate, and prohibit for the future, all agricultural export subsidies.

- Lower tariff rates and bind them - this should include reduction and elimination of tariffs, elimination of tariff disparities, and simplification of tariff policies, for example in cases where WTO members use "compound" tariffs that include both ad valorem and cent-per-kilogram tariffs.

- Substantially reduce trade-distorting domestic supports and strengthen rules that ensure all production-related support is subject to discipline, while preserving criteria-based "green box" policies. In addition, all trade-distorting supports should be more tightly disciplined.

- Improve access for U.S. exports under tariff-rate-quotas - by increasing quantities eligible for low-duty treatment, reducing high out-of-quota duties, and improving disciplines on administration of TRQs to ensure that they offer real market access.

- Strengthen disciplines on the operation of state trading enterprises - While state trading enterprises are subject to WTO limits on subsidized exports, there are a number of concerns about their operations, and in particular those of monopoly exporters. These include the possibility of disguised circumvention of export subsidy commitments, and anti-competitive practices such as predatory pricing.

- Address disciplines to ensure trade in agricultural biotechnology products is based on transparent, predictable and timely processes. While WTO rules cover trade measures affecting biotechnology products, we are concerned about the utter collapse of the European Union's approval process for biotechnology. We continue to work with our industry, Congress and other interested groups in developing the best approach for dealing with this subject bilaterally and in WTO negotiations.

In preparation for more detailed proposals, we will extensively consult with stakeholders and Congress, and work in tandem with the drafting of a new Farm Bill. We are now continuing our work with American producer groups and other interested parties to identify priorities and assessing different approaches for cutting tariffs, expanding access for products subject to TRQs, reducing trade-distorting domestic support, eliminating export subsidies, and disciplining state trading enterprises. We also are reviewing approaches for dealing with biotechnology. And we are publishing a *Federal Register* notice this month soliciting formal comments from the American public at large.

At the same time, we continue our support for the launch of a more broadly-based new Round. Beyond agriculture and services, we have pressing needs to address market access concerns in industrial

products, electronic commerce, trade facilitation, and other topics. 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.

## **REGIONAL INITIATIVES**

As we prepare for the negotiations, whether focused on agriculture and services or in the broader context of a new Round, we will proceed with initiatives which offer concrete benefits to producers and set precedents for later multilateral achievement.

In our regional trade initiatives, for example, we have already achieved consensus on issues of great importance to agricultural producers. The Free Trade Area of the Americas talks, which began the drafting of a formal agreement last month, have already achieved a consensus throughout the hemisphere on elimination of export subsidies. Likewise, the Asia-Pacific Economic Cooperation forum, linking 23 Pacific nations, has called for elimination of tariffs on forest products and for elimination of export subsidies.

## **CHINA WTO ACCESSION**

Of fundamental importance in all future WTO work is the accession of new members. Thirty economies have applied to join; and each offers us the potential to set precedents and develop support for our multilateral goals.

China's WTO accession is a case in point. Overall, it represents a comprehensive and one-way series of trade commitments. It covers agriculture, manufacturing, and services industries such as telecommunications, finance, the professions and others. It includes a 12-year product-specific safeguard in the event of import surges into our markets, an agreement to continue using "non-market economy" dumping methodologies for fifteen years, addresses Chinese practices intended to draw jobs and technology to China, and much more.

In every case, the commitments are specific and enforceable; will be implemented rapidly; and hold China to the same standards we expect of 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 cut agricultural tariffs by more than half on U.S. priority products. 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 end its system of discriminatory licensing and import bans for bulk commodities, and will create market access opportunities by establishing a WTO-consistent Tariff-Rate Quota (TRQ) system. China will establish significant and growing TRQs for state-traded commodities such as wheat, corn, cotton, rice and soybean oil. China has also committed to low, within-quota tariffs of 1-3%, which will help American farmers take full advantage of the TRQs. And China committed to allow a share of the TRQs for each commodity to be imported by entities other than state-trading entities, and agreed to specific rules for the administration of these TRQs. The introduction of private trade - combined with increased transparency in the process - will ensure increased opportunities for American agricultural exports.

- China will grant expanded trading rights - Currently, only companies that receive specific authorization from the Chinese government are allowed to import into China. Under the bilateral agreement on WTO accession, China has committed to allow any entity to import most products into any part of the country within three years of accession. A select list of products will be partially exempt from this rule and some trade will be channeled through China's state-trading enterprises (including wheat, corn, rice and cotton; state trading will be phased out for soybean oil.) However, specific commitments to end monopoly import status have also been established. Additionally, China has committed to liberalize distribution services for all agricultural products, except tobacco, allowing U.S. companies to distribute and market their products in China.

- China will eliminate export subsidies. China has committed not to use export subsidies for agricultural products when it joins the WTO. This commitment will level the playing field in third-country markets for U.S. exports of corn, rice and cotton, which in the past have been displaced by unfairly traded Chinese exports.

- China will cap and then reduce domestic support. China will first cap and then reduce trade-distorting domestic subsidies. The specific levels will be determined through multilateral negotiations in Geneva on the Protocol and Working Party report. China also committed to provide greater transparency to make its domestic support measures more predictable.

- China will eliminate scientifically unjustified restrictions on U.S. agricultural products. China has committed to fully abide by the terms of the WTO Agreement on Sanitary and Phytosanitary Measures,

which requires that all animal, plant and human health import requirements be based on sound science - not on political agendas or protectionist concerns.

- Bilateral Agricultural Cooperation Agreement - Additionally, last year China and the United States agreed bilaterally on the terms for removal of long-standing and scientifically unjustified restrictions on imports of U.S. wheat, citrus and meat. Under this agreement, Chinese pre-program initiation inspection teams have visited citrus orchards in Arizona, Florida, Texas and California; and most recently, for the first time in the modern era, China has made a significant purchase of wheat from the Pacific Northwest.

- Strong Provisions Against Unfair Trade and Import Surges. The Agreement explicitly permits the U.S. to continue using "non-market economy" anti-dumping methodology for 15 years after China's accession to the WTO. China has also committed to a strong product-specific safeguard that allows the United States for 12 years after accession to restrain increasing imports from China that cause or threaten market disruption. After that, current U.S. safeguard provisions - Section 201 - will remain available to address increasing imports.

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; and we will develop a series of high-quality precedents in the world's largest nation for future multilateral talks.

## **PERMANENT NORMAL TRADE RELATIONS**

As China enters the WTO, we have very few obligations. 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.

## **CHINA'S WTO ACCESSION**

Ambassador Charlene Barshefsky

U.S. Trade Representative

Kellogg School of Management

Evanston, IL

March 13, 2000

Good morning, and thank you very much. I am very pleased to be here with the Kellogg School this morning, and for the opportunity to speak and exchange views with you on one of America's most important trade and foreign policy goals: China's accession to the WTO.

### **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 concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton sent to Congress last week, 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.

### **DEEPER ISSUES**

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 disagreements and points of tension often dominate the China debate. Many ask why we should proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. And given the gravity of our relationship, it is fair -- in fact necessary -- to judge the WTO accession in their light. And we can begin by tracing back to its origins 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 Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Our Asia policies today continue to reflect these principles.

- Our military presence in the Pacific, and alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.
  
- Our advocacy of human rights, over the years, has helped reformers bring democracy to South Korea, Taiwan, Thailand, the Philippines and perhaps now Indonesia.
  
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that accompany economic.
  
- And our trade policy - under the Clinton Administration, creation of a regional framework for open trade through APEC; nearly 100 specific market-opening agreements including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; together with work toward normalization of economic relations with Vietnam, Laos and Cambodia - is helping to create a more open region with greater prospects for sustainable growth in the years ahead.

Stepping back for a moment, half a century of experience has fully vindicated the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And -- as Truman and his colleagues predicted -- in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

## **CHINA FROM REVOLUTION TO REFORM**

China, of course, took a very different road after the war.

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 undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. And American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to the more recent agreements on intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform.

## CHINA WTO ACCESSION

The bilateral agreement we reached with China last November thus caps of thirty years of patient, detailed work. It is a comprehensive agreement, covering industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports.

In doing so, it will help China create a more open, efficient economy; and help us redress a deeply imbalanced trade relationship. It reflects the best economic principles taught by the Kellogg School, and the classical Chinese historian Ssu-ma Ch'ien, writing in 90 B.C.:

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

As it opens China's market to our goods and services, this is the type of open, reformed economy the

agreement will help create.

- In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. 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. To choose a few examples of special importance to Illinois, on heavy agricultural equipment, Chinese tariffs will drop by half, from 11.5% to 5.7%; on semiconductors and telecommunications equipment, tariffs will drop to zero.

- In services, China's markets will open for the full range of industries: distribution, telecommunications, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. Express delivery firms at O'Hare, Chicago's banks and insurance companies, and others will be able to set up operations in China; and in fields such as distribution, telecommunication and several others, China will open to foreign participation for the first time since the 1940s.

- 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 -- Illinois wheat or soy-bean oil are examples; agree to end import bans, cap and reduce trade-distorting domestic supports and eliminate export subsidies.

- And the agreement strengthens protection of American workers and businesses against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special anti-import surge remedy to discipline market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use a special non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

All 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 Fiscal Year 2001 budget, and of course through other mechanisms such as the special anti-dumping and anti-import surge remedies.

Immediately on accession to the WTO, China will begin opening its market 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. 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**

China will be a WTO member very soon. Its government has committed itself to a faster pace of market-opening and reform; and to the risks these entail. The only question, ironically, is whether we will receive the full benefits of their accession as laid out in the very agreement we negotiated. And that brings me to the question of permanent Normal Trade Relations, or NTR.

By contrast to China's 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 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. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which 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.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full 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 factory workers, as well as service providers, would be left behind.

## **WTO ACCESSION AND BROADER ISSUES**

That is reason enough for our commitment to secure permanent NTR. But the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security; and when we look beyond the precise commitments China has made to their deeper meaning, we see that these American goals would be fundamentally threatened by a retreat from this historic agreement.

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 alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening 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 economic opening to and engagement with the world, and ultimately development of the rule of law. That is why some of the leading advocates of democracy and human rights in China - Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party - see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. 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. Economic reform has thus helped 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 on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we

disagree with China we must act with candor and firm assertion of our interests and values - as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as will do next week at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

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, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

Each step in our China trade policy since 1972 has rested upon concrete American interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our 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 NTR, will be the most significant step in this process for many years.

## CONCLUSION

So, if we have the wisdom and the confidence to make the right choice, we 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 the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.

## AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION

Ambassador Charlene Barshefsky

U.S. Trade Representative

Prepared for Delivery

Economic Club of Washington

Washington, D.C.

March 16, 2000

Good morning, and thank you very much.

Let me in particular express my very sincere thanks to Senator Mitchell for bringing us together today. As Senate Majority Leader, as an advocate for the people of Maine, and more recently as one of America's leading contemporary statesmen, Senator Mitchell has built a remarkable and admirable record that stretches from environmental policy, to peace in Northern Ireland, and to trade policy. It is a record of principle, effective advocacy and patriotic public service. And it is thus my great privilege to be here at his invitation today to discuss one of America's most important trade and foreign policy goals, in China's WTO accession and permanent Normal Trade Relations.

### 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 concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement also strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton sent to Congress last week, 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.

That is the only policy issue now before Congress. China will enter the WTO. It will retain its current market access in America regardless of our debate. The only question now is whether we will choose to accept the benefits of the agreement we negotiated.

### **DEEPER ISSUES**

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 disagreements and points of tension often dominate the China debate. Many ask why we should proceed with a trade agreement -- even an entirely one-sided trade agreement -- while our differences over human rights, security issues and other topics remain. And given the gravity of our relationship, it is fair -- in fact necessary -- to judge the WTO accession in their light. And we can begin by tracing back to its origins 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 Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Stepping back for a moment, half a century of experience fully vindicates the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And as Truman and his colleagues predicted, in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

Senator Mitchell summed this up in his remarks on the Senate floor as the Uruguay Round Agreements Act passed in 1994:

"The economic miracle of the postwar world is that with the expansion of international trade, every participating nation's economy has grown. Human well-being has reached more people at higher levels than ever before in our history. The leading beneficiary of that trend has been the United States."

Our Asia policies today fully reflect the fundamental principles of postwar American strategy:

- Our military presence in the Pacific, and alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.

- Our advocacy of human rights, over the years, has helped reformers bring democracy to South Korea, Taiwan, Thailand, the Philippines and perhaps now Indonesia.
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that can accompany economic suffering.
- And our Asian trade policy - since 1992, we have created a regional framework for open trade through APEC; concluded nearly 300 specific market-opening agreements worldwide and almost 100 in Asia, including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; and moved toward normalized economic relations with Vietnam, Laos and Cambodia - is helping to build a more open region with greater prospects for sustainable growth in the years ahead.

## **CHINA FROM REVOLUTION TO REFORM**

China, of course, took a very different road after the war.

As President Truman and his colleagues took the first steps toward the postwar miracle Senator Mitchell described, China shut the doors it had once tentatively opened to the world. Among its new leaders' first steps after the revolution in 1949 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 undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. And American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to the more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform.

## CHINA WTO ACCESSION

The bilateral agreement we reached with China last November thus caps of thirty years of patient, detailed work. It is a comprehensive agreement, which covers industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports; which will help China create a more open and efficient economy; and which will help us redress a deeply imbalanced trade relationship.

- In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. 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. To choose a few examples: tariffs on information technology will be eliminated entirely; tariffs on wood products drop from 10.6% to 3.8%, and to zero if the WTO as a whole agrees to tariff elimination; auto tariffs will fall from current levels of 80-100% to 25%.

- In services, China's markets will open for the full range of industries: distribution, telecommunications, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. In fields such as distribution and telecom, China will open to direct foreign participation for the first time since the 1940s.

- In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. This affects every product from beef, where tariffs will fall from 45% to 12%; to lobster, where we cut tariffs from 30% to 15%. China will also expand access for bulk agricultural products; agree to end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

- And the agreement gives American workers and businesses stronger protection against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export performance requirements. It provides, for a 12-year period, a special remedy to discipline market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing

our right to use a special non-market economy methodology to address dumping for 15 years after China's accession to the WTO.

All 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 Fiscal Year 2001 budget, and of course through other mechanisms such as the special anti-dumping and anti-import surge remedies.

Immediately on accession to the WTO, China will begin opening its market 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. 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**

The question now before us is whether we will take advantage of these commitments.

China will be a WTO member regardless of the outcome of our debate. There is no doubt of that. Its government has committed itself to a faster pace of market-opening and economic reform; and to the risks these entail for an entrenched political system. The only question, ironically, is whether we will receive the full benefits of their accession and the historic agreement we negotiated. And that brings me to the question of permanent Normal Trade Relations status for China, or NTR.

By contrast to China's historic set of commitments, 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 trade laws.

We have only 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. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which 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.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full 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 factory workers, as well as service providers, would be left behind.

## WTO ACCESSION AND BROADER ISSUES

That is reason enough for our commitment to secure permanent NTR for China. But the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security; and when we look beyond the precise commitments China has made to their deeper meaning, we see that these American goals would be fundamentally threatened by a retreat from this historic agreement.

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 alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening 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 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.

That is why some of the leading advocates of democracy and human rights in Hong Kong and China - Bao Tong, jailed for seven years after Tiananmen Square; Ren Wandong, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party - see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. 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. Economic reform has thus helped 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 on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values - as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as will do next week at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

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, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

Each step in our China trade policy since 1972 has rested upon concrete American interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our 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 NTR, will be the most significant step in this process for many years.

### CONCLUSION

So, if we have the wisdom and the confidence to make the right choice, we 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, strengthens guarantees of fairness for our working people and businesses, creates new export opportunities that mean jobs and growth; and which caps fifty-three years of patient, difficult and extraordinarily successful work towards a world of open markets under law.

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 the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.

## **U.S. TRADE POLICY IN 2000**

Ambassador Charlene Barshefsky

U.S. Trade Representative

The Department of State

Washington, D.C.

March 17, 2000

Thank you very much.

Let me begin by thanking each member of this distinguished group for coming to the State Department today, for what I hope will be the first in a regular series of meetings on the trade agenda. I also thank Ambassador Larson and the Bureau of Economic and Business Affairs for hosting our meeting today.

We have a very active trade policy agenda for the year ahead. I will introduce it briefly, and then we will have time for Ambassadors to offer their comments and ideas. Following this exchange, our regional Assistant USTRs will chair individual sessions to discuss the agenda we have set in each region of the world in more detail. But let me first say a few words about the circumstances of this meeting, and the challenges now before us.

### **PRESENT CIRCUMSTANCES**

As the trade policy work of this new century begins, we have the good fortune to build upon a very strong foundation.

Over the past six decades, our predecessors joined to build a fair, open and mutually beneficial trading system. Their work was slow and marked by occasional setbacks. But at each point, they were able to overcome both domestic fears and clashing agendas, recognizing in the words of Franklin Roosevelt that:

"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."

As we meet today, the benefits of this shared commitment are clear. As we opened the closed markets of the Depression era, and as the postwar leaders sought to rebuild a shattered world economy through the GATT system and other initiatives, we fostered what amounts to a fifty-year economic boom, in which the world economy grew six-fold, per capita income nearly tripled, and hundreds of millions of families worldwide escaped from poverty. Life improved nearly everywhere in the world: since the 1950s, world life expectancy has grown by twenty years; infant mortality dropped by two-thirds; and the threat of famine vanished from much of the world.

And in the recent financial crisis, our shared efforts proved their value once again. In this period of great suffering for many nations, and great danger for the world, the trading system embodied by the WTO, together with the network of bilateral and regional trade agreements set up in recent years, prevented the type of protection and retaliation that deepened the Depression of the 1930s. Rather, by keeping markets open, the foundation we have established helped to guarantee to the most affected countries the markets necessary to a rapid recovery, thus assisting the courageous reform policies underway in Korea, Southeast Asia and South America.

## **THE POLICY AGENDA**

But while we can take justified pride in the accomplishments of the past, we must also turn to the new century and its challenges; and to the areas in which we have not done enough.

### **1. Development and End of the Cold War**

First, we can do more to ensure that this system of common interest and mutual benefit touches the entire world.

We have an especially important opportunity in the decision by China to join the World Trade Organization. This is an event with great importance for reform and long-term growth in China, but also for its potential to create a more open, stable and prosperous Asia-Pacific region in the years to come. Approval by Congress of permanent Normal Trade Relations status for China is therefore our central legislative goal in the year 2000. The President and every member of his economic and foreign policy team will devote every ounce of effort necessary to succeed.

More broadly, with the end of the Cold War, trade policy has an opportunity to support reform and long-term growth in nearly thirty nations, from the Balkans to East Asia, emerging from the experiment in communist central planning. WTO accession in particular has helped, as the experience of Central Europe attests, to promote the market economics, transparency and rule of law essential to a modern economy. We are using these lessons in our bilateral initiatives as well this year - for example, in our support for the Southeast Europe Trade Preference Act, creating trade and export opportunities for countries in the Balkans committed to peace and reform; and in our work toward normalization of economic ties with the three nations of Indochina -- Vietnam, Cambodia and Laos.

And an immediate priority is the work we can do to promote development, and in particular to offer greater support for the least developed nations. This is the foundation of our push for Congress to complete its work on the bill to further open U.S. markets on a preferential basis to Africa and the Caribbean Basin, as well as our earlier unilateral decision to expand the Generalized System of Preferences by over 1700 tariff lines. We continue to note some differences between the House and the Senate on the final shape of the Africa-CBI legislation, but we believe they are differences which can be overcome, and are looking for a bill with the broadest possible scope of benefits for the nations in these regions of the world.

More broadly, we can build upon this initiative at the WTO - together, it is to be hoped, with other developed nations and more advanced developing countries - to open markets more fully to the products of the poorest and least developed nations, and help these countries more fully share in the benefits of the trading system.

## **2. Growth and Rising Living Standards**

And as we look at the trading system as a whole, we can do more to raise living standards and promote growth for the next generation.

The world's markets remain in many sectors relatively closed and distorted. This is especially clear in agriculture and services, which are at the heart of the trade agenda in this new decade: agriculture because of the high trade barriers and subsidies which continue to plague this sector; services, because of historical monopolies in many countries, and also because in many services industries, trade itself has only recently become feasible through technological advance.

In both these fields, open markets offer especially important advantages to the world's developing countries, through both direct new opportunities for farmers, and the economic efficiency and technological progress open services markets bring. We are thus very pleased by the WTO's agreement last month to open negotiations in these two areas. But we also can do more in industrial goods; topics such as trade facilitation and electronic commerce; and in other areas as well.

In this connection, we remain committed to the launch of a new global Round of trade negotiations. We will continue to work with each of your governments, and WTO Director-General Moore, to build consensus for a new Round at the WTO. To build international consensus for such a Round will not be a simple task. Each of us, as in the past, has domestic sensitivities; each of us has a responsibility to overcome them if the Round is to succeed. But while this is never easy, the opportunities before us are also clear. The outlines of a new Round can be drawn, if WTO members accept in the weeks and months ahead the shared responsibility of success. We are committed to this goal and willing to be flexible in reaching it; but if we are to succeed, others must be flexible as well.

Our regional initiatives - the Free Trade Area of the Americas; the President's initiative on trade and investment in Africa, the Transatlantic Economic Partnership with the EU, APEC, and our work toward regional economic integration in the Middle East - will likewise all contribute to a more open trading environment with its attendant increases in prosperity. It is especially heartening that just last month we began drafting the text of a Free Trade Area of the Americas, which will realize Bolivar's age-old dream of a Western Hemisphere united by peace, freedom and open trade.

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

Third, we must take up the new challenges created by the revolution in science and technology.

Here we have developed a set of principles that will help each of us foster technological advance and win its benefits:

- respect for intellectual property rights, through the WTO's TRIPs Agreement and initiatives we have begun in such areas as protection of optical media products and end-user software piracy;
- open markets, as in the Agreement on Information Technology and the proposed ITA II;
- pro-competitive policies in the services industries, as exemplified by the Agreements on Basic Telecommunications and Financial Services; and
- fair, transparent, science-based regulatory policies that allow new products and methods of trade to emerge while maintaining high standards of consumer protection.

The coming months will be especially important for intellectual property policy, as the WTO's TRIPs Agreement obligations phase in. We are monitoring this process closely, and will work with your governments as necessary to facilitate the process. At the same time, we are ensuring that trade policy and IPR implementation remains sufficiently flexible to respond to public health crises such as HIV/AIDS.

Looking further ahead, we see two major issues of particular reluctance to the 21<sup>st</sup>-century economy. One of these is the development of electronic commerce. Here we will seek to preserve the principle of "duty-free cyberspace," with the ultimate goal of a permanent WTO commitment to avoid tariffs on electronic transmissions over the Internet; and will continue to pursue the longer-term WTO work program on rules, intellectual property on the Net, and other issues.

A second is the application of biotechnology techniques to agriculture. These technologies have remarkable potential, for example, to reduce the use of pesticides and ease pressure on land, water and other natural resources; but also raise consumer concerns which must be met through fair, timely and science-based regulatory policies. These questions are a priority for us both in such fora as the Transatlantic Economic Partnership negotiations and at the WTO.

### **CHALLENGE OF REFORM**

Finally, we must show ourselves equal to the challenge of reform.

We live in an age when telecommunications and the Internet, together with improving education, are challenging old ways of doing business. The public in all our countries is asking more questions about trade policy, and few of us now can speak, as President Roosevelt did, from personal experience of the Depression and the contribution misguided trade policies made to it.

Therefore the burden upon us, as we speak with our young people, our men and women on the job, and our voters about trade policy and its purposes, is somewhat greater. If trade policy is to have the same foundation of public support in this new era it had in the past half-century, each of us must work harder to make the case for open markets; each of us must be willing to listen; and each of us must be willing to respond to and act upon legitimate criticisms.

The core vision of the trading system is right: opening markets in the past decades has sparked growth, reduced poverty and strengthened peace. And to begin reversing the work we have done would be irresponsible and damaging in the extreme. Our report to Congress on the WTO five years after its creation sets this out in detail.

But only the Ten Commandments are written in stone: everything human can be reviewed, reformed and improved. And that is true of the WTO as well. It can do more to promote growth and rising living standards than it does today. It can contribute more effectively to worldwide efforts to improve environmental protection and promote respect for core labor standards. And it must address concerns about transparency and inclusion, both with respect to the general public and to WTO members who have felt less able than they should to assert their interests and contribute to decisions. The means by which to effect these improvements in the trading system are many and varied, but as nations we must start a dialogue.

### **CONCLUSION: THE WORK AHEAD**

All the challenges I have outlined this morning are complex and difficult. They will require from all of us creative thinking, and still more important, a sense of shared responsibility.

But as difficult as the work may be, we should be optimists. Together, over fifty years, we have built a record of progress toward prosperity, freedom, the rule of law and strengthening peace. As we reflect on our shared aspirations for the future, this record of good will and profound accomplishment is our surest guide.

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

## AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION

Ambassador Charlene Barshefsky

U.S. Trade Representative

Los Angeles Town Hall

Los Angeles, CA

As Prepared for Delivery

March 22, 2000

Good evening. Thank you, Dominic; and let me thank all of you for coming today. It is my great pleasure to be here to discuss one of America's most important trade and foreign policy goals: China's WTO accession and permanent Normal Trade Relations.

### 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 concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement also strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton has sent to Congress, 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.

That is the only policy issue now before Congress. China will enter the WTO. It will be able to sell in the American market regardless of our debate. The vote Congress takes in a few weeks will simply be on whether we will win the benefits of the agreement we negotiated -- which as I will note later, extend to virtually every walk of life, with specific commitments opening China's markets to everything from films to information technology, hang gliders and tropical fish -- or on the other hand, turn them down and give them to the rest of the world.

### **DEEPER ISSUES**

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 it is also, I believe, appropriate to think about the wider implications of this agreement. Because when California's Congressional Representatives come to the floor to speak on the China PNTR question, they will be discussing not only an economic opportunity for California's movie studios, farmers and manufacturers, but a strategic question of central importance to our country, and most of all to the young people who will graduate from California's universities and high schools later this spring.

The reason for this is simple. China is the world's largest country. Over the past decade, it has been the world's fastest-growing major economy. And the future course of our relationship will have great bearing on American security and strategy in the 21<sup>st</sup> strategy.

Our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension. These often dominate the China debate, and many ask why we should 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 -- in fact necessary -- to judge the WTO accession in their light. And we can begin to see its fundamental importance if we trace back to its origins the institution China now seeks to join.

### **AMERICAN POSTWAR STRATEGY**

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 saw in the 1930s was the inability of global leaders to resist a cycle of trade protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which deepened the Depression and contributed to the political upheavals of the era in Europe and the Pacific. 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 Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Stepping back for a moment, half a century of experience fully vindicates the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. Social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And as Truman and his colleagues predicted, in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

Our Asia policies today reflect the fundamental principles of postwar American strategy:

- Our military presence in the Pacific, and our alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.
- Our advocacy of human rights, over the years, has helped to support the movement toward democracy and the rule of law in much of Asia.
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that can accompany economic suffering.

- And our Asian trade policy is helping to build a more open region with greater prospects for sustainable growth in the years ahead: since 1992, we have created a regional framework for open trade through APEC; concluded nearly 300 specific market-opening agreements worldwide and almost 100 in Asia, including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; and moved toward normalized economic relations with Vietnam, Laos and Cambodia.

## **CHINA FROM REVOLUTION TO REFORM**

China, of course, took a very different road after the war.

With the 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 undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. This is a trend of immense importance most of all to China's people, but also to American interests in an open, stable and peaceful region. And thus, American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to the more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform as they secured specific American trade interests.

The intellectual property issues are a case in point. Five years ago, China was the world's leading manufacturer and exporter of pirated movies and CDs. We identified over sixty separate factories producing these products. We threatened over \$1 billion in sanctions; we won a series of legal and enforcement reforms in 1995; and we went further with an Action Plan in 1996. Under these measures, China closed over 64 CD and CD-ROM production lines, destroyed the masters and molds used to produce these products, seized millions of pirated works, and have continued to investigate and close

illegal operations since.

As a result, we have substantially stopped pirate manufacturing and export, and are now pushing for further action on retail piracy. This is an advance of fundamental importance to American interests. But it is also an advance in a broader sense, helping -- as has every step in our trade policy since 1972 -- China to develop the habits and values of open markets and the rule of law.

## THE WTO ACCESSION

The bilateral agreement we reached with China last November on WTO accession is the culmination of this work. It is a comprehensive agreement, covering industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports. To offer you a look at the details:

- In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. California's information technology industry will see tariffs on computers and other high-tech equipment fall from 13.5% to zero. 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.
  
- In services, China's markets are now among the world's most closed. With our agreement, China will open distribution and telecommunications to direct foreign participation for the first time since the 1950s, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries. Our agreement also makes China one of the very few countries making specific market-opening commitments for movies and sound recordings, with studios now able to export 20 films a year on a revenue-sharing basis to China, and new distribution rights for videos and sound recordings.
  
- In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. This affects every product from California's oranges and grapes, where tariffs drop from 40% to 12%, to Maine lobster. China will also expand access for bulk agricultural products such as cotton, rice, wheat and others; end import bans; cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.
  
- The agreement also gives American workers and businesses stronger protection against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. It addresses state enterprise policies, forced technology transfer, local content, offsets and export

performance requirements. It provides, for a 12-year period, a special remedy to discipline market-disrupting import surges from China. And it strengthens our antidumping laws by guaranteeing our right to use a special non-market economy methodology to address dumping for 15 years after China joins the WTO.

All these commitments are fully enforceable: through the trade laws we have already used to win passage and enforcement of copyright laws; through WTO dispute settlement -- meaning that for the first time ever, China has agreed to subject its decisions on these issues to impartial international review; 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 for a tripling of funds for China compliance and enforcement; and through other mechanisms such as the special anti-dumping and anti-import surge remedies.

### **PERMANENT NORMAL TRADE RELATIONS**

China will join the WTO regardless of the outcome of our debate. What Congress must decide is whether we will accept the full benefits of their accession and the historic agreement we negotiated, or simply give them to our competitors. And that brings me to permanent Normal Trade Relations status.

By contrast to China's historic set of commitments, 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 trade laws.

We have only 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. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which 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.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full 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 factory workers, as well as service providers, would be left behind.

## WTO ACCESSION AND BROADER ISSUES

That is reason enough for our commitment to secure permanent NTR for China. But the costs of retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security. And when we look beyond the details of this historic agreement to its deeper meaning, we see that retreat would fundamentally threaten these American goals. 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. As President Clinton has observed, in the new century, liberty spreads by cell phone and cable modem; with China's Internet usage growing from 2 million to 20 million between 1998 and 2000, imagine what this can mean.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening 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 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.

That is why some of the leading advocates of democracy and human rights in Hong Kong and China - Bao Tong, jailed for seven years after Tiananmen Square; Ren Wandong, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party - see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. 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. Economic reform has thus helped 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 on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values - as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as we are doing at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

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, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

## CONCLUSION

Each step in our China trade policy since 1972 has rested upon concrete American interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our 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 NTR, will be the most significant step in this process for many years.

That is the opportunity before us. These are the stakes. And that is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.

## AMERICAN TRADE POLICY AND CHINA'S WTO ACCESSION

Ambassador Charlene Barshefsky

U.S. Trade Representative

Pacific and Asian Affairs Council

Honolulu, HI

March 22, 2000

Good morning, and thank you very much.

Let me express my sincere thanks to Lisa Maruyama for inviting me to meet with you today. It is my great pleasure to be here to discuss one of Hawaii's signal trade opportunities and America's most important trade and foreign policy goals: China's WTO accession and permanent Normal Trade Relations.

### 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 concessions on China's part, opening China's markets across the spectrum of services, industrial goods and agriculture. This agreement also strengthens our guarantees of fair trade, and gives us far greater ability to enforce Chinese trade commitments. By contrast, under the bill President Clinton has sent to Congress, 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.

That is the only policy issue before Congress. China will enter the WTO whether or not Congress grants it permanent NTR. It will continue to export to the U.S. regardless of our debate. The issue before us is narrow: whether we will agree to accept the benefits of China's accession and the agreement we negotiated, or turn them down and give them to the rest of the world.

### **DEEPER ISSUES**

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 it is also, I believe, appropriate to think about the wider implications of this agreement. Because when Senators Inouye and Akaka, and Representatives Abercrombie and Mink, come to the floor to speak on the China PNTR question, they will be discussing a decision of great importance not only for Hawaiian agriculture, tourism and manufacturing; but a strategic question of central importance to the scholars at the East-West Center, the officer corps at the Pacific Fleet and ultimately the young men and women who will graduate from Hawaii's colleges and high schools later this spring.

The reason for this is very clear. China is the world's largest country. Over the past decade, it has been 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 nowhere will this be felt more directly than in Hawaii. And our relationship with China today, as we all know, is free neither of deep-seated policy disagreements nor moments of tension.

These disagreements and points of tension often dominate the China debate. Many ask why we should 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 -- in fact necessary -- to judge the WTO accession in their light. And we can begin to see its fundamental importance if we trace back to its origins 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 trade protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe, which deepened the Depression and contributed to the political upheavals of the era in Europe and the Pacific. 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 Pacific alliances; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; economic stability and open markets, with the IMF and World Bank on the one hand, and the GATT on the other.

Stepping back for a moment, half a century of experience fully vindicates the commitment to open markets we made fifty years ago. Since the 1950s, global trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. And social progress reflects these trends: since the 1950s, world life expectancy has grown by twenty years, infant mortality has dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. And as Truman and his colleagues predicted, in tandem with a strong and confident security policy and growing respect for human rights, the world has become substantially more prosperous, stable and peaceful.

Our Asia policies today reflect the fundamental principles of postwar American strategy:

- Our military presence in the Pacific, and our alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the strongest guarantees of a peaceful and stable region.
- Our advocacy of human rights, over the years, has helped to support the movement toward democracy and the rule of law in much of Asia.
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to an open market policy, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that can accompany economic suffering.

- And our Asian trade policy - since 1992, we have created a regional framework for open trade through APEC; concluded nearly 300 trade agreements worldwide and almost 100 in Asia, including 38 with Japan, 13 with South Korea; 20 with the ASEAN states; and 17 with China; and moved toward normalized economic relations with Vietnam, Laos and Cambodia - is helping to build a more open region with greater prospects for sustainable growth in the years ahead.

## **CHINA FROM REVOLUTION TO REFORM**

China, of course, took a very different road after the war.

With the revolution in 1949, China 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 undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. This is a trend of immense importance most of all to China's people, but also to American interests in an open, stable and peaceful region. And thus, American trade policy over 30 years -- from the lifting of the trade embargo in 1972, to our Commercial Agreement and grant of Normal Trade Relations in 1979, to the more recent agreements on market access, intellectual property, textiles and agriculture -- has worked with and helped to deepen Chinese reform.

## **CHINA WTO ACCESSION**

The bilateral agreement we reached with China last November is the culmination of this patient, detailed

work. It is a comprehensive agreement, covering industrial goods, services, farm products, unfair trade practices, and all the barriers to American exports. As it helps China create a more open and efficient economy, it will help us redress a deeply imbalanced trade relationship. To offer you a look at the details:

In manufacturing, China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005, eliminate all quotas and discriminatory taxes, and of critical importance, in virtually all products allow full distribution and trading rights.

In services, China's markets will open across the board. In fields such as distribution and telecom, China will open to direct foreign participation for the first time since the 1940s. In tourism, China will offer substantial new opportunities to Hawaii's leading industry, with travel agencies now able to provide a full range of services for Americans in China, such as access to government resorts and major tourist centers.

In agriculture, on U.S. priority products tariffs drop from an average of 31% to 14% by 2004. This affects every product from canned macadamia nuts to papaya, beef, and even ornamental goldfish. China will also expand access for bulk agricultural products; agree to end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

And the agreement gives American workers and businesses stronger protection against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China.

All these commitments are fully enforceable, through a broad variety of means, including U.S. trade laws, WTO dispute settlement, multilateral coordination and other special measures.

## **PERMANENT NORMAL TRADE RELATIONS**

China will join the WTO regardless of the outcome of our debate. What Congress must decide is whether we will accept the full benefits of their accession and the historic agreement we negotiated, or simply give them to our competitors. And that brings me to permanent Normal Trade Relations status.

By contrast to China's historic set of commitments, 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 trade laws.

We have only 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. In terms of our China policy, this is no real change. NTR is simply the tariff status we give to virtually all our trading partners; which 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.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full 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 factory workers, as well as service providers, would be left behind.

## WTO ACCESSION AND BROADER ISSUES

That is reason enough for our commitment to secure permanent NTR for China. But the costs of U.S. retreat at this most critical moment would go well beyond our export and trade interests.

As I noted earlier, it is not only fair but necessary to judge the WTO accession in light of its implications for reform in China and Pacific security; and when we look beyond the precise commitments China has made to their deeper meaning, we see that these American goals would be fundamentally threatened by a retreat from this historic agreement.

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 alter policies dating to the earliest years of the communist era. They are a remarkable victory for economic reformers in China, giving China's people more access to information, and weakening 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 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. That is why some of the leading advocates of democracy and human rights in Hong Kong and China - Bao Tong, jailed for seven years after Tiananmen Square; Ren Wandong, one of the founders of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party - see this agreement as China's most important step toward reform in twenty years.

And internationally, the WTO accession will deepen and speed a process that has been of enormous importance to Pacific peace and security. 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. Economic reform has thus helped 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 on the UN Security Council.

We should never, of course, imagine that a trade agreement will cure all our disagreements. When we disagree with China we must act with candor and firm assertion of our interests and values - as we have done repeatedly with respect to Taiwan; as we have done in sanctioning China as a country of special concern under the International Religious Freedom Act; and as we will do this week at the UN Human Rights Commission, when we push for a resolution critical of China's record on human rights.

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, as we insist upon our rights, we also recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America. And thus we see a fundamental responsibility to act upon shared interests and mutual benefit. We have done so in the Asian financial crisis; in the maintenance of peace on the Korean peninsula; and, for over a quarter century, in trade.

## CONCLUSION

Each step in our China trade policy since 1972 has rested upon concrete American interests; promoted reform and an emerging rule of law within China; and better integrated China in the Pacific economy. Thus, each has strengthened China's stake in prosperity and stability throughout Asia. Together with our 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 NTR, will be the most significant step in this process for many years.

That is the opportunity before us. These are the stakes. And that is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.

# USTR AGENDA AND BUDGET REQUEST

Testimony of Ambassador Charlene Barshefsky

United States Trade Representative

House Appropriations Subcommittee on Commerce, Justice, State

The Judiciary and Related Agencies

April 5, 2000

Mr. Chairman and Members of the Subcommittee, thank you for this opportunity to testify on the President's Fiscal Year 2001 budget request for the Office of the U.S. Trade Representative.

I regard it as a great privilege to present this request. And I believe this hearing is especially important to us, as this year the President is requesting an increase of \$4.1 million and 25 full-time career positions for the USTR. This would be relatively minor for almost any other agency, but will be of decisive significance for us as we open a new century in trade policy.

We are, by preference and tradition, a small and lean agency. Each of our career negotiators has great responsibility and feels that responsibility keenly. We neither envision, nor wish to see, any change in that historic identity. But as I look ahead to the responsibilities the next Administration will inherit, USTR risks an inability to discharge its statutory responsibilities with only the 178 positions we now have authorized. My testimony will explain this by reviewing our agenda in detail. But let me begin with a few illustrative points.

- When I joined the USTR in 1993, Mr. Chairman, the value of America's two-way trade was approximately \$1.3 trillion. In 1998, our two-way trade total topped \$2 trillion for the first time, and this year, it may reach \$2.5 trillion.

- In 1993, the world trading system embodied by the General Agreement on Trade and Tariffs had a limited set of essentially unenforceable rules that applied differently to different members. Today's WTO

is a comprehensive set of rules which are enforceable and apply to every single member; its coverage now extends to agriculture, services, high-tech fields and other issues; and it has a strong dispute settlement mechanism which we have used in 49 cases to preserve and enforce our rights. At the same time, the WTO has agreed to open a new set of negotiations on agriculture and services, and we are also carrying on negotiations toward the accession of 30 prospective new members.

- Our network of trade agreements has grown by nearly 300 and covers each part of the world. Together with this, we have opened the first major discussions on the links between trade policy, environmental and labor issues, and launched new regional trade initiatives in Africa, Asia, Europe, Latin America and the Middle East.

## **TRADE PHILOSOPHY AND NEGOTIATING RECORD**

To more fully illustrate this, let me now turn to a detailed review of our mission, our negotiating record over the past seven years and our agenda for the future.

USTR's mission of opening markets, expanding trade, and enforcing trade laws and trade agreements reflects trade principles dating to the era of Franklin Roosevelt, under which ten Administrations have worked toward an open world economy under the rule of law. The Clinton Administration's policies have been fully in accord with these principles, seeking in the President's words to negotiate agreements that help us create "more growth and more trade, with better protection for working people and more sensible environmental policies."

This work has extended to every part of the world and every major issue related to trade. Since 1993, we have concluded nearly 300 separate trade agreements, covering all of our major trading partners: these include 38 market-opening agreements with Japan, 17 with the European Union, 20 with Canada, 13 with South Korea, 20 with the ASEAN states, and 17 with China; 22 Bilateral Investment Treaties; and numerous sectoral agreements with key trade partners. We have addressed the major trade issues of concern to Americans, including a special focus on high technology, fundamental improvement in world intellectual property standards, and opening the first major discussions on the links between trade policy, environmental and labor issues. And looking ahead, we have launched major trade initiatives in Africa, Asia, Europe, Latin America and the Middle East.

Especially notable among these achievements are six agreements of historic importance, which together have reshaped the world trade environment. These are the North American Free Trade Agreement, which has helped our exports to Canada and Mexico grow by \$122 billion since 1992; the Uruguay Round, which created the World Trade Organization and began the work of bringing agriculture and

services fully into the trading system; the global agreements on Information Technology, Basic Telecommunications and Financial Services, which together have a scope greater than the Uruguay Round itself; the WTO's commitment to duty-free cyberspace; and most recently our bilateral agreement with China on WTO accession, which will dramatically open the world's largest nation to American exports.

## RESULTS SINCE 1993

These policy achievements, in turn, helped catalyze a 55% expansion of American goods and services exports since 1992, to a record level of \$958.5 billion last year. This strong export performance is especially important, as export-related jobs typically pay 13-16% 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, by opening markets, advancing the rule of law, and promoting competition, our trade policy has contributed to a record of:

- **Growth:** The U.S. economy has grown by \$2.1 trillion or 28.7%, from \$7.2 trillion in 1992 to \$9.3 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 nearly 21 million jobs, as unemployment levels dropped from 7.3% to 4.1% This is the lowest unemployment rate since January 1970.
- **Rising Living Standards:** American living standards are rising, as hourly wages for nonsupervisory workers are up by 6.2%. 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 and Industrial Growth:** Since the mid-1990s, U.S. non-residential business investment has risen by 10.4% per year. Since 1992, U.S. industrial growth is up 40.5%, including growth in manufacturing production of nearly \$400 billion. By comparison, Germany's total industrial growth in the same period was only 6.3% and Japan's 3.6%.
- **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, and very important, point to note is that in the past seven years, the United States' share of world foreign direct investment has sharply increased, with foreign countries investing well over \$500 billion in America between 1994 and 1998. Many had expressed fears that a more open world would promote investment in countries with lower wages or weaker labor and environmental standards. In fact, it appears that the United States - with our high standards - remains a very attractive investment destination.

## **NEXT STEPS**

Our responsibility is to build upon these achievements as we look ahead to America's place in the world economy of the 21<sup>st</sup> century. Expansion of trade will remain crucial to growth and technological progress for our nation and rising living standards for our people, and a strong trade policy will in turn be essential to expand trade and advance the principles of fairness, transparency and opportunity which allow us to succeed. In this work, critical goals include:

- Continue our progress toward open and fair world markets, through leadership in the World Trade Organization on the accession of new members and the newly begun negotiations on agriculture and services; and broad, substantial initiatives with all our major trading partners in each region of the world;
- Continue an active bilateral agenda, to solve trade problems and enhance exports;
- Advance the rule of law and defend U.S. rights by ensuring full compliance with trade agreements and strongly enforcing our trade laws;
- Encourage the full participation of all economies, including economies in transition and developing nations, in the world trading system on an equitable basis;
- Ensure that the trading system helps lay the foundation for the 21st-century economy by offering maximum incentives for scientific and technological progress;
- Ensure that trade policy complements and supports our efforts to protect the world environment and promote core labor standards overseas; and
- Advance basic American values including transparency and accessibility to citizens and involvement of civil society in the institutions of international trade.

With the United States better prepared for economic leadership than at any other time, and than any other nation, we look forward to a successful and productive year, bringing further advances in our nation's economic strength and standard of living in the years ahead. A detailed look at our record and priorities follows.

## **I. GROWTH AND RISING LIVING STANDARDS**

Each element in our trade policy contributes to the broader goal of an open world trading environment governed by the rule of law, which is crucial to our country's prospects for growth and rising living standards in the new century. We pursue this goal through multilateral negotiations at the WTO, and through bilateral, regional and sectoral negotiations.

## THE WORLD TRADE ORGANIZATION

A strong, healthy trading system is crucial to America's economic and security interests. The efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad and our own open-market policies at home, as well as from the framework of rules we have designed to ensure that American products receive fair and predictable treatment around the world.

Work at the trading system has thus been central to the Administration's trade policies. Here, in ratifying the Uruguay Round Agreements which created the WTO on January 1, 1995, Congress took a step of immense significance: helping to expand the rule of law, through a system applicable to all members; creating a strong dispute settlement mechanism, strengthening our ability to enforce our trading partners' commitments; broadening those commitments both to further open industrial markets and to cover areas covered only partially or not at all, including agriculture, services, and intellectual property; and lowering barriers to create new opportunities for our industries and workers.

This was a step of great significance for all countries which participate in the WTO, but America, as the world's largest exporter and importer, has benefitted perhaps most of all from this work. And since then our work at the WTO has been central to some of our most important strategic trade policy goals.

### Since 1995

Our recent Five-Year Report to Congress contains a detailed and comprehensive review of the work of the WTO since 1995. More briefly, for the purposes of this hearing, let me note that the WTO has been crucial to strategic American goals including:

Building the 21<sup>st</sup>-Century Economy - The WTO has been at the leading edge of our strategy to capitalize on American technological leadership as we build the economy of the 21<sup>st</sup> century. Through landmark agreements on Information Technology Products, Basic Telecommunications, and Financial Services, as well as the electronic commerce "duty-free cyberspace" commitment WTO members made in 1998, we have opened markets and preserved freedoms in areas where the United States is the world's most

competitive nation, helping to spur investment, reduce costs to consumers and foster technological advance. These are discussed in more detail in the "21<sup>st</sup>-Century Economy" section below.

End of the Cold War - Ten years after the fall of the Berlin Wall, the transition economies - those nations in Asia and Central and Eastern Europe making the transition from communist central planning regimes to market economics - have made remarkable progress. This owes a great deal to the WTO's role in promoting economic reform and integration into world markets. As we help these countries integrate into rules-based world trade, we both support internal reform and strengthen peace by giving their people better economic prospects, and their governments greater interests in world prosperity and stability.

Those nations which have completed the transition - for example, Poland, Hungary and the Czech Republic - have found that the WTO's principles of transparency, open markets and rule of law are also those which help economic reform succeed. Since 1995, six more transition economies have had the same experience: Slovenia, Bulgaria, Mongolia, the Kyrgyz Republic, Latvia, and Estonia. The work is likely to accelerate this year, as Georgia is soon to enter and the accessions of Albania and Croatia are near completion. We also have made significant progress with Armenia, Lithuania and Moldova; and held fruitful discussions with Russia and Ukraine. And (as is discussed in more detail below) in 1999 we completed an historic bilateral agreement on WTO accession with China.

This work extends well beyond the transition economies, of course. In the Middle East, for example, Jordan has completed its negotiations to enter the WTO. We have made significant progress with Oman, and held important discussions with Saudi Arabia. In Asia, we have completed our negotiations with Taiwan. And we also have made significant progress with Vanuatu in the Pacific.

Promoting Development and Economic Opportunity in the Poorest Countries - Our work at the WTO is also of crucial importance to the promotion of economic growth and sustainable development in the world's poorest nations. We have worked intensively, for example, with African and CBI nations to ensure that they can participate fully in the trading system, and to offer these nations new opportunities for market access.

World Economic Stability: The WTO also has strengthened the world's ability to address economic crises. During the Asian financial crisis, for example, 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 American farmers and manufacturing exporters.

## Next Steps

The coming year marks an important turning point for the multilateral trading system. Three areas in particular will be central to our agenda.

First of all, we are developing the negotiating agenda of the future. Per the existing commitment made in the Uruguay Round, WTO members have agreed on the opening of formal negotiations on agriculture and services. These are the sectors in which world 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 across the globe. And we have set ambitious goals in each.

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. We are now working with other countries to ensure negotiations in Geneva focus on substantive reform proposals such as eliminating export subsidies; reducing tariffs; expanding market access opportunities for products subject to tariff rate quotas (TRQs), including better disciplines on the administration of those TRQs; 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 by ensuring that regulatory regimes are open, transparent, science-based and subject to due process.

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, private education and training, private healthcare, travel and tourism, and other sectors of great importance to the American economy and in particular its high-tech sectors. Broadly speaking, our objectives are to further remove restrictions on services trade and ensure non-discriminatory treatment. We also need to ensure that the commitments we obtain accurately reflect our companies' rapidly changing range of commercial activities, and reflect the many different means U.S. service providers use to meet the needs of their foreign customers, in particular as electronic commerce and the Internet develop and change international commerce.

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 and labor, trade facilitation, transparency in government procurement, and other topics as well. Thus, while there are a number of different options for proceeding with trade liberalization beyond agriculture and services, we are working to build consensus for a new Round.

To build such a consensus will not be a simple task. However, the outlines can be drawn, if WTO

members prove willing to 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 as our discussions continue. But success depends on flexibility on the part of our trading partners as well.

Second, we are focusing intensely on implementation of agreements. With the WTO now five years old, the transformation from the General Agreement on Tariffs and Trade is nearly complete, as commitments and concessions agreed in the Uruguay Round on such areas as Intellectual Property Rights Protection, Customs Valuation, Trade-Related Investment Measures and Industrial Subsidies near full implementation. As noted in the next section, we are monitoring WTO members' implementation of these commitments closely, and will not hesitate to use our dispute settlement rights when necessary to ensure compliance.

Third, we are working towards institutional reform of the WTO. Our agenda here will center on the need for greater transparency - both externally, in terms of citizen access, and internally, in terms of the ability of all WTO members to participate fully in the work of the system. This is also discussed in more detail later in this testimony.

## **REGIONAL AND BILATERAL AGENDA**

Together with and complementing our focus on the World Trade Organization has been a bilateral and regional agenda covering each part of the world and our major trading partners.

### **ASIA-PACIFIC**

Nearly a third of all U.S. trade is with the Asia-Pacific region. Here we have some of our most significant opportunities, and also some of our most complex trade policy challenges. In response, we have pursued a strategy with the following major goals:

- Opening the Chinese market and normalizing trade ties with China;
- Market-opening and deregulation in Japan;
- Intense bilateral negotiations with our trading partners in South Korea and the Association of Southeast Asian Nations (ASEAN);

- Normalizing economic ties with the region's other transitional economies, including Mongolia, Cambodia, Laos and Vietnam;
- Reducing trade barriers and strengthening our trade dialogue with India; and
- Developing a broad commitment to open regional markets through the Asia-Pacific Economic Cooperation Forum (APEC).

A review of our progress and future goals in each area is as follows.

### **China**

This year, our top trade policy priority is the completion of China's WTO accession, and the approval of permanent Normal Trade Relation (NTR) status for China.

Since 1992, our trade policy goals have been to open China's markets to American exports, support Chinese domestic economic reform, and integrate China into the Pacific and world economies. We have used a variety of means to achieve these goals, including commercially meaningful agreements in such fields as agriculture, textiles and intellectual property that open opportunities and strengthen guarantees of fair trade for Americans.

This culminated last November in our historic bilateral agreement on China's accession to the WTO. When implemented, this agreement will open the Chinese economy to the world more fully than at any time: reducing and eliminating barriers to the American exports and strengthening guarantees of fair trade for American businesses and working people. It is an agreement, as the President has stressed, in the fundamental American economic and national security interest, and also in the interest of reform in China.

Our bilateral agreement is comprehensive. It covers tariff and non-tariff barriers to U.S. exports of industrial goods, agricultural products and services. Specific rules address import surges, anti-dumping and subsidies practices and requirements for export performance, local content, offsets, and technology transfer. Market opening will begin from day one once China completes its accession. The phase-in of China's commitments will be limited to five years in almost all cases; and in many cases to one to three years. These commitments are specific and enforceable through WTO dispute settlement, U.S. trade laws, and other special mechanisms.

The full benefits of this agreement, of course, will require extensive monitoring and enforcement. With permanent NTR in place, WTO accession will substantially strengthen our enforcement capability with respect to China, for example through WTO dispute settlement, our ability to work with 134 other WTO members instead of acting alone, multilateral monitoring, and our own trade laws. We also are preparing for the largest monitoring and enforcement effort ever given to any trade agreement, as part of 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. This effort will cover China's obligations in the WTO and also import issues such as dumping and countervailing duties.

By contrast to these historic commitments, WTO accession for China requires no changes whatsoever in our current market access policies toward China, and preserves our right to withdraw market access for China in the event of a national security emergency. Likewise, we amend neither our laws controlling the export of sensitive technology, nor our trade laws. But 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.

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, businesses and workers would be left behind.

## Japan

With Japan, our largest Asian trading partner and the world's second-largest economy, we have worked throughout the Administration to promote reform, market-opening and deregulation that will both create opportunities for Americans and help to restore health to the Japanese economy. Thus, the Clinton Administration's comprehensive approach to economic relations with Japan, established under the United States-Japan Framework Agreement at the beginning of the Administration in 1993, addresses sector-specific barriers and underlying structural obstacles in the Japanese market, as well as macroeconomic issues.

Since 1993, the United States has concluded 38 market-opening agreements with Japan in such sectors as telecommunications, medical technology, autos, agricultural products and insurance. The Administration has placed top priority on monitoring Japan's implementation and enforcing U.S. rights under these agreements.

In 1997, the Administration complemented this approach with the launch of the U.S.-Japan Enhanced

Initiative on Deregulation and Competition Policy to address the regulatory obstacles that impede market access in key sectors of the Japanese economy. The initiative has made substantial progress in deregulating and opening to competition the telecommunications, housing, energy, financial services, pharmaceuticals and medical devices sectors. This year, we are working toward further progress under this Initiative. We have made progress in a number of areas, including housing, energy and distribution. However, due to lack of progress in the field of telecommunications we were unable to conclude the package in March. We will continue to work on these issues in the months ahead, as we prepare for this year's G-8 meeting in Okinawa.

The Administration's multifaceted approach to Japan, has resulted in a 20% increase in U.S. exports to Japan. Between 1993 and 1997, before the onset of Japan's recession, U.S. exports to Japan increased by more than a third, with exports in those sectors covered by bilateral agreements growing two and a half times as fast as overall exports to Japan. Japan was also the largest purchaser of U.S. private services exports in 1998 (latest data available), accounting for 12.5% of total U.S. private services exports. These gains are particularly significant given Japan's continued economic recession.

The United States and Japan reached two major new trade agreements in 1999. First, in May 1999, the United States and Japan announced a package of new Japanese deregulation measures that substantially expands on the progress made in the first year of the Enhanced Initiative. Second, we concluded a new bilateral telecommunications procurement agreement in July 1999 that ensures open, non-discriminatory, and transparent procurement by the four successor Nippon Telegraph and Telephone (NTT) companies, which together are the largest purchaser of telecommunications equipment in Japan.

Finally, in order to explore the underlying causes of the 1998 steel surge, the United States and Japan initiated a bilateral dialogue on steel. While import levels have fallen recently, the Administration remains concerned with structural issues in Japan, such as possible obstacles to competition and restructuring in Japan's steel market, which may have contributed to the oversupply of steel.

This work will continue in the year 2000, as we place a high priority on greater access for U.S. goods and services, promoting deregulation and structural reform, and advocating greater use of pro-competitive policies throughout the Japanese economy. We will continue to utilize bilateral consultations, WTO negotiations and dispute settlement, and the Asia-Pacific Economic Cooperation forum (APEC) to achieve our market opening objectives.

### **Other Asia-Pacific Trading Partners and APEC**

Over the past seven years, the Clinton Administration has worked to build a broadly more open regional Asia-Pacific trading environment, through regional negotiations beginning with the historic Asia-Pacific

Economic Cooperation forum (APEC) Leaders Meeting in Seattle in 1993; the opening of markets in Korea, ASEAN, India, Australia and other major trade partners; work toward full normalization of trade relations with the three nations and 100 million people of Indochina; strengthened rule of law region-wide, with a special focus on intellectual property; and economic liberalization in the aftermath of the 1997-99 Asian financial crisis.

Specific accomplishments here include the landmark Information Technology Agreement begun in APEC and adopted by the WTO in 1997; 13 bilateral agreements to open markets to beef, automobiles, pharmaceuticals and other products in South Korea; 20 bilateral agreements with the members of the Association of Southeast Asian Nations (ASEAN); normalization of economic relations with Mongolia; completion of Bilateral Commercial Agreements with Cambodia and Laos (with NTR still pending for Laos and granted for Cambodia) and our negotiation of an agreement in principle on market access in Vietnam last year.

The APEC Leaders Meeting also inaugurated a program of regional discussions on trade liberalization. This has included sectoral initiatives as well as a broader commitment under the Bogor Declaration of 1994 to "free and open trade in the region" by 2010 for developed countries and 2020 for developing countries; programs on trade facilitation, electronic commerce, and other issues; and the building of consensus on tariff liberalization in 15 other industrial sectors

These efforts have been complicated by the unprecedented economic crisis which struck Asia between 1997-1999. The region has begun its recovery, with all countries in the region beginning to register positive growth in 1999. This rapid recovery was in no small part due to the structural reforms undertaken in many of the economies most affected by the crisis, as well as the region's abiding commitment to retain open market policies as agreed in the WTO and national policies as well. This enabled trade in the region to expand in 1999, and avoided a destructive spiral of protectionism such as that which damaged the world economy in the 1930s.

As the region emerges from this crisis, it is crucial that economic and structural reform proceeds. Our trade policies will generally support this goal. We will work to ensure that APEC continues making specific and concrete strides toward achieving its goal of open markets in the region, and just as importantly, to continue to play a leading role in the global trading system, by acting as a catalyst for multilateral trade liberalization. We also will continue working with our individual trading partners, and closely monitor the trade and investment reforms set out in the International Financial Institutions (IFI) stabilization programs in the region. Effective implementation of these reforms are not only central to continued recovery in a number of Asia Pacific economies, but have implications for a number of areas critical to regional trade, such as improved market access, transparency, economic deregulation, attracting investment efficiently, and allocating public and private resources based on market disciplines.

## **WESTERN HEMISPHERE**

The 1990s marked a revolutionary shift in the Western Hemisphere's trade debates. As nations throughout the Americas strengthened consensus on democratic government and open markets, we fundamentally strengthened our trade relationships with our closest neighbors, to a point at which 45% of our trade is now with this region. More broadly, and perhaps even more significantly, the region's success in democratizing government and building commitment to market-based economies has helped replace old and sterile debates with a new consensus for hemispheric unity and shared prosperity.

### **North American Free Trade Agreement**

At the outset of the Clinton Administration, we completed negotiation of, and secured Congressional approval for, the North American Free Trade Agreement (NAFTA). This created the world's largest and most comprehensive free trade area; it is also the first agreement to mandate cooperation to protect the environment and workers' rights, and provide sanctions for ineffective enforcement of labor and environmental commitments.

Since the NAFTA, trade among the three signatories has expanded by more than 85%, including goods export growth of \$76 billion to Canada, and \$46 billion to Mexico. Since 1998, Mexico has been our second largest trading partner after Canada. And as this agreement has gone into effect, we have made additional gains in our relationships with Canada and Mexico, including agreements on softwood lumber, magazines and agricultural market access for cattle, wheat and other products in Canada.

The work continues, as we attach a high priority to full and effective implementation of the NAFTA. We maintain oversight and management of the Agreement through a comprehensive trilateral work program involving more than 25 different committees, working groups and their subsidiary bodies. The Department of Labor and the Environmental Protection Agency respectively coordinate the work of implementing NAFTA's side agreements on labor and the environment. Overall direction to NAFTA implementation is provided by the annual NAFTA Commission.

And we continue, of course, to pursue active bilateral agendas with both our NAFTA partners. This will include implementation of our bilateral agreements on agriculture, lumber, tourism and sport fishing, and magazines with Canada; in Mexico, enforcing intellectual property rights and building a cooperative enforcement program; greater access for U.S. telecommunications service providers; addressing the dispute over the NAFTA transition to more open trade in sugar; pursuing greater market access for U.S. high fructose corn syrup exporters; effectively addressing barriers to U.S. agricultural exports as they may arise; and ensuring that Mexico's customs valuation procedures are not unfair impediments to trade or inconsistent with the WTO.

## **Caribbean Basin**

With respect to our neighbors in the Caribbean and Central America, we strongly support legislation to enhance the Caribbean Basin Initiative or CBI, by extending its scope and product coverage.

For fifteen years, CBI has been fundamental to growth, economic diversification, and strengthening trade ties with Central America and the Caribbean island nations. It has made a substantial contribution in particular to the Central American peace process, with all the benefits that has brought to the region's people and ourselves as well. CBI has also helped to make the beneficiary nations the destination for \$19 billion in American exports. Its enhancement is of fundamental importance to help Caribbean countries maintain their competitiveness and growth, and continue strengthening this relationship.

## **South America and Other Bilateral**

Likewise, we have pursued a strong market-opening policy throughout the hemisphere, ranging from agreements to strengthen intellectual property region-wide, open markets to autos in Brazil, and promote the rapid development of electronic commerce.

We have made an especial priority in recent years of ensuring implementation of Uruguay Round commitments throughout the hemisphere, working for example with Peru and several Central American nations to achieve rapid implementation plans for their obligations under the WTO Customs Valuation Agreement. We have also emphasized the importance of strong intellectual property standards to the development of high-tech industry, with results including, for example, substantial improvement of IPR law and enforcement in Paraguay and Panama, which traditionally have been major transit and distribution points for pirated goods in the hemisphere. This year, priorities include work with Brazil and Argentina to ensure that Mercosur's auto policy does not conflict with the WTO rules; and obtaining Senate ratification of Bilateral Investment Treaties with Nicaragua, Honduras, El Salvador and Bolivia.

## **Free Trade Area of the Americas**

Most broadly, at the Summits of the Americas in Miami and Santiago, we embarked upon a historic mission, launching negotiations - including every hemispheric democracy - to create a Free Trade Area of the Americas (FTAA). This would eliminate tariffs and non-tariff barriers to trade in goods and services throughout the Hemisphere and establish a single set of rules for fair trade in the region, and

fulfill a two-century old dream of a hemisphere united by shared commitment to democracy, shared prosperity and mutual benefit.

This commitment has already led to the implementation of specific business facilitation measures, easing trade with all our major hemispheric partners. Despite economic stress in the aftermath of the financial crisis, the negotiations are on schedule, as evident in the unanimous decision of the 34 trade ministers at the Toronto Ministerial meeting of the Free Trade Area of the Americas in November 1999 to adopt an ambitious negotiating agenda for the next 15 months and the first negotiating sessions on the formal agreement text at the beginning of this year. The region also joined at Toronto in seeking the global elimination of agricultural export subsidies in the agricultural trade negotiations occurring in the WTO.

With the Third Summit of the Americas scheduled for April 2001 in Quebec, Canada, we expect an intense year of negotiations. Our agenda concentrates in four areas: negotiating draft texts of the chapters of the Agreement by April 2001; carrying out a continuing program of business facilitation; addressing the views and concerns of civil society; and deepening our region's understanding of the implications and benefits of electronic commerce for our societies.

Among the most prominent issues raised by elements of civil society is that of ensuring that our trade liberalization and environmental protection policies are mutually supportive. Thus, the Administration has initiated its environmental review of the FTAA. This will help inform both the public and negotiators of the environmental considerations we must take into account as we formulate our negotiating positions. As we implement the principles of the Declaration on Environment and Trade, we also will work with other stakeholders to address concerns including issues of worker rights, transparency, and consumer protection.

## AFRICA

The past seven years have been one of the most innovative and productive periods in the history of our trade relationship with Sub-Saharan Africa. While at present, our trade relationship with the continent is relatively small (with two-way goods trade totalling \$19.6 billion last year, and a market share of less than 8%), sub-Saharan Africa, with a population of approximately 640 million people, over 10% of the world's population, represents a market of great potential for the United States.

As many countries in Africa institutionalized new democratic governments and economic reforms aimed at creating more competitive, market-oriented economies, President Clinton opened a strategic initiative which helps promote these reforms, strengthens our ties to Africa's leading reformers and promotes regional economic integration. This will ultimately help create a new and far deeper American economic partnership with Africa. This has included initiatives at the USTR to create an Office of African Affairs,

and to expand the Generalized System of Preferences by over 1700 tariff lines for the least developed nations.

In 1999, this initiative led to our first Trade and Investment Framework Agreements (TIFAs) with African partners. TIFAs with South Africa and Ghana established permanent mechanisms for addressing trade and investment issues and for identifying and eliminating or reducing barriers to trade and investment. We signed a third TIFA with Nigeria in February of 2000, and hope to build on this success through a similar agreement with the West African Economic and Monetary Union (WAEMU). The TIFAs will be used to address market access barriers to U.S. trade and investment and to identify means to expand and diversify trade between the United States and sub-Saharan Africa.

Our principal policy goal for the year 2000 is passage of the African Growth and Opportunity Act (AGOA). The Act has received bi-partisan Congressional support, and should see final action soon. Enactment of AGOA would provide increased market access for products from reforming sub-Saharan African countries, institutionalize an annual U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forum, and encourage the establishment of funds and guarantees to support private sector and infrastructure development in Africa. We hope to see the Subcommittee's strong support for this historic step.

Other U.S. Government agencies are working under the Partnership initiative or other programs to provide debt forgiveness, technical assistance and expanded opportunities for transportation and energy services, Internet and electronic commerce capacity, support for combating HIV/AIDS and other diseases, and promotion of enhanced business and economic relations. These programs complement each other by helping to create an environment for trade and investment-based economic growth. This in turn will contribute to sustainable development, help promote more stable and democratic governments and will make countries better able to combat serious cross-border threats such as infectious diseases, environmental degradation, narcotics trafficking, and terrorism.

The United States also will continue to intensify its efforts to assist sub-Saharan African countries to increase institutional capacity to participate more fully in the multilateral trading system, as part of a general commitment to ensure that the least developed countries have both greater access to markets and more ability to take advantage of the opportunities the WTO offers. We are working directly with a number of African partners in this, for example in our joint submission with Nigeria, Lesotho, Senegal, Zambia and Bangladesh of a proposal to revitalize the capacity-building and technical assistance efforts of the WTO and other international institutions. This new approach will begin with the Integrated Framework, which requires cooperation between the IBRD, IMF, UNCTAD, UNDP and donor countries. We also are sponsoring regional workshops on WTO issues, with one to be held shortly in Nigeria.

## **MIDDLE EAST AND NORTH AFRICA**

In the Middle East, the advances in the peace process, together with a broad regional momentum towards reform have enabled us to develop an innovative set of duty-free programs to help stimulate investment, growth and regional economic integration. By opening regional markets, and helping to spur greater trade and investment among the Middle Eastern nations, trade policy will help to give participants in the peace process greater concrete stakes in its long-term success.

The foundation of our work is our existing Free Trade Agreement with Israel, under which bilateral trade has quintupled to over \$17 billion since 1985. We are, of course, working to further strengthen this relationship as we address bilateral intellectual property, agricultural market access, and telecommunications issues; and we are seeking opportunities to extend the area of prosperity and open trade it has created.

In 1996, for example, the Administration strengthened the trade and peace process by extending duty-free treatment under the U.S.-Israel FTA to products from the West Bank and Gaza Strip. Under this arrangement, the United States has received assurances from the Palestinian Authority of reciprocal duty-free treatment of U.S. products entering those areas.

We also in 1998 initiated a "Qualifying Industrial Zone" program, with the cooperation of the late King Hussein of Jordan and then-Israeli Trade Minister Natan Sharansky. Under this program, several specific Israeli-Jordanian industrial projects employing nearly 10,000 people now receive duty-free treatment in the United States. In the coming year, we intend to build on this under the umbrella of the Middle East Peace Process by extending the Qualified Industrial Zone (QIZ) program in Jordan to the Aqaba-Eilat area, and by working to enlist Egyptian cooperation in establishing QIZs.

At the same time, we will continue to deepen our bilateral relationships with countries in the region, such as Egypt, Jordan, Turkey and Morocco through our established Trade and Investment Councils. The U.S. Government aims in 2000 to complete a Trade and Investment Framework Agreement (TIFA) with Tunisia and begin TIFA negotiations with Algeria in the next year. And we are promoting WTO accession for a number of Middle Eastern nations, supporting Jordan's successful accession to the WTO in 1999, significant progress with Oman, as well as negotiations with Saudi Arabia and soon Lebanon. In each case, the Administration will seek to ensure that the trade regimes of these economies are consistent with WTO requirements, and that commitments are implemented upon accession.

## EUROPE

Our largest single economic relationship is that with the European Union. In it, we have substantial disputes to overcome, but also major opportunities that we and the EU members recognize. These are particularly significant, in that they raise issues relating to new technologies and services which we will confront worldwide in the years to come. At the same time, our trade policies in Central and Eastern Europe take advantage of the historic opportunity created by the end of the Cold War, to enlarge and stabilize the Atlantic area of democracy and peace.

### **European Union**

Our trade relationship with Western Europe is of fundamental importance to America's economic and national security interests. It is the second largest regional trade and largest investment relationship we have anywhere in the world: bilateral goods and services trade likely reached \$500 billion last year; 44% of our foreign direct investment is in the EU; and likewise 59% of the EU's FDI is in America. In this relationship we have opportunities to find new areas in which we can open markets and create export opportunities. At the same time, we have very substantial disputes with the EU, in which we vigorously assert American rights and interests.

Our work with the EU since 1993 has addressed both of these areas. In our disputes, we used all means at our disposal to protect our rights and interests. We have, for example, used WTO dispute settlement, including retaliation as authorized by panel decisions, to enforce our rights in agricultural disputes over bananas and beef hormones. We also have strongly asserted American interests in cases of discriminatory regulation such as those relating to hushkits. In these cases and in others, we will remain steadfast in ensuring that the EU meets its commitments. By the same token, we also have responded strongly when the EU has challenged U.S. measures or practices, such as its WTO dispute against the Foreign Sales Corporation (FSC) provisions of U.S. tax law. This is a matter of high priority for us. We need to find a constructive solution to the Appellate Body's recent decision against certain provisions of the FSC. We respect our WTO obligations, and will seek a solution that ensures that U.S. firms and workers are not at a competitive disadvantage with their European counterparts.

Notwithstanding our disputes, we have also found common ground and shared interest on a broad range of interests. We have negotiated 17 specific trade agreements with the EU, in areas from government procurement to electronic commerce, regulatory policy and other issues. These have enabled us to capitalize on areas of common interest, notably through our conclusion of a Mutual Recognition Agreement (MRA) which improves market access, reduces costs and shortens the time required to market many U.S. products in the EU, while maintaining our current high levels of health, safety and environmental standards. Product sectors covered by the US-EU MRA now represent over \$50 billion in annual two-way trade. The MRA will eliminate duplicative testing and certification for products in the following sectors: telecommunications and information technology equipment; network and electromagnetic compatibility (EMC) for electrical products; electrical safety for electrical and electronic products; good manufacturing practices (GMP) for pharmaceutical products; product evaluation for certain medical devices; and safety of recreational craft. Altogether, this work has helped spark a \$44 billion increase in goods exports to the EU between 1992 and 1999, and a \$32 billion increase in exports

of services between 1992 and 1998.

We took this work further at the U.S.-EU Summit of May 1998, launching the U.S.-EU Transatlantic Economic Partnership (TEP), which is designed to reduce barriers to bilateral U.S.-EU trade and to improve U.S.-EU cooperation on a range of trade issues. The TEP has enabled us to address seven broad areas, including technical standards; agriculture; intellectual property; government procurement; services; electronic commerce; and shared values in fields such as trade-related labor and environmental issues. In the year 2000, we and the EU intend to bring as many TEP activities to fruition as possible. We will aim in particular for early results in areas involving transatlantic regulatory cooperation, including such specific steps as a mutual recognition agreement on marine safety equipment; a pathbreaking series of mutual recognition arrangements for insurance, architect services and engineering services; and full implementation of a pilot project to highlight areas of congruence and difference in how U.S. and EU authorities regulate bioengineered products.

### **Central Europe and the New Independent States**

A central focus of Administration trade policy since 1993 has been support for efforts by new democracies to make a successful transition away from communist central planning practices. Thus, we have sought to develop strong, healthy trade and investment relations with the countries of Central Europe and Eurasia, and encourage them to join the WTO.

In pursuit of these goals, we have negotiated trade agreements and investment treaties throughout Central Europe and Eurasia. These agreements - Bilateral Investment Treaties with such nations as Albania, the Baltic States, Georgia, Romania and others; agreements on intellectual property with Bulgaria, Hungary, Latvia, Lithuania and others; Bilateral Commercial Agreements and other measures - have led countries of the region to take key steps in liberalizing their trade regimes and removing barriers to investment. In addition, the Administration has encouraged these countries to join the WTO, thus deepening economic reform and supporting the development of markets and the rule of law.

Since 1993, eight countries in the region have become members of the WTO and another 14 states - including Russia and Ukraine - applied for WTO membership. Cases such as that of Bulgaria show how important this has been for lasting reform. More recently, Estonia, the Kyrgyz Republic and Latvia have entered the WTO. Albania, Croatia and Georgia are expected to join in 2000. We strongly support this, and have worked with the governments of these new democracies to help them enter rapidly and on commercially meaningful terms.

We also have supported the efforts many of these nations have made to join the European Union. However, we also have insisted that EU accession take into account our concrete trade interests. As a

priority in 2000, we are thus pursuing consultations with the ten Central European countries in accession negotiations with the EU, seeking to address the problem of tariff differentials faced by U.S. exporters vis-a-vis EU exporters to those countries.

The Administration also will work with Congress to achieve passage of the "Southeast Europe Trade Preference Act" (SETPA). This bill, creating trade and export opportunities for countries in the Balkans committed to peace and reform, is an integral part of the commitments made by the United States at the Sarajevo Summit in July 1999 to help bring stability and economic development to Southeast Europe.

## II. BUILDING THE 21<sup>ST</sup> CENTURY ECONOMY

Given America's leading position in the high-tech industries, and the importance of a strong high-tech sector to our national competitiveness, the Clinton Administration has made a special focus of protecting the results of our research and development, and opening markets for the high-tech sector through a program of strengthening respect for intellectual property, opening markets across the spectrum of high-tech industries, helping countries develop pro-competitive regulations in fields like telecommunications, and facilitating technological advance in new fields through initiatives on emerging fields such as electronic commerce and biotechnology.

Major specific achievements include:

Intellectual Property Rights - Respect for intellectual property rights is central to technological innovation. Creative and innovative products that rely on intellectual property protection, such as computer programs and motion pictures, are typically very costly to develop but relatively cheap to copy. Our use of the "Special 301" law and the Uruguay Round's TRIPS agreement has helped fundamentally to improve intellectual property standards worldwide. Today, the vast majority of our trading partners have passed modern intellectual property laws and are improving their enforcement of these laws.

We are now monitoring WTO members' implementation of their TRIPS Agreement obligations and will enforce these commitments in the most effective way. We also are implementing campaigns against worldwide piracy of new optical media technologies, and against end-user piracy of software. These issues are integral parts of our regional negotiating agenda in Asia, Latin America, Europe, Africa and the Middle East, together with development of compliance plans, technical assistance and other measures.

At the same time, we are ensuring that trade policy remains sufficiently flexible to respond to public health crises such as HIV/AIDS. In 1999, we developed an arrangement to ensure more direct interaction between USTR and HHS on health-related intellectual property issues. When a foreign government expresses concern that U.S. trade law related to intellectual property significantly impedes its ability to address a health crisis, USTR will seek substantive information from HHS on the health conditions prevailing in that country. This enables the Administration to respond fully and appropriately to public health crises, within the context of the TRIPS Agreement.

Sectoral Market-Opening - We also have an active sectoral high-tech agenda. This opened with a series of bilateral high-tech agreements with Japan, covering semiconductors, cellular phones, medical technology and other products, and moving on to such areas as basic telecommunications, wireless cable, direct-to-home satellite services and cable TV, medical equipment and pharmaceuticals, financial services, energy and other fields. This led to major achievements and goals including:

- *Semiconductors*: Beginning with implementation of the 1991 U.S.-Japan Semiconductor Agreement and its successor agreements in 1996 and 1999, we have helped to raise the foreign share of the Japanese market, which had averaged 16.7% in 1992, to over 30% since the first quarter of 1997. Moreover, the European Union and Korea's elimination of semiconductor tariffs to become participants in the 1996 agreement fulfilled longstanding U.S. goals, paving the way for the Information Technology Agreement which substantially eliminated semiconductor and most other information industry tariffs worldwide.
- *Information Technology Agreement*: Using the Semiconductor Agreement as a base, we reached a landmark multilateral agreement in the Information Technology Agreement (ITA) of 1997. By 2000 for the majority of countries, the ITA will eliminate all tariffs on \$600 billion worth of goods: 95% of the world production of semiconductors, computers, telecom equipment, integrated circuits and other goods associated with the Information Superhighway. This is a step important for its vast size - these products make up about one in every thirty dollars of world GDP - and its potential to promote economic growth and freedom of information. We are now seeking consensus on an expansion of this agreement - the "ITA II" - to include even more products, and to address problems related to trade in the sector, including standards and non-tariff measures.
- *Agreement on Basic Telecommunications Services*. This Agreement, which came into force in February, 1998, opened up 95% of the world telecommunications market to competition, promoting pro-competitive regulatory principles in all participants and covering the vast majority of nearly \$1 trillion in telecommunications trade. In just two years, the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce has been significantly eroded, helping to bring down rates dramatically, to levels as low as 10 to 20 cents per minute, for calls between the United States and countries such as Japan and Mexico. And as a result of the broader market access and increased investor stability provided by WTO commitments, new investment in undersea fiber optic cables may result in a fifty-fold increase in capacity by the end of 2001, compared to mid-1999. The rapid expansion of the Internet into more and more parts of the world, at higher capacities and faster speeds, is due in significant measure to the market-opening path on which this agreement has placed the world's trading nations.

- *Agreement on Financial Services*: This Agreement was concluded in December 1997 and came into effect in March, 1999. Covering nearly \$60 trillion in banking, insurance and securities transactions each year, it has already helped U.S. service suppliers expand commercial operations and find new market opportunities across a wide spectrum of developed country and emerging markets, through both investment in foreign banking institutions, brokerage and insurance sectors and cross-border trade. Growth potential for competitive U.S. financial services suppliers is high, including helping emerging markets modernize their financial services systems and improving their infrastructure for trade in goods and services.

Global Electronic Commerce - In accordance with the President's Global Electronic Commerce initiative, the Administration seeks to preserve electronic transmissions over the Internet as duty-free. At the Second WTO Ministerial Conference, in May of 1998, we won agreement on this duty-free-cyberspace initiative, and we will push for its further extension, with a goal of making it permanent at the earliest possible time.

We also have begun a longer-term work program, whose goals include ensuring that our trading partners avoid measures that unduly restrict development of electronic commerce; ensuring that WTO rules do not discriminate against new technologies and methods of trade; according proper application of WTO rules to trade in digital products; and ensuring full protection of intellectual property rights on the Net. In addition, the United States has initiated a capacity-building program, the Internet for Economic Development Initiative, to help developing countries improve their ability to use the Internet.

Likewise, in our negotiations toward the Free Trade Area of the Americas, at APEC and in the Transatlantic Economic Partnership, we have created special committees to advise us on ways to ensure all participants can take maximum advantage of electronic commerce.

Biotechnology - American agriculture and medicine are among the chief sources of innovation in this emerging field. These technologies have remarkable potential, for example, to reduce the use of pesticides and ease pressure on land, water and other natural resources. USTR thus seeks to ensure that farmers and ranchers can use safe, scientifically proven techniques to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination. However, such advances also raise consumer concerns which must be met through fair, transparent, timely and science-based regulatory policies that ensure the strongest protection for public health and the environment in the United States and worldwide. This is a priority for us in the Transatlantic Economic Partnership negotiations and in developing our agenda for future WTO negotiations.

### **III. ENFORCING THE RULE OF LAW**

All of our negotiations and agreements since 1993, and each of the initiatives now underway, are

predicated on full implementation of commitments. This ensures confidence in trade policy, and allows both the United States and our trading partners to gain the full benefit of our agreements. The Administration has respected our own commitments in this regard, and we expect the same of our trading partners.

As our network of agreements has grown, and commitments broadened at the WTO, we have therefore devoted more attention and resources than ever before to monitoring and enforcement. We use these to reach our goals through a variety of means, including:

- We assert U.S. rights through the World Trade Organization, including the stronger dispute settlement mechanism created in the Uruguay Round, and the WTO Committees and Bodies charged with monitoring implementation and surveillance of agreements and disciplines.
- We vigorously monitor and enforce our bilateral agreements.
- We invoke U.S. trade laws, including Section 301, Section 1377, and Title VII of the 1988 Trade Act, in conjunction with bilateral and WTO mechanisms to promote compliance.
- We provide technical assistance to trading partners, especially in developing countries, to implement key agreements like the Agreement on Basic Telecommunications and TRIPS.
- Through NAFTA's trilateral work program and use of NAFTA's dispute settlement mechanism, we seek to promote America's interests under that Agreement, as well as using its labor and environmental side agreements to promote fairness for workers and effective environmental protection.
- Through the Special 301 law, we identify priorities for intellectual property enforcement each year;
- The Generalized System of Preferences also contains conditions for beneficiary countries, including respect for intellectual property rights and core labor standards, which we have used with respect to a number of developing countries.

In the course of these monitoring efforts, the United States focuses in particular on foreign practices that could pose serious problems to U.S. interests and the international trading system if they were to proliferate in many markets. Therefore, the Administration has adopted a strategic enforcement plan - aimed not only at challenging existing barriers but also at preventing the future adoption of similar barriers around the world. This has enabled us to succeed in more than 100 enforcement actions over the past seven years, using the combination of formal dispute settlement and U.S. trade laws to enforce the agreements we have negotiated.

Domestic Law - With respect to our domestic laws, we have aggressively used Section 301 of the Trade Act of 1974, "Special 301" for intellectual property rights enforcement, "Super 301" for dealing with barriers that affect U.S. exports with the greatest potential for growth, Section 1377 of the Omnibus

Trade and Competitiveness Act of 1988 for telecommunications issues, and Title VII of the 1988 Act for enforcement of procurement agreements.

WTO Dispute Settlement - At the WTO, the United States has been the world's most frequent user of dispute settlement procedures. In the last 5 years, we have filed 49 complaints at the WTO, thus far settling favorably 10 cases and winning 13 others through WTO panels and the Appellate Body. We have won favorable settlements and panel victories in virtually all sectors, including manufacturing, intellectual property, agriculture and services.

The accomplishments of the WTO dispute settlement mechanism in the last five years particularly stand out when compared to the record of the prior mechanism under the GATT. Under the GATT, panel proceedings took years, the defending party could simply block any unfavorable judgment, and the GATT panel process did not cover some of the agreements. Under the WTO, there are strict timetables for panel proceedings, the defending party cannot block results unfavorable to it, and there is one comprehensive dispute settlement process covering all of the Uruguay Round agreements.

The first five years have demonstrated that a WTO Member cannot violate its obligations without consequences. Moreover, if a WTO Member violates its intellectual property or trade in services obligations, another Member can be authorized to retaliate against the goods of the violating Member. The Administration has demonstrated its commitment to enforce this in practice by imposing retaliatory trade measures against the European Union for its failure to comply with WTO rulings on bananas and on beef from cattle treated with hormones.

To carry out this work as effectively as possible, in particular with the prospect of enforcing our bilateral agreement with China on WTO accession, we have added new personnel to carry out a larger enforcement workload, without compromising our efforts to negotiate further market access in key markets. Specifically, we have created an Enforcement unit headed by an Assistant U.S. Trade Representative, and in FY 1998 Congress provided us with funds to hire seven new attorneys to handle the added volume of work at the WTO and elsewhere. We also work closely with the Departments of Commerce, Agriculture, State, Treasury, the Customs Service and other agencies involved in enforcement of trade laws and agreements. President Clinton's FY 2001 budget request will give the USTR, together with these other agencies, critical additional resources for enforcement.

#### **IV. QUALITY OF LIFE**

The Clinton Administration has sought to ensure that the trading system fully addresses the concerns of citizens, by helping to raise the quality of life as it also raises living standards. This includes high

standards of environmental protection, the observance of core labor standards, and high levels of consumer protection. Our record at home over the past thirty years has shown clearly that as we open trade and promote economic growth, we also can ensure strong and rising standards of protection for our air and water, strengthen observance of core labor standards, and protect consumers. That is a principle we advance in the world economy as well.

## **Trade and Environment**

Our commitment was made clear at the outset of the Administration, with the creation and effective implementation of the North American Agreement on Environmental Cooperation in conjunction with the NAFTA. Cooperative activities under this agreement have improved environmental protection in a number of different areas - for example, in conservation of North American birds; creation of a North American Pollutant Release Inventory; development of regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury; and creation of a trilateral working group that has improved the enforcement of environmental protection laws. We also benefitted from the US-Mexico agreement which established the Border Environment Cooperative Commission (BECC), and from the North American Development Bank (NADBank) created in conjunction with NAFTA. While much work remains ahead, the BECC has fifteen environmental infrastructure projects under construction today, funded in part by the North American Development Bank, including the first wastewater treatment plants in Juarez.

We also have led at the WTO. Our work in the Uruguay Round ensured that the WTO cites sustainable development as a fundamental goal of the system, explicitly recognizes the right of all its members to set levels of environmental protection and consumer safety, including at even higher levels than common international standards, and created the WTO's Committee on Trade and the Environment. This focus on environmental issues 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.

In the future, as President Clinton emphasized in November 1999, in issuing the White House Policy Declaration on Environment and Trade, our efforts to expand trade are consistent with our strong commitment to promoting environmental protection world wide. Our participation in the work of the WTO, as well as in other fora, will be guided by the principles in the declaration. We also will implement the November 1999 Executive Order on Environmental Reviews of Trade Agreements. In this connection, the Office of the U.S. Trade Representative and the Council on Environmental Quality, in consultation with other agencies, are developing guidelines for the implementation of the order.

In this work, cooperation with our trading partners on trade and environment issues is essential, given

the importance of these issues in attaining a more sustainable and prosperous global economy. We will continue this through our active participation in the Free Trade Area of the Americas negotiation, APEC, the Transatlantic Economic Partnership, the relevant committees of the WTO (such as the Committee on Trade and Environment), and other multilateral and regional fora. In these efforts we will continue to emphasize the importance of ensuring that trade rules are supportive of high environmental standards, and we will pursue opportunities where trade liberalization can yield direct environmental benefits as well as trade benefits. For example, we will continue to work to address the problem of fishery subsidies that contribute to over-fishing, as well as agricultural export subsidies and barriers to trade in environmental goods and services.

## **Trade and Labor**

Our trade policy also has complemented and supported efforts to ensure respect for internationally recognized core labor standards.

In the year ahead, the Administration will continue the effort to focus the WTO's attention on the relationship between trade and labor. At the Singapore WTO Ministerial Conference in 1996, the WTO for the first time recognized the importance of labor standards and cooperative work with the International Labor Organization, while clearly separating protectionist trade policies that would, among other things, harm development prospects in poorer countries. We wish to build on this to ensure that the trading system works more effectively with the International Labor Organization, with businesses and with citizen activists to help ensure observance of internationally agreed core labor standards - banning forced labor and exploitive child labor, guaranteeing the freedom to associate and bargain collectively and eliminating discrimination in the workplace.

Thus, and in conformity with our statutory mandate under the Uruguay Round Agreements Act, we have proposed closer collaboration between the WTO and the International Labor Organization and the establishment of a Working Group on Trade and Labor at the WTO. We also have raised labor standards in country policy reviews under the Trade Policy Review Mechanism, which examine each WTO member's trade regime and offers other members an opportunity to raise questions.

We also are enforcing provisions of existing U.S. law that provide for withdrawal of U.S. trade preferences in the case of clear violations of worker rights, notably through enforcement of the provisions in the recently reauthorized Generalized System of Preferences, which make benefits conditional on respect for core labor standards. One example is the case of Pakistan, where we partially removed GSP trade preferences from Pakistan over child labor concerns. In addition, we also worked through the Labor Department and the ILO to assist countries in developing long-term solutions to the problem, by addressing specific Pakistani industries. As a result, in the soccer ball industry more than 6,000 former child workers have been provided with educational opportunities. A similar project has

been initiated in the carpet industry, targeting approximately 10,000 children who are working or at risk of working. We also have used GSP to achieve substantial progress on labor issues in Swaziland, Honduras and several other countries.

Several specific agreements also have offered us new ways to address labor issues. For example, the North American Agreement on Labor Cooperation under NAFTA has generated our largest cooperative effort on labor anywhere in the world. It covers occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues, and allows citizens to draw attention to labor practices and improve working conditions. This has contributed to important tangible benefits. For example, a labor tribunal reversed itself and granted a union registration in the Maxi-Switch case; a secret ballot union representation vote was conducted for the first time in Mexico in the GE case, and by government employees in the Fisheries Ministry. Mexico's Federal Government intervened in a positive effort to resolve the very contentious Han Young case; and the Mexican Supreme Court struck down state and federal restrictions on union organizing as unconstitutional. Mexico also has taken other steps to advance the rights of workers, including promulgating new safety and health regulations and increasing significantly funding for enforcement of worker rights, including in child labor.

A similar recent case is our textile agreement with Cambodia, which includes provisions encouraging improved enforcement of its labor laws in the apparel sector, in exchange for certain increases in textile market access.

### **Trade and Consumer Concerns**

Likewise, trade policy contributes substantially to consumer policy goals. Our open-market policy at home brings fundamental consumer benefits, including the creation of competition which dampens inflation and leads to better prices, quality and choice. This openness to imports is important for all American families, but most of all the poorest among us.

To build upon these fundamental principles of trade policy, and to ensure that they fully harmonize with high standards of consumer protection, we have engaged consumer groups and representatives in broad policy discussions. A principal venue for this is USTR's participation in the Transatlantic Consumer Dialogue (TACD). Created a year ago to give advice to the United States and the EU on the Transatlantic Economic Partnership, the dialogue comprises approximately 65 consumer groups from 16 countries. On both sides of the Atlantic, the groups have long track records of achievement in the consumer protection and safety fields.

In its short history, the group has met three times, focusing on three issue areas: food safety, electronic

commerce and trade. Both the EU and the United States have benefitted from the dialogue on these complex issues and from the policy resolutions put forward as consensus positions of the consumer groups. In addition to this interaction, the U.S. Government drew important lessons from its meetings with the U.S. TACD Steering Group. At four such meetings last year, the group discussed policy positions, attendance at the U.S.- EU Summit, and the government's responses to policy recommendations.

At the last TACD meeting, held in Washington in February 2000, consumer organizations noted government progress in areas such as access to essential medicines in developing countries, eco-labeling, fair-trade labeling and regulatory cooperation. A continued priority will be ensuring that trade rules address consumer concerns including maintaining the highest standards of public health and safety.

## V. TRANSPARENT AND ACCESSIBLE INSTITUTIONS

Finally, U.S. trade policy has sought to advance basic American concepts of good governance, by making the institutions of trade more transparent, accessible and responsive to citizens, including, as the President has said, new voices becoming more interested in trade policy as trade grows and contributes more to our economy.

One principal forum here is the WTO, where we are seeking agreements on more rapid release of documents, ensuring that citizens and citizen organizations can file amicus briefs in dispute settlement proceedings, and that dispute settlement proceedings be open to public observers. In the interim, President Clinton has made a standing offer to open any dispute panel involving the United States to the public, if our dispute partner agrees.

Absent such changes, public confidence in the system will erode. Last year, and most recently at our US-EU Summit in December, we proposed that we and the EU, as the largest users of WTO dispute settlement, immediately agree in our transatlantic disputes to open the panel hearings to public observers. We hope that the EU will accept this proposal promptly.

Likewise, we are working to improve the WTO's internal processes to ensure that all members, including the smallest and least developed, can fully participate. 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 also more diverse, including the world's most advanced and poorest countries, and each point of the spectrum in between. Each member brings 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 also must ensure that such procedural discussions do not distract us from taking immediate action on core policy issues.

A second forum is the FTAA negotiations, in which two years ago we created a Civil Society Committee to give business associations, labor unions, environmental groups, student associations, consumer representatives and others a formal means of conveying concerns and ideas to all of the governments involved in the talks. This Committee has received 69 submissions from all over the hemisphere, including from labor organizations, environmental groups, Chambers of Commerce, professional associations, academics and individual citizens. These submissions were reviewed by the FTAA Ministers in Toronto, contributing to our overall development of policy for the FTAA. The Committee will remain a feature of the FTAA talks as they proceed in the coming year.

And we have worked throughout the Administration to increase the participation of small businesses in trade policy. Especially as electronic commerce grows, trade offers these firms substantial new opportunities. Thus, we are seeking opportunities to ensure that the issues of greatest importance to these businesses are integrated into trade policy formulation and multilateral and regional trade negotiations. One example is the development of the APEC Working Group on Small and Medium-sized Enterprises. We also proposed last year that the WTO recognize the unique needs and contributions of SMEs to the international trading system. In 2000, the Administration plans to work with Industry Sector Advisory Committee for SMEs to find new ways to help inform smaller and minority firms about on the WTO and to create an opportunity for their more active engagement in multilateral trade negotiations.

## **FY 2001 BUDGET REQUEST**

This is the background against which the President has requested an increase of \$4.1 million and 25 full-time employees. While this may be a larger budget increase than in year's past, it represents a close examination of the resources we now have, our ability to meet the growing workloads we face in the year ahead, and the appropriate response to what the Congress and the American public expects from us in the future.

To illustrate our situation, let me describe the level of staff resources we have deployed this year. For FY 2000, USTR's staffing authorization is 178 FTEs. We are organized into 25 offices, with a mean average of 7 FTEs per office. Yet several USTR offices have only 2 to 4 permanent professionals, including offices for China (4), Japan (4), Agriculture (3), Environment (3), Africa (2) and Economic Affairs (2). Each of these offices needs more staff, given the burgeoning workload both from negotiations and enforcement of existing agreements. But given the equally great demands on all our offices, we cannot afford to shift staff from ongoing work from the office itself or from other organizational units in the agency.

During the last year, we have also re-examined the resources we get from other Federal agencies in the form of personnel details for periods of 1 to 2 years. We have worked hard to maintain the level of support we have traditionally received from other agencies, and despite staff reductions in many agencies, have been able to sustain the number of personnel details at about 35. The detailees we receive from other agencies generally serve at USTR for only one year, which - especially for enforcement - limits the long-term contribution they can make. Thus we conclude that many of the new positions we need in FY 2001 should be permanent to give USTR the expertise and institutional memory needed to become most effective.

Let me now review the specific areas for which the President has requested additional resources. These fall into three areas: first, professional negotiators; second, compliance and enforcement; third, security and other administrative issues.

### **Professional Negotiating Positions**

WTO: First, we are requesting three new negotiating positions for our work at the World Trade Organization. Two of these would be in Washington, and one in our Geneva office. These would enable us to meet the needs of a growing workload at the WTO, including negotiations which the WTO has formally agreed to open on agriculture and services, and our work to broaden these talks into a formal new Round of multilateral negotiations; our negotiations with 30 countries seeking accession to the World Trade Organization (WTO); and the implementation of Uruguay Round commitments in such areas as intellectual property rights protections, customs evaluation, trade-related investment measures and industrial subsidies. USTR faces challenges in FY 2001 in ensuring that all WTO members observe the rules of the multilateral trading system.

Agriculture: Agricultural trade reform will be one of the central tasks of the coming years. With the opening of the "built-in agenda" talks at the WTO, and our opportunities to open markets in bilateral and regional talks while setting precedents and building consensus for the WTO initiative, it is essential that we have the expertise and staff level to take advantage of this opportunity. We are therefore requesting two new full-time agricultural negotiators in our Office of Agriculture.

China: Our top trade policy priority this year is the completion of China's WTO accession, and the approval by the Congress of permanent Normal Trade Relations status for China. In the future, its enforcement, together with implementation of the bilateral agricultural agreement we concluded in April of 1999, will consume an enormous amount of USTR staff resources. We now have only four professional employees in our China office, and will need another trade professional to address these important workloads.

Japan: Japan remains our largest trading partner in Asia. In the last seven years, we have concluded 38 bilateral agreements with Japan, including three agreements in 1999 involving deregulation, telecommunications procurement and measures to reform Japan's structural and regulatory policies. In FY 2001, we will need another Trade Specialist in our Japan office to assist in monitoring and implementing these agreements, particularly the May 1999 package of new deregulation measures that expanded market-opening opportunities under the 1997 bilateral Deregulation initiative.

Western Hemisphere: This year, we have begun the formal negotiations on the text of a Free Trade Area of the Americas agreement, (FTAA) through which 34 nations in the Western Hemisphere agreed to create a free trade zone for the 800 million people in the Hemisphere with negotiations scheduled to conclude by the year 2005. This is an effort of immense historic consequence, as it will help us to cement a regional consensus on open markets and democratic partnership, open markets that already take 45% of all U.S. exports, and also set precedents for our work on agriculture, services and other issues at the WTO. Twenty of these nations are Central American and Caribbean countries; together these nations make up our seventh largest export market, and their economic development is crucial not only to our direct economic interest, but to our mutual efforts to address regional issues of drug trafficking, migration and the rule of law. Thus, to address these needs, our FY 2001 budget, we have requested one additional FTE in the Western Hemisphere office.

Africa: Our FY 2001 request also seeks funding for a new Trade Specialist to implement the trade provisions of the President's Partnership for Economic Growth & Opportunity in Africa Initiative, which includes negotiations of trade with sub-Saharan Africa. This is an especially challenging area, given the early stage of development of our trade relationship with African nations, the large number of African countries, and the growing role Africa plays in the WTO. Congress is now considering one of our principal policy goals this year is passage of the Trade and Development Act of 1999, which would provide market access for products from sub-Saharan African countries, and would encourage the establishment of funds and guarantees to support private sector and infrastructure development in Africa. The new Trade Specialist would increase the number of trade professionals in our Africa office to three, and give us a base level of support to meet a growing volume of work under the Partnership Initiative and the new Act.

Environment: Environmental considerations play a major and growing role in development of trade policy. We are committed to taking environmental considerations into account throughout the course of trade negotiations and the implementation of trade agreements. In this connection, under the President's 1999 Executive Order on Environmental Review of Trade Agreements, USTR has the responsibility to conduct environmental reviews of trade agreements that may have significant environmental impacts, including multilateral rounds and free trade agreements. We simply cannot respond adequately to this new work with the existing 3 permanent trade professionals in the Environment office. We thus are recommending one new permanent staff member in our Environment office to assist in implementing the Executive Order and in addressing environment-related issues in ongoing negotiations stemming from the WTO built-in agenda, FTAA negotiations, TEP negotiations and bilateral or other regional

negotiations.

**Labor:** We are also requesting a permanent Labor Specialist to handle the growing volume of issues that arise from the need to protect and enhance worker rights through the trading system. For example, we are required to provide for withdrawal of U.S. trade preferences under the recently reauthorized Generalized System of Preferences (GSP), which makes benefits conditional on respect for core labor standards. The Caribbean Basin Initiative also includes labor conditionalities. Similarly, the North American Agreement on Labor Cooperation under NAFTA covers occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues, allowing citizens to draw attention to labor practices and improve working conditions. Currently, however, we have no full time dedicated staff member responsible for labor and human rights. Our FY 2001 budget request seeks to establish a new position to provide core coverage for this growing area.

Finally, the request for negotiating professionals will also help us involve stakeholders more closely in forming trade policy and resolving trade issues. Analysis of the allocation of USTR resources under our FY 1999 Government Performance and Results Act plan shows that USTR spends far too little time on outreach and consultations with the private sector, advisory committees, State and local governments, and nongovernment organizations. One especially important case is that of consumer groups. While we participate in consumer-oriented organizations like the Transatlantic Consumer Dialogue, we can do substantially more. Thus, our FY 2001 budget request would raise the level resources expended on consumer and stakeholder consultations, by dedicating part of the time of all of the requested trade professionals to consultation and outreach efforts.

### **Trade Compliance**

The largest single portion of the President's request for additional resources at USTR centers on monitoring, compliance and enforcement of agreements.

Our existing Monitoring and Enforcement unit has only 7 attorneys and 3 support staff, and the number of professionals in other USTR organizational units who contribute to compliance work is fewer than the number in the Monitoring and Enforcement unit. A notable example is the Office of Economic Affairs, which in addition to its other duties must carry out in-depth research to quantify and prove economic damage in many of our dispute settlement cases, and has only two professional staff.

At the same time, our volume of potential disputes is growing rapidly, as we insist on implementation of the nearly 300 trade agreements concluded in the last seven years; and the cases we take up are often extremely complex, addressing such topics as protection of intellectual property rights and nontariff barriers like product standards. Last month's report by the General Accounting Office, entitled "Strategy

Needed to Better Monitor and Enforce Trade Agreements," notes that the vast array of trade agreements in the 1990's has "caused dramatic increases to the trade agreement monitoring and enforcement workloads." GAO also recognizes that USTR's ability to monitor and enforce trade agreements is limited because it sometimes lacks sufficient numbers of experienced staff with the proper expertise.

We agree with these observations, and are deeply concerned that without substantially greater resources, we will have to restrict the number of cases that we handle, and deny requests from the private sector to initiate disputes based on clear failures by our trading partners to live up to their commitments.

Therefore, within USTR's total \$29.6 million and 203 FTE budget request for FY 2001, we are seeking \$1.3 million and 13 FTEs as part of the President's Trade Compliance initiative. These would include three new positions in Office of General Counsel; two in our office of Economic Affairs; one at the USTR office in Geneva; and seven in our geographic and sectoral offices, including one for agriculture, two for China, one for our WTO office, one for Asia-Pacific, one for industry, and one for services and intellectual property.

This broad distribution will ensure that compliance resources are integrated at each phase of the monitoring and enforcement process, with strengthened monitoring of country compliance through new geographic and sectoral trade specialists, improved research capabilities in our economic office to quantify the effects of noncompliance, and a sufficient number of trade enforcement litigators to present and defend cases before WTO or NAFTA dispute bodies.

### **Security and Other Budget Issues**

Security: Finally, we are requesting one FTE to create a Security Officer at USTR to plan and manage USTR's internal security programs, including computer, facility, personnel and document security activities.

Other Budget Needs in FY 2001: In addition to the request for 25 new positions, our FY 2001 budget proposes a number of forward-looking initiatives that would provide immediate benefits in FY 2001 and lasting improvements and management savings for years to come.

For example, our budget seeks \$60,000 to upgrade the firewall that protects USTR's computer system, and \$25,000 to improve password security when USTR employees dial into our computer network from remote locations. We are also requesting \$85,000 to automate the way that USTR staff send classified cables to the State Department, a use of technology which we believe will save valuable time of trade

professionals, speed the delivery of crucial information to the State Department, and reduce overtime costs for support staff. Our budget also proposes \$50,000 for greater use of video-conferencing sessions, as a substitute for employee travel, which we believe will reduce the number of trips and the cost of travel. For FY 2001, we are requesting \$340,000 to begin a phased replacement of hardware used in our computer system so that USTR can better plan for future upgrades, without having return to the Congress with million dollar requests in a single budget year. We believe these are modest investments that will improve efficiency, strengthen security and yield long term budget savings.

Our budget request also seeks funding to meet the cost of legislated employee pay raises and general inflation in FY 2001, without which funding we would have to leave several positions vacant for most of the fiscal year. The justifications for these initiatives and for the inf