

**TRADE AND AMERICAN ECONOMIC STRATEGY:  
THE CASE OF CHINA'S WTO ACCESSION**

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Thank you very much. I am pleased to be here with you, and grateful to the Wharton School for this chance to speak on one of America's most important trade and foreign policy goals: China's accession to the World Trade Organization, and permanent Normal Trade Relations status.

**ONE-WAY CONCESSIONS**

In the most basic sense, of course, these are technical trade policy issues. And when we consider them as such, we have a clear economic choice:

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures comprehensive, one-way concessions, opening China's markets to America's industrial goods, agriculture and services. It strengthens our guarantees of fair trade, and our ability to enforce Chinese commitments. By contrast, we change none of our market access policies; in a national security emergency, we can withdraw the market access China has now. We change none of our trade laws, and none of our laws controlling the export of sensitive technology. We agree only to maintain the market access policies we already apply to China, and have for over 20 years, by making China's current Normal Trade Relations status permanent.

Permanent NTR is the only issue before Congress. Regardless of the Congressional debate, China will enter the WTO. Regardless of the debate, it will retain its market access in America. The only question now is whether we will accept the benefits of the agreement we negotiated; or on the contrary, by turning away from permanent NTR, give these benefits to our trade competitors while American entrepreneurs, farmers and factory workers are left behind.

## THE TRADING SYSTEM IN AMERICAN FOREIGN POLICY

From the strict perspective of American economic self-interest, this is fairly stark and simple. In this light we could end the discussion right there. But China's accession also has implications for many of the broader goals at the foundation of our modern trade policies. And these topics that I will concentrate today.

For over five decades, Americans have led in development of an open world economy under the rule of law. We have done so for reasons reflecting, first of all, clear economic logic. Open markets abroad offer our businesses, farmers and workers larger markets: almost 80% of world economic consumption takes place outside the U.S., and to grow and remain competitive in the future, America must have fair access to these markets. At the same time, open markets at home give us access to imports, which dampen inflation; spark the competition that promotes innovation and efficiency; and raise living standards, most of all for the poorest among us.

These are ideas with broad application. We tend to believe they reflect Western liberal thought, but one can also cite 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."

Today's World Trade Organization is an attempt to create such an economy for ourselves and our trading partners: to open markets, strengthen the rule of law, and by doing so raise living standards, promote technological progress and ultimately strengthen peace.

To trace it to its roots, the WTO reflects the lessons President Truman and his Allied counterparts drew from personal experience in Depression and war. In the 1930s, they had seen their predecessors fail 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, at the foundation of the WTO's predecessor, the General Agreement on Trade and Tariffs (GATT), they believed that by reopening world markets they could restore economic health and raise living standards. And as part of a broader array of policies and institutions -- economic stability through the IMF and World Bank; international standards of human rights, embodied in the Universal Declaration on Human Rights and a series of later Conventions; and the collective security commitments of the United Nations, NATO and our Pacific alliances -- they believed that open markets would give nations greater stakes in stability and prosperity beyond their borders, strengthening a fragile peace.

Since then, we have completed eight negotiating Rounds, and 112 new members have joined the 23 GATT founders. The agenda has broadened from tariffs -- which have dropped by 90% on average -- to non-tariff barriers, technical standards, dispute settlement, agriculture, services, intellectual property, telecommunications, information technology, financial services and electronic commerce. It continues today, with the WTO's decision in February to open negotiations on agriculture and services, and our work to broaden these talks into a new Round.

When we step back for a moment, we see the enormous benefits this has brought:

- Growth and Rising Living Standards: The opening of world markets has helped to spark what is in effect a fifty-year boom, in which trade has expanded fifteen-fold since the 1950s, world economic production grown six-fold and per capita income nearly tripled. And the result has been historically unprecedented social progress: since the 1950s, world life expectancy has grown by twenty years, infant mortality dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world. America, as the world's largest importer and exporter, benefits perhaps most of all.

- Economic Security: In the Asian financial crisis of 1997-99, with 40% of the world in recession, the respect WTO members had for their commitments kept open the markets necessary for affected nations to recover. Thus the system of mutual benefit and rule of law represented by the WTO helped prevent a cycle of protection and retaliation like that of the 1930s; and ultimately to avert the political strife that can erupt in economic crisis.

- Peace and Stability: Through the accession of 112 new members since 1948, the GATT and now WTO have helped us address some of the political challenges of greatest importance for world peace and stability. It helped to reintegrate Germany and Japan in the 1950s, and the nations emerging from colonial rule in the 1960s and 1970s. And it has now taken up a task of equal gravity, as after the Cold War, the nations breaking with communist planning systems - Albania, Croatia and Bulgaria; the Baltics, Ukraine, Russia, Georgia, and Armenia; the Kyrgyz Republic and Mongolia - seek WTO membership to reform their economies and integrate with the world.

## CHINESE REFORM AND U.S. TRADE POLICY

And with this we come to China.

The world's largest nation, for many years, was one of the great rents in the trading system. When our modern relationship began in 1972, its economy was almost entirely divorced from the outside world. After the Communist revolution in 1949, it had expelled foreign businesses and banned direct economic contact between Chinese citizens and the outside world. At home it offered virtually no space for private farming or business; externally, it conducted what trade it felt necessary through a few Ministries. Such policies impoverished China and contributed to the revolutionary role China took up in Asia: isolated from Pacific markets, Asia's largest nation had little stake in a peaceful and stable region, and every Pacific nation felt the consequences.

In the intervening thirty years, American trade policy has worked to end this isolation. Our policies, viewed in detail, have sought concrete new opportunities for American businesses, workers, and farmers. But they also have pushed forward a strategic vision. By opening China's markets, and helping to give China access to world markets, we have sought to ensure that this nation of 1.2 billion people plays its proper role as an export market and a source of economic growth for its Asian neighbors; promote reform and economic liberalization within China; and, ultimately, help China find a different and healthier role in the Pacific region.

This is a strategy consistent with China's own reforms. At home, since the 1970s, China has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and reviving private business in villages and cities. Domestically, reforms have established an internal market, eliminating many controls over prices; eroding the repressive "work-unit" system that bound workers to particular jobs and factories; reducing the state's role as an owner and manager of factories; and, over time, replacing bureaucratic control with law. Externally, reform has begun to open China to the world, substantially relaxing although not abandoning entirely bans on foreign investment and private export trade.

American trade policy has worked with reform at every step. This has been consistent and bipartisan, from the lifting of the trade embargo in 1972 under President Nixon, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; renewal of NTR every year since; our support for China's APEC membership; and in the 1990s detailed agreements on market access, intellectual property, textiles and agriculture. Each step rested on concrete American trade interests; each also helped advance reform in China, acquaint China with modern standards of business and governance, and integrate China into the Pacific and world economies.

To choose a case in point, our work on intellectual property rights since the early 1990s, based on our commitment to fight theft through piracy of our most creative industries, has helped us to nearly eliminate manufacturing and export of pirate CDs and CD-ROMs. But it means more than this: to develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law where it did not exist before. The same is true, more recently, with our work with the Chinese Ministry of Agriculture to develop modern sanitary and phytosanitary procedures.

This is one example of a much broader process of economic reform, opening to the world, and adoption of internationally accepted trade principles which have served China, its neighbors and ourselves well. At home, they have helped 200 million Chinese men and women escape from poverty. For us, they have sparked \$10 billion in export growth since our Commercial Agreement. And their advantages go beyond material gain.

While China remains an authoritarian and repressive country, reform has strengthened personal freedoms and begun to develop the rule of law. And it has made China a more integrated, responsible member of the Pacific community. To choose one example, when the Asian financial crisis began in 1997, South Korea and the ASEAN were (setting Hong Kong aside) the source of a seventh of China's foreign direct investment, and the market for a sixth of its exports. Thus, while in 1967 these nations were China's ideological rivals, today they are the customers who support Chinese factories and farm incomes, and the investors who create Chinese jobs. Thus China chose in this event to maintain currency stability and contribute to recovery packages. The fact that the financial crisis did not become a security crisis owes much to this change in Chinese perceptions of its regional interests.

### **REFORM INCOMPLETE**

But the work is not yet done. As the economist and reform advocate Cao Siyuan has put it, China has opened the door; but only to reach out and cautiously shake hands.

To look back again on the financial crisis, while China's policy was constructive, important and valuable, its neighbors did not have the opportunity to use China as a market which could spur recovery. ASEAN and Korean exports to China - already low - actually dropped by \$4.5 billion, or nearly 25%, between 1997 and 1998. Or to use another index, closer to home, our \$10 billion in export growth to China since 1980, while substantial, is far less than our export growth to almost any other major trading partner -- Europe, Japan, South Korea, ASEAN, Canada, Mexico, Taiwan or the Caribbean Basin countries -- over the same period.

This reflects the fact that reform remains incomplete. Some policy legacies of the revolutionary era remain in force today, and others are only partly reformed. Foreign companies may invest in China, but lose rights to import parts and market their products. China maintains a patchwork of geographical policies which encourage foreign investment in some areas while discouraging or banning it in others. State ownership of industry generally remains quite high. Beyond these unusual features of the Chinese economy are more typical trade barriers: China's high tariffs are joined by an array of largely secret quotas, and by industrial policies that require investors to transfer technology, purchase parts only from Chinese sources, and so forth. And more generally, the country still suffers from poorly developed market institutions and the lack of a reliable rule of law.

These are barriers to American products, but they are problems for China as well. Geographic limitations, for example, mean Chinese insurance regulators spend much of their time calculating whether a particular area might "need" one or two or three more companies rather than reviewing the financial health of insurance firms. Border barriers block agricultural and manufactured imports that could raise living standards and make Chinese business more productive. State monopolies in distribution mean that farmers lose much of their crop on the way to market. The financial sector is mired in debts, but is still making the majority of its loans to a loss-making state-owned enterprise sector that accounts for only around one-third of China's economic output. And overall economic inefficiency has made job creation difficult, leading to high unemployment rates just as immigration from rural districts to the cities accelerates.

Thus, just as China's external and internal trade barriers only block imports, they also - as China's senior leaders realize - have led to corruption and economic inefficiencies which block China's own prospects for sustainable growth, job creation and technological progress.

## THE WTO ACCESSION

Against this background, the WTO accession assumes its full economic significance. The agreement we reached last November will address each barrier to American goods, services and agricultural products. It will take up all the major unfair trade practices we face in the Chinese market. And it will help China build an economy prosperous and open to the world, on the foundation of principles Ssu-ma Chi'en outlined 2100 years ago and the Wharton School teaches today. 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. China will 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 will open for the full range of sectors: distribution, telecommunications, financial services, insurance, professional, business and computer services, motion pictures, environmental services, law, architecture, construction, travel and tourism, and other industries. China will participate in the WTO's newest agreements on Financial Services and Basic Telecommunications. It will make historic commitments in the professions, from international law to accounting and management consulting. In some fields, such as distribution and telecom, this means the first opening to direct foreign participation 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; agree to end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

- And American workers and businesses will receive stronger protection against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. The agreement 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.

Each commitment is fully enforceable. China's commitments are specific and detailed; and as a fundamental WTO principle, China must for the first time publish all its laws and regulations. And WTO accession will not only ease enforcement but give us new tools: in addition to our trade laws, we will have WTO dispute settlement, periodic multilateral review of China's adherence, multilateral pressure from all 135 WTO members, and other mechanisms such as the special anti-dumping rules and anti-import surge remedies. We are preparing now, with the President's request for increased funding for China compliance and enforcement in his Fiscal Year 2001 budget.

### **CASE STUDY: THE AUTO INDUSTRY**

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

At present, a combination of trade barriers and industrial policies makes it virtually impossible to export cars to China. Last year, the total was 419 cars, of which 130 were used. This figure is far less than a single average U.S. auto dealership sells in a year; it is actually fewer than the 688 motorized golf-carts

we sold to China. To sell in China, therefore, an auto company must build its factories and hire its workers there; once it has done so, China requires transfer of technology, requires local purchases for parts, and restricts the right to market, finance and repair cars. Our bilateral agreement addresses each of these policies:

- We reduce barriers at the border, cutting auto tariffs from 80-100% today to 25% in 2006; forbidding discriminatory value-added taxes; and raising the current virtually prohibitive quota to \$6 billion worth of autos and then eliminating it entirely within five years.
  
- We open distribution markets and guarantee trading rights, ensuring that firms and dealerships in China can import autos directly from the United States, auto plants can buy American parts, and Americans can move their products freely within China to the areas of greatest demand.
  
- We open up services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their cars, and provide repair and maintenance.
  
- We abolish certain industrial policies intended to draw auto investment, jobs and technology to China: China will abandon requirements that firms set up factories in China in order to sell in China, and abolish local purchase requirements and forced technology transfer as a condition of investment.
  
- We strengthen the security of auto production and jobs in the U.S. with the commitments on market-disrupting import surges and anti-dumping rules.
  
- And we have enforcement mechanisms for all these separate, overlapping commitments.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, though specific features differ, in every industry of concern to the U.S. economy: from autos to information technology, wheat, finance, law, fishery products, pharmaceuticals, environmental technologies, steel, citrus, telecom and all the way down the list. Altogether, this will open China to American exports as never before; it will make China the source of growth and opportunity for the Pacific region that it should be; and it will place the capstone on thirty years of American support for reform, opening and change in China.

Finally, China's entry will facilitate Taiwan's entry into the WTO. This will have substantial trade

benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should thus be no surprise that Taiwan's new leadership supports both China's WTO membership and normalized trade between China and the United States.

## **PERMANENT NORMAL TRADE RELATIONS**

And this brings me to the point at which I began, with permanent NTR.

China will be a WTO member soon. There is no question of that. The only question, ironically, is whether we will receive the full benefits of the very agreement we negotiated.

By contrast to China's historic set of commitments, our sole obligation is to grant permanent NTR. 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. We have given it to China since the Carter Administration; every Administration and every Congress since has reviewed it and found it, even at the periods of greatest strain in our relationship, 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 of one another's markets. Were Congress to refuse to grant permanent NTR, we thus risk losing broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. Our Asian, Latin American, Canadian and European competitors will reap these benefits; Americans would be left behind.

## **CONCLUSION**

That in my view would be an extraordinary mistake. Such a U.S. retreat, at this most critical moment, would harm every significant interest we have in our relationship with China. And this is clear when we ask the most basic questions:

- Do we benefit from today's relatively open and inclusive world economy; or were Americans better off with the closed and exclusive world economy of the 1930s?
- Are we better off integrating China, Russia, Ukraine and the other reforming nations into the trading

system we have built; or attempting to frustrate and isolate them?

- Should we support Chinese economic reform and opening to the world; or was our interest in a prosperous, stable Pacific better served by China's isolation in the 1950s and 1960s?

- Should the United States receive the benefits of China's entry to the WTO - or give them to everybody else?

Clearly, we are better off with today's open world economy than the closed world economy of the 1930s. We are better off integrating countries breaking with strict communist planning than isolating them. We are better off with a reforming and opening China than an isolated and resentful China. And as China will enter the WTO regardless of our decision, we would simply be foolish to give the benefits of its accession to our competitors, while punishing our own farmers and factory workers.

In terms of our economic interests, therefore, to reject PNTR would be foolish; and as this brief set of questions implies, the damage would go well beyond economics and trade.

We have concerns and responsibilities towards human rights and the rule of law in China. In these areas, to reject permanent NTR is to turn our backs on nearly thirty years of work to support reform, improve the legal system and offer hope for a better life to hundreds of millions of Chinese. And it is to give up the hope of contributing in the future to a China freer, more open to the world, and more responsive to the rule of law than it is today.

And we have a fundamental national security interest in a peaceful, stable, mutually beneficial relationship with China. And in this sense, to reject PNTR would be reckless. No trade agreement will ever solve all our disagreements, but this will address many of them; and if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country.

As the President has said, for every major American trade, economic and foreign policy interest, to reject PNTR would be to lessen the chance that China will choose the right path in the years ahead. And these are the stakes as Congress prepares to vote.

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

And this is why it is so important that we succeed.

Thank you very much.

## **CHINA'S WTO ACCESSION**

Ambassador Charlene Barshefsky

U.S. Trade Representative

National Women's Democratic Club

Washington, DC

April 11, 2000

Good morning, and thank you very much. I am pleased to be here with you this morning, and for the opportunity the National Women's Democratic Club has given us to speak and exchange views on one of America's most important trade and foreign policy goals: China's accession to the World Trade Organization and permanent Normal Trade Relations.

### **ONE-WAY CONCESSIONS**

In the most basic sense, of course, these are technical trade issues. And as such, they present us with a fairly simple 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.

Permanent NTR is the only policy issue before Congress. Regardless of our decision, China will enter

the WTO and it will retain its market access in America. The only question now is whether, by making NTR permanent, we accept the benefits of the agreement we negotiated; or on the contrary, by turning away from permanent NTR, give these benefits to our trade competitors while American entrepreneurs, farmers and factory workers are left behind.

## **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 of our decision.

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, and other Pacific democracies, 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 most recently 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 crisis.

- 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; and work toward normalization of trade relations with Cambodia, Laos and Vietnam - is helping to build create a more open region with greater prospects for sustainable growth.

Stepping back for a moment, half a century of experience fully vindicates the vision set out 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 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 while the immediate goals of our China trade policy - 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 intellectual property, textiles and agriculture - have always been concrete and specific American trade interests, trade policy has also helped to support reform and bring China more fully into the world and regional economies.

## **U.S. TRADE POLICY AND THE WTO ACCESSION**

To choose a specific example, our intellectual property initiatives since the early 1990s have been based first and foremost on our commitment to fight theft through piracy of some of our most valuable products. In this it has been a success: it has helped us to nearly eliminate Chinese manufacturing and export of pirate CDs and sound recordings, with the closure of more than 70 pirate plants.

But our intellectual property work also means something more. To develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law. The same can be said of our work on textiles, or industrial market access, or most recently the agricultural agreement of 1999, which has led to our first shipments of Pacific Northwest wheat, Florida grapefruit and California oranges to China in the modern

era.

In this context, the bilateral agreement we reached with China on WTO accession last November takes on its full significance. It is comprehensive, opening China's market to our farm products, manufactured goods and services; and addressing the array of unfair trade practices in the Chinese market. And let me now give you a look at the details.

- In industry, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005. China will 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 import the parts and products they choose.

- China's markets will open for the full range of services industries: distribution, telecommunications, financial services, insurance, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and others. In fields such as telecom and distribution, 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; end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies; and base sanitary and phytosanitary standards on science.

- And American firms and workers will receive greater security against unfair trade practices, import surges, and investment practices intended to draw jobs and technology to China. The agreement 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.

All these commitments are fully enforceable, through our trade laws, through WTO dispute settlement, periodic multilateral review of China's adherence; multilateral pressure from all 135 members of the WTO; increased monitoring by the U.S., with the President's request for tripling of funds for China compliance and enforcement in his Fiscal Year 2001 budget, and other mechanisms such as the special anti-dumping and anti-import surge remedies.

Finally, China's entry will facilitate the entry of Taiwan into the WTO, as Taiwan's new leadership has noted in its formal support for China's membership and normalized trade with the U.S.. Taiwan's accession will have substantial direct trade benefits for the US, as Taiwan is already a larger export market for us than is China. And the opening of both these economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait.

## **PERMANENT NORMAL TRADE RELATIONS**

China will be a WTO member very soon. The only question, ironically, is whether we will receive the benefits. And that brings me to permanent Normal Trade Relations, or NTR.

By contrast to China's historic set of commitments, we do very little. As China joins the WTO, 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 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. This includes 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 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. This 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:

"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 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 since the lifting of the trade embargo has rested upon concrete American interests; helped to promote reform and the rule of law within China; and integrate China in the Pacific economy. Thus, each step has strengthened China's stake in prosperity and stability throughout Asia. Together with our network of Pacific alliances and military commitments, in tandem with our advocacy of human rights, and in the best tradition of postwar American leadership, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process for many years.

## CONCLUSION

That makes the choice before Congress very clear.

In economic terms, to reject PNTR would be foolish; to pass it is to open a set of new opportunities and guarantees of fairness in China trade unmatched in the modern era.

For reform and liberalization in China, to reject permanent NTR is to turn our backs on nearly thirty years of work to support reform, improve the legal system and offer hope for a better life to hundreds of millions of Chinese; to pass it is to strengthen the hope that we can contribute in the future to a China

freer, more open to the world, and more responsive to the rule of law than it is today.

And for our fundamental national security interest, to reject PNTR would be reckless: if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country. And to pass it is to strengthen the chance of building a peaceful, stable Pacific in the years to come.

That is the opportunity before us. These are the stakes as Congress prepares to vote. And that is why it is so important that we succeed.

Thank you very much.

**TRADE AND AMERICAN NATIONAL SECURITY:  
THE CASE OF CHINA'S WTO ACCESSION**

The Olin Distinguished Lecture in National Security Issues

Ambassador Charlene Barshefsky

U.S. Trade Representative

United States Military Academy

West Point, New York

April 12, 2000

Good evening, everyone, and thank you, Colonel Jebb.

Let me also thank Superintendent Christman for inviting me to speak with you; and to the Cadets here today, let me begin with my personal appreciation for your choice of a career in the military. Our country, with all its responsibilities, needs the world's most dedicated and highly trained military more today than ever before. That is what people like the Superintendent have built; and it is what you, as the officer corps of the 21<sup>st</sup> century U.S. Army, will build for the next generation. For that you have my gratitude, and that of each member of our Administration.

This is an especially opportune moment for us to meet. This spring, as Congress considers China's accession to the World Trade Organization and permanent Normal Trade Relations, we face a decision which illustrates, as clearly as any in the past fifty years, the links between trade policy and national security. And this will be my topic tonight.

**ONE-WAY CONCESSIONS**

In the most basic sense, of course, China's WTO membership and permanent NTR are technical trade issues. In these terms they present us with a clear choice:

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures comprehensive, one-way concessions, opening China's markets for services, industrial goods and agriculture. It strengthens our guarantees of fair trade, and our 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.

Permanent NTR is the only policy issue before Congress. Regardless of our decision, China will enter the WTO and retain its market access in America. The only question is whether, by making NTR permanent, we accept the benefits of the agreement we negotiated; or on the contrary, by turning away from permanent NTR, give these benefits to our trade competitors while American entrepreneurs, farmers and factory workers are left behind.

### **DEEPER IMPLICATIONS**

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 this choice also has much deeper implications.

As you leave West Point, some of you will join the 36,000 servicemen and women in US Forces-Korea. Some will serve in Japan; some take part in exercises like Team Spirit in South Korea or Cobra Gold in Thailand; some help develop our Pacific strategies at the policy offices in the Pentagon. In every one of these fields, the attitude of China towards our country and our role in the Pacific will be of central importance to our country and to you personally.

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

These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different

political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4<sup>th</sup> century B.C., such a relationship poses profound questions for future peace and stability across a vast section of the earth:

"Eagles do not flock 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. As we consider them -- and as the Chinese watch our debates, and conduct their own -- many ask why we would proceed even with an entirely one-sided agreement while differences over human rights, security, and other topics remain. It is fair - in fact necessary - to judge the WTO accession in their light. And we can begin by tracing to its origins the institution China seeks to join.

### TRADE IN AMERICAN POSTWAR STRATEGY

Today's World Trade Organization has its roots in the foundation of the General Agreement on Trade and Tariffs, or GATT, in 1948. This was in turn one element in a larger response, conceived under Franklin Roosevelt and developed into concrete policies and institutions under President Truman, to the lessons of the Depression and the Second World War:

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

The trade element drew directly on the personal experience of Truman and his Allied colleagues. In the 1930s, they had seen their predecessors fail to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe. That failure had cut trade by 70% in four years, deepening the Depression and contributing 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 in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work begun in 1948 has continued for 52 years; and the faith our postwar leaders put in freedom, open markets and the rule of law has been abundantly vindicated. In eight negotiating Rounds -- the most recent of which updated and modernized the GATT to create today's World Trade Organization in 1995 -- and as 112 new members joined the 23 GATT founders, we opened the closed markets of the Depression. We cut tariffs by 90% on average; and joined this with work on non-tariff barriers, agriculture, services, intellectual property, technical standards and dispute settlement. Still more recently, we concluded landmark agreements on information technology, basic telecommunications, financial services and duty-free cyberspace; and the work continues today, with the WTO's decision in February to open negotiations on agriculture and services.

The result has been a fifty-year economic boom, in which the world economy grew six-fold; per capita income nearly tripled; and hundreds of millions of families escaped poverty. America, as the world's largest exporter and importer, has benefitted perhaps most of all; but social progress worldwide has been broadly shared. Since the 1950s, world life expectancy has grown by twenty years, infant mortality dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world.

Thus, together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, the work of trade policy has helped to make the world substantially more prosperous, stable and peaceful; in other words, to bring the Four Freedoms Roosevelt defined as America's wartime aims - freedom of religion, freedom of expression, freedom from want, freedom from fear - closer to realization.

### **U.S. ASIAN POLICIES TODAY**

Our Asia policies today fully reflect the insights of postwar strategy. As a Pacific nation, we have a vital interest in an open, prosperous and stable region; and our economic policies join with our security policies and support for human rights to help us secure that interest. As Admiral Dennis Blair, the Commander-in-Chief of U.S. Pacific Forces, puts it:

"Prosperity gives people within a country, and countries within a region, greater stakes in each other's futures. Security, whether it is the rule of law within a country or peace among countries, allows national economies to grow."

- Our Pacific military presence, and our alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the region's strongest guarantees of peace and stability.
  
- Our advocacy of human rights, over the years, has helped reformers bring democracy and stability to South Korea, Taiwan, Thailand, the Philippines and now Indonesia.
  
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to open markets at home, 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 trade policy is building a broadly more open region: a framework of open trade through the Asia-Pacific Economic Cooperation forum; market-opening and deregulation in Japan; reform and liberalization in ASEAN and South Korea; work toward normalized economic relations with Vietnam, Laos and Cambodia; and the economic opening and integration of China.

### **CHINA FROM REVOLUTION TO REFORM**

China has found economic integration in its own interest; but it has come to this point by a very different road.

With the Communist 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. The rule of law vanished: between 1949 and 1957, the number of lawyers in China shrank by 70%; and in 1957, with the opening of the so-called "Anti-Rightist Campaign," most remaining law offices were closed, lawyers arrested or sent to the countryside, and the Ministry of Justice itself abolished. And 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, our postwar commitment 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. Reform has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and enabling private business to revive in villages and cities. A number of earlier policies, notably bans on foreign investment and private export trade, have been substantially relaxed although not abandoned entirely.

American trade policy over 30 years has complemented these policies, both to create trade opportunities for Americans and to support reform in China. This has been bipartisan and consistent, from the end of the trade embargo in 1972 under President Nixon, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; the renewal of NTR ever since; our support for China's APEC membership; and our most recent agreements on market access, intellectual property, textiles and agriculture.

## **RESULTS TO DATE**

Taken together, the results have been profoundly positive.

In an economic sense, domestic reform and opening to the world have helped 200 million Chinese men and women escape from poverty. This is an economic benefit for us as well, as demonstrated by our \$10 billion in export growth since the Commercial Agreement. But China's economic opening has helped to foster advances that go beyond material gain.

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

But it is also fair to note that as reform has proceeded, respect for a number of basic rights and liberties cited in the Universal Declaration has grown. Examples include property rights, with farmers able to

work their own land, entrepreneurs to start businesses, and families to pass on their property to their children; openness to information, with Chinese citizens able to listen to foreign radio and TV and more recently to visit foreign web-sites; and some aspects of freedom of association, as Chinese meet and exchange ideas with foreigners or people from Hong Kong and Taiwan.

And as China has opened its economy to the world, it has become a more integrated, responsible member of the Pacific community - and let me give you a very specific example. In 1997, South Korea and the ASEAN states were the market for \$22.3 billion worth of Chinese semiconductors, video CD players, rice, apparel and other goods. Setting Hong Kong aside, that is one dollar in six of China's exports to the world. These countries were also the source of \$6 billion in foreign direct investment in China, meaning a seventh of all the FDI China received that year. And this has implications not only for China's economy, but to our own vital interest in a peaceful and stable region - because 1997 was, of course, the year of the financial crisis.

A generation ago, China might have seen the event as a revolutionary opportunity. In 1997 its reaction was entirely different: the crisis was a threat to the export markets that support Chinese factories and farm income, and to the Asian investment that creates jobs and growth. The constructive and stabilizing policies China adopted through currency stability and contribution to IMF-led recovery programs, thus reflected basic self-interest. But in historic context, they enabled us to deal with the crisis primarily as an economic and humanitarian disaster, rather than a security crisis. And they are thus evidence of a change in China's role and views whose importance for American national security cannot be overstated.

## **PRESENT TRADE BARRIERS AND ECONOMIC CHALLENGES**

But as much as China has changed, reform remains incomplete.

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

Thus our \$10 billion in export growth since 1980, while substantial, is far less than our export growth to Europe, Japan, South Korea, the ASEAN nations, Canada, Mexico, Taiwan or the Caribbean Basin over the same period. And China's external and internal trade barriers not only block American exports but -

as China's senior leaders realize - have led to corruption and economic inefficiencies which threaten China's own prospects for sustainable growth, job creation and technological progress.

## THE WTO ACCESSION

And that brings us to the WTO. The agreement we reached last November on the terms of China's accession is the capstone on thirty years of work, helping both countries through commitments covering the range of industrial goods, services, farm products and unfair trade practices; and addressing all major barriers to American exports. Under its terms:

- China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. It will 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 agriculture, on U.S. priority products China will cut tariffs from an average of 31% to 14% by 2004. China will expand access for grains and other bulk agricultural products, through tariff-rate quotas that offer dramatic new opportunities in these sectors. It will end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base border inspections on science.

- In services, China's markets will open for distribution, telecommunications, banking, insurance, securities, professional, business and computer services, management consulting, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries.

- And the agreement gives American firms and workers stronger protection against import surges and unfair trade practices. It addresses state enterprise policies, prohibits forced technology transfer as a condition of investment, and eliminates local content, offsets and export performance requirements. It provides, for 12 years, a special product-specific safeguard to address market-disrupting import surges from China. And it guarantees our right to use a special non-market economy methodology to address dumping for 15 years.

All these commitments are fully enforceable: through our trade laws; WTO dispute settlement; periodic multilateral review of China's adherence and multilateral pressure from all 135 WTO members; increased monitoring by the U.S., with the President's request for increased funding for China compliance and enforcement in his FY 2001 budget; and other mechanisms such as the special

anti-dumping and anti-import surge remedies.

Finally, China's entry will facilitate the entry of Taiwan into the WTO, as Taiwan's new leadership has noted in its formal support for China's membership and normalized trade with the U.S.. Taiwan's accession will have substantial direct trade benefits for the US, as Taiwan is already a larger export market for us than is China. And the opening of both these economies, while we have no guarantees, may ultimately play some part in easing tensions in the Taiwan Strait.

### **PERMANENT NORMAL TRADE RELATIONS**

What is the next step? By contrast to China's historic set of commitments, our sole obligation is to grant China permanent NTR. If we fail to do so, we risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This, 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 Congress in the following 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 no essential change. 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, workers and businesses would be left behind.

### **WTO ACCESSION AND CHINESE REFORM**

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

Just as our role in the foundation of the GATT was closely linked with the Universal Declaration on Human Rights and our postwar alliances -- and just as China's economic isolation in the early years of the Cold War contributed to domestic repression and international upheaval -- China's WTO accession today is part of an American policy in which trade, human rights and security act upon and support one

another. As even the brief review I have given indicates, China's commitments go well beyond 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 alter policies dating to the earliest years of the communist era. They give China's people more access to information, and weaken the ability of hardliners to isolate the public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared in the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather the economic opening to and engagement with the world and ultimately development of the rule of law inherent in the initiative President Truman began in 1948.

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

## **WTO ACCESSION AND AMERICAN NATIONAL SECURITY**

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

Our relationship with China remains marked by substantial disagreements. And when we disagree with China we must act with candor and firm assertion of our interests and values - as we have done when necessary with respect to Taiwan; as we are doing at the UN Human Rights Commission today. But this is only part of our approach. As Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20<sup>th</sup> century:

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

In this spirit, we recognize how important a stable and peaceful relationship with China is -- for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon areas of shared interest and benefit. We saw this responsibility clearly in the Asian financial crisis. We see it in the maintenance of peace on the Korean Peninsula, where some of today's Cadets will serve in a year or two; in the environmental problems of the Asia-Pacific; and for nearly three decades, we have seen it in trade.

Each step we have taken since the lifting of the trade embargo has rested on concrete American interests; helped to promote reform in China; and sped the integration of China into the Pacific economy. And in this context, the WTO accession takes on its full meaning.

No trade agreement will ever solve all our disagreements, but this will address many of them; and if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country.

Such a statement would threaten our work on all the specific issues in our China policy agenda today -- from non-proliferation and arms control, to reducing tensions in Korea and South Asia.

It would complicate for the foreseeable future our existing Pacific alliances, as all of our Asian friends and allies would view rejection of PNTR as an unnecessary rejection of stable and constructive relations with their largest neighbor; and a turn away from the open, confident vision we have held for the Pacific over the years.

Over the long term, and perhaps most important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move; and this in turn would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great

consequence for every Pacific nation and for ourselves.

## CONCLUSION

But if we have the wisdom and confidence to make the right choice, before us is a remarkable opportunity.

Over three decades, trade policy 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; it has helped us build a relationship with the world's largest nation which strengthens guarantees of peace and security for us and for the world. And WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process in many years.

That is the opportunity before us. These are the stakes as the Congressional debate begins. This is why the Administration is committed to permanent NTR on the basis of this historic agreement, and why we are so committed to success.

And this is where, with gratitude to Superintendent Christman for his invitation and to each of you for your time this evening, I will close this lecture.

Thank you very much.

## CHINA'S WTO ACCESSION IN AMERICAN PACIFIC STRATEGY

Ambassador Charlene Barshefsky

U.S. Trade Representative

John F. Kennedy School of Government

Boston, Massachusetts

Prepared for Delivery

April 13, 2000

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

Let me express my gratitude to the Kennedy School for inviting me to speak today on one of America's most important trade and foreign policy goals - China's accession to the World Trade Organization and permanent Normal Trade Relations status.

We are meeting just a few miles from the place where our trade relationship with China began - with the departure from Boston Harbor of the *Empress of China* in 1785 - and the Kennedy School is thus an ideal place to think about the type of relationship we should have with China in the next century. And that, ultimately, is the question before us in the WTO accession.

### ONE-WAY CONCESSIONS

In the most basic sense, of course, WTO accession and permanent Normal Trade Relations status are simply technical trade issues. And as such they offer us a clear choice.

In the 1930s, they had seen their predecessors yield to resist a cycle of protection and retaliation, beginning with the American Smoot-Hawley Act and colonial preference schemes in Europe, which had deepened the Depression and contributed to political upheaval. Eighteen years later, they believed that restoration of economic health and living standards was a necessity for a return to stability; and that over the long run, 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.

Secretary of State George C. Marshall summed this up in June of 1947, when he came to Harvard to announce the Marshall Plan for postwar reconstruction in Europe:

"The United States should do whatever it is able to do to assist the return of normal economic health in the world, without which there can be no political stability and no assured peace."

This emergency assistance plan was joined a few months later by a much longer-term initiative: the reopening of world markets through the foundation of the General Agreement on Tariffs and Trade. And both in turn were elements in a larger series of related policies and institutions that have served for six decades in the building of a more open and peaceful world:

- Collective security, reflected by the United Nations, NATO, the Rio Treaty 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; then the Marshall Plan and the foundation of the GATT on the other.

Altogether, these presented a consistent and coherent vision: the rejection of the closed world economy and virulent nationalisms of the 1930s, in favor of an open world characterized by shared responsibility and mutual benefit.

The work begun with the GATT foundation in 1948 has now continued for fifty-two years. And the faith our postwar leaders put in freedom, open markets and the rule of law has been abundantly vindicated. In eight Rounds of negotiations, and as 112 new members joined the 23 GATT founders to form today's World Trade Organization, we abandoned the closed markets of the Depression. We reintegrated Japan and Germany; cut tariffs by 90% and moved on to non-tariff barriers, agriculture, services and many

its revolutionary role in the Pacific region. And more recently, China's economic reform and opening to the world since the 1970s has had implications of fundamental importance for daily life in China, and for China's role in Asia.

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

American trade policy has worked with these trends. This has been bipartisan and consistent, from the lifting of the trade embargo in 1972 under President Nixon, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; renewal of NTR ever since; our support for China's APEC membership; and most recently more detailed agreements on market access, intellectual property, textiles and agriculture. Each step not only created new opportunities for Americans, but helped to support reform in China, and reintegrate China into the regional and world economies it left in 1949.

To look at one specific example, our work on intellectual property rights since the early 1990s, based on our commitment to fight theft through piracy of our most creative industries, has helped us to nearly eliminate manufacturing and export of pirate CDs and CD-ROMs. But it means more than this: to develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law where it did not exist before.

## **RESULTS TO DATE**

Taken as a whole, Chinese reform and U.S. trade policies have worked together to create a remarkably positive set of results. In an economic sense, reform and foreign investment have helped 200 million Chinese men and women escape from poverty; for our part, we always benefit from reduction of poverty overseas, as demonstrated in the Chinese case by America's \$10 billion in export growth since our commercial agreement. And China's economic opening has helped to foster advances that go beyond simple material gain.

We should not, of course overstate progress: much of China's political system remains repressive and authoritarian. This is detailed in comprehensive form by the State Department's Human Rights Report; it is why we are presenting to the UN Human Rights Commission a resolution condemning China's human

## THE WTO ACCESSION

These are problems WTO accession will help address, through a comprehensive set of commitments across the range of industrial goods, services, farm products and unfair trade practices. To look at the specifics:

China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. For information technology products such as telecom equipment, semiconductors and computers, tariffs will drop all the way to zero. China will eliminate all quotas and discriminatory taxes. And equally important, 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 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; agree to end import bans, cap and reduce trade-distorting domestic supports; eliminate export subsidies and base food safety decisions on science.

In services, China's markets are now among the world's most restricted. Since 1949, China has barred all direct foreign participation in telecommunications. It allows two U.S. insurance firms to operate, on a limited basis, in two cities; it allows foreign banks to conduct local currency business in two cities and for foreign customers only. With our agreement, markets open across the board, from telecom, banking and insurance to distribution, professional, business and computer services, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries.

And the agreement strengthens protection of American workers and businesses against import surges and unfair trade practices. It addresses state enterprise policies, prohibits forced technology transfer as a condition of investment, and eliminates local content, offsets and export performance requirements. It provides, for 12 years, a special product-specific safeguard to address market-disrupting import surges from China. And it guarantees our right to use special non-market economy methodology to address dumping for 15 years.

All these commitments are specific and fully enforceable, through our trade laws; WTO dispute settlement; periodic multilateral review of China's adherence; multilateral pressure from all 135 WTO members; and other mechanisms such as the special anti-dumping and anti-import surge remedies. We are preparing for the work today, with the President's request for a tripling of funds for China compliance and enforcement in his FY 2001 budget.

As even the brief review I have given indicates, China's commitments go well beyond sharp reductions of trade barriers at the border. China will:

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

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

In this context, the WTO accession assumes its full significance, as an agreement that not only opens Chinese markets to our products, but can serve as a foundation for the rule of law within China; and as a precedent for willingness to accept and abide by international standards of behavior in many other fields. That is why many Hong Kong and Chinese activists for democracy and human rights - Bao Tong, jailed for seven years after Tiananmen Square, whose appeal to the UN Human Rights Commission two weeks ago drew worldwide attention and sympathy; Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wandong, a founder of China's modern human rights movement who has spent years of his life in prison - see the WTO accession as China's most important step toward reform in twenty years. It is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## **CONCLUSION: WTO ACCESSION AND A STABLE PEACE**

And it is why WTO accession, and permanent NTR, are essential elements as we return to the question

That is the meaning of this agreement. This is the stake in the decision New England's delegation, and America's Congress, will make in the weeks ahead. This is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement; and why it is so important that we succeed.

Thank you.

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

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Thank you very much. I am very pleased to be here with Ira Shapiro, who throughout the past decade has been both a shaper of American trade policy and a close friend. Equally, I am very happy to meet and exchange ideas with so many of the young men and women who will guide New England and our country as businesspeople, activists, analysts and policymakers in this new century.

We have a full trade agenda: China's membership in the World Trade Organization and permanent NTR; regional initiatives in Europe, Africa, Asia, the Western Hemisphere and the Middle East; legislation to strengthen trade ties with Africa and the Caribbean; a newly begun negotiations at the WTO on agriculture and services. But rather than focus on any one of these issues, or give you a laundry list of agreements and export statistics, let me today put our agenda in its context: our role in developing the trading system now embodied by the WTO; the values and aspirations we bring to this work; and the tasks we face in this new century.

**AMERICAN TRADE PHILOSOPHY**

Our work at the WTO, to begin with, rests upon a foundation of American commitment to open markets, freer trade, and the rule of law in world commerce.

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

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

But our work has rested on more than economic logic: for over half a century, it has had a base both in practical experience with the alternative; and in our broader values and aspirations. And to understand why, we can trace our trade policies back to the beginning.

## **HOOVER AND ROOSEVELT**

Our modern trade policy begins, essentially, with the debate between Herbert Hoover and Franklin Roosevelt in the Presidential campaign of 1932.

President Hoover's trade policy had rested on the belief that America, with its high standard of living, could not compete effectively with poorer countries. As Hoover put it, in a message to Congress in 1929 calling for passage of the famous Smoot-Hawley Act, we "cannot successfully compete against foreign producers because of lower foreign wages and a lower cost of production." He persuaded Congress that he was correct and the result remains well-known today: a cycle of tariff hikes and retaliation which cut trade by 70% between 1930 and 1933, deepened the Depression, and intensified the political tensions of the era.

Roosevelt proposed the alternative, which we have followed ever since in principle and put broadly into practice after the Second World War. As he put it in 1944:

"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."

In 1948, when President Truman and 22 of his colleagues joined to form the WTO's predecessor (the General Agreement on Trade and Tariffs, or GATT), they were attempting to transform this insight into a lasting set of policies and agreements. They believed that by reopening world markets they could rebuild a shattered world economy; restore economic health and raise living standards; and that over the long term, together with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile postwar peace would strengthen.

This is in fact what has happened. Through eight Rounds of negotiations, and as 112 new members joined the 23 GATT founders, we abandoned the closed markets of the Depression; and the results are clear. Those countries which participated most fully in the work - first in Western Europe, then Southeast Asia, Latin America and Central Europe - have seen living standards rise and political tensions diminish. Those which have done less -- the Middle East, South Asia, Africa -- have seen poverty persist and political instabilities at times intensify; but today these regions too are moving toward policies that stress integration and shared benefit.

In broader terms, the opening of world markets has helped foster a fifty-year economic boom. Since the foundation of the GATT, trade has expanded fifteen-fold; the world economy grown six-fold; and per capita income nearly tripled. As a result, hundreds of millions of families escaped from poverty, and this is clear in statistics of social progress: since the 1950s, world life expectancy has grown by twenty years; infant mortality dropped by two-thirds; famine receded from all but the most remote or misgoverned corners of the world.

## **THE WORLD TRADE ORGANIZATION**

This is the legacy we inherited seven years ago. We have built upon it to create today's WTO: a trading system, based upon the GATT, but updated through the Uruguay Round (so-called because it began in Uruguay) which does more to create growth and raise living standards; to strengthen the rule of law; spur technological progress and development overseas; support reform in nations moving away from

communist planning; and make our people prosperous and secure. And thus it helps us fulfill the modern goals of trade policy. Through the WTO:

- We strengthen our own economy, based on Roosevelt's conviction that we and our trading partners benefit from one another's success;
- We help the least developed countries find their rightful place in the world economy;
- We maintain and advance our values in other fields; and
- We use trade policy, especially in the aftermath of the Cold War, as a central means of building the international relationships that cement peace.

And in the balance of my time today I will look at each of these areas.

## **I. STRENGTHENING THE AMERICAN ECONOMY**

First of all, the WTO is an institution which promotes the open, confident policies initiated by Roosevelt; and thus, helps us to strengthen our own economy and improve life in the United States. And it does this in several ways.

### **1. Opening World Markets**

To begin with, it has helped us to continue opening markets and creating opportunity worldwide.

In creating the WTO, we eliminated quotas and industrial tariffs by a third; broadened coverage to areas the GATT covered only partially or not at all, notably agriculture, services and intellectual property rights. And we are now going on to the negotiating agenda of the next decade. Its core elements are before us, in the agreement last February to open global talks on agriculture and services. In these sectors markets remain most distorted and closed, and thus the opening of trade means perhaps most to future prospects for rising living standards, technological progress, and sustainable development. And in each we have ambitious goals.

We are now also examining market access concerns in industrial products, electronic commerce, trade

facilitation, and other topics as well. One especially important, and universally recognized, need is for the WTO's wealthier and more advanced members to open their markets more fully to the products of the poorest and least developed nations. And the WTO is exploring ways to take the next steps in such areas as investment and antitrust policy, which are connected to trade but are not yet subject to their own multilateral regimes. Thus, while there are a number of different options for proceeding with trade liberalization beyond the agricultural and services sectors, we are continuing our work to build consensus for a new, more broadly based Round.

To build international consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink their negotiating positions, focus more fully on the shared benefits of the trading system in creating new sources of growth and opportunity and the shared responsibilities of reaching these goals, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, but our trading partners must do the same if we are to succeed.

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

At the same time, and apart from the negotiating agenda, the WTO has strengthened the rule of law.

The GATT system had a limited set of essentially unenforceable rules that applied differently to different members. With the WTO, we have a more comprehensive set of rules that are enforceable and apply to every single member. Together with this are an array of oversight bodies to monitor the commitments our trading partners have made; and a strong dispute settlement mechanism which we have used in 49 cases to preserve and enforce our rights.

This is of fundamental importance. The cases in which we have been involved, of course, help us to protect American rights and give individual Americans fair treatment when it has been denied. Through the dispute settlement process we have, for example, proved our contention that Canada was unfairly subsidizing exports of dairy products, hurting the livelihoods of dairy farmers in Vermont; and we protected American musicians against copyright piracy in Japan. And as they secure these concrete and specific interests, they help us confirm more basic principles: WTO members must keep their commitments; trade policies must be nondiscriminatory; we and other trading nations have a fundamental right to set the highest standards of environmental protection and consumer safety.

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

In the WTO we also created a permanent forum in which governments find new areas of shared interest and benefit, which we used in the past five years to reach four agreements of central importance to the 21<sup>st</sup>-century economy:

- The Information Technology Agreement, eliminating tariffs on \$600 billion worth of trade in high-tech manufactured goods such as computers, semiconductors, computer equipment, integrated circuits and telecom equipment, and so forth, on which we are now building toward an ITA II with still broader product coverage;
- The Agreement on Basic Telecommunications, opening world markets in a sector dominated for 60 years by monopolies and promoting pro-competitive regulatory principles. In just two years, it has eroded the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce, helping to bring down rates to levels as low as 10 to 20 cents per minute, for calls between the U.S. and countries such as Japan and Mexico;
- The Financial Services Agreement, covering nearly \$60 trillion in financial transactions -- a figure half again as great as total world GDP -- per year. It has already helped U.S. services suppliers expand commercial operations and find new market opportunities both through ownership of or investment in foreign banking institutions, brokerage and insurance sectors, and through cross-border trade.
- And the WTO's commitment in 1998 to "duty-free cyberspace," helping to make sure electronic commerce develops freely as a means to promote trade, strengthen the power of consumers, and help the most impoverished regions take advantage of world markets.

#### 4. Prosperity and Economic Security

Altogether, this makes the WTO an institution of great practical economic benefit.

We see this in our own economy, as the opening of world markets has helped spark a 55% expansion of American goods and services exports since 1992, to a record total of \$958.5 billion last year. Together with -- and inseparable from -- domestic policies including fiscal discipline and investment in education and job training, the opening of world markets has contributed to a remarkable record. If you will pardon a few statistics: we have seen \$2.1 trillion in economic growth, during the longest economic expansion in American history; the creation of nearly 21 million new jobs; a \$400 billion expansion in our manufacturing industry; wages for non-supervisory workers up 6.5%; and broadly shared benefits, with poverty rates at the lowest levels since 1979, and unemployment touching 4% in January, with record lows for women, African-Americans and Hispanics.

And just as important as these positive figures is what Arthur Conan Doyle in one of his Sherlock Holmes stories called "the dog that didn't bark." That is, in the Asian financial crisis of 1997-99, with

40% of the world in recession and five major Asian economies contracting by 5% or more, the world faced a crisis unlike any since that which sparked the great Depression in the 1930s. But in this crisis, WTO members generally remained true to their commitments; affected nations had the access to markets necessary for a speedy recovery; and the political strife that can erupt in economic crisis never emerged.

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

## II. PROMOTING DEVELOPMENT

Second, the WTO is an opportunity to spark development and integration for the world's poorest countries.

This is not, of course, a task that trade policy can do alone. For example, in many least developed countries, the financial burden posed by debt has made growth very difficult; and President Clinton has thus challenged our Congress and the world to forgive 100% of this debt when relief will help finance basic human needs. But these nations also need access to markets, especially in areas of comparative advantage, and at times technical assistance to implement the market access commitments through which they attract investment and gain exposure to modern technologies. And we have developed a response.

We are enhancing our market access programs, beginning with expansion of the duty-free GSP program, and going on to more ambitious legislative proposals like the African Growth and Opportunity Act and expansion of the Caribbean Basin Initiative. The WTO is central to our efforts to win approval for similar and broader commitments worldwide, joining other industrial nations and the more advanced developing countries.

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

## III. PROTECTING OUR VALUES

Third, the WTO has an important part to play as we think about the questions of the quality of life -- sustainable development and environmental protection; equity for working people; transparent and accessible institutions. These are as central as the unfinished work of opening markets and advancing the rule of law. And as we approach the task, we can draw important lessons from our experience at home.

Since the last time our unemployment rate touched 4%, in January of 1970, our economy has grown from \$3.7 to \$9.2 trillion, manufacturing output nearly tripled, and 50 million men and women joined the work-force. This is nowhere more evident than in Boston, with the high-tech economy it has built in these years. At the same time, the percentage of our rivers and streams fit for fishing and swimming doubled, as one can see with a walk down the Charles River; many endangered or threatened species are recovering, as we can see with the return of the Atlantic salmon and the bald eagle to New England; we created modern consumer safety laws and key regulatory policies; and the number of workplace deaths fell 60%.

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

Clearly, those who fear a "race to the bottom" can take reassurance in these facts. As our economy opened and grew in the past decade, our domestic labor and environmental standards have improved. But we also believe that there is absolutely no reason the world economy of the next decades cannot see the same combination of growth, better environmental protection, safer factories, stronger labor protection, and job creation. And while the principal driving forces for these changes are, of course, domestic policies, the trading system also has a role to play.

## **1. Environmental Protection**

It can do more to help us protect the environment.

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

Looking ahead, we have a series of proposals for trade liberalization with direct environmental benefits: elimination of barriers to trade in environmental goods and services; as well as fishery subsidies which contribute to the world overcapacity that has endangered the Grand Banks among other historic fishing grounds; and agricultural export subsidies that increase pressure on land and water. And last fall we established a broad framework for systematically integrating environmental concerns into our trade negotiations, through the President's Executive Order on the Environmental Review of Trade Agreements, and the White House Policy Declaration on Environment and Trade.

## **2. Trade and Labor**

It is also true that the WTO can address more effectively the concerns of many workers.

Today, in a formal sense, the WTO does not recognize that links between trade and labor exist. This is not a position which can endure: it is intellectually indefensible, and it will over time weaken public support for the trading system. Our task, therefore, is to ensure that the WTO formally recognizes the relationship between trade and labor policy and acts upon it.

This is not by any means easy: many developing countries -- democracies such as Brazil, South Africa -- raise genuinely felt concerns that such a discussion would lead to discrimination against the poor. Our work must recognize and allay these concerns if we are to make progress. But while there are no easy answers, all of us will ultimately benefit from such a discussion.

## **3. Transparency and Institutional Reform**

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

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

The WTO does not yet fully meet this test, and that is, ultimately, a challenge to its future. Thus we are

working for greater transparency throughout the system, through the progressive attainment of some practical goals: ensuring rapid release of documents, enhancing the input of citizens and citizen groups; providing the opportunity to file amicus briefs in dispute settlement proceedings, and opening those proceedings to public observers. These are essential to public support for the institutions of government at home; and the same is true for the institutions of the trading system.

#### IV. END OF THE COLD WAR

Finally, the WTO is of cardinal importance in our response to one of the great political challenges of the present: the end of the Cold War, with the opportunities it creates to support reform in the countries from Central Europe to Southeast Asia breaking with strict communist planning systems; and thus to strengthen peace.

This is a task for our time with consequences as great as those of the GATT's reintegration of Japan and Germany in the 1950s. It is highly complex: in technical trade policy terms, the transition economies have features unlike most of those we have encountered in the past; and it is still more complex because in political terms they have chosen different paths, some emphasizing political change and others delaying or hoping to avoid it.

Thus it proceeds slowly and with occasional setbacks. But it is also achievable and well underway. Since 1995, the WTO has admitted six transition economies: Slovenia, Bulgaria, Mongolia, the Kyrgyz Republic, Latvia, and Estonia. Georgia will enter soon; and the accessions of Albania and Croatia are almost complete. We have made significant progress with Armenia, Lithuania and Moldova; and held fruitful discussions with Russia and Ukraine as well.

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

In China, WTO accession will support reform. It will alter policies dating to the earliest years of the communist era, giving China's people more access to information, and weakening the ability of hardliners to isolate China's public from outside influences and ideas. That is why some leading advocates of democracy and human rights in Hong Kong and China - Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, a founder 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 of integration that has helped China become a more responsible member of the Pacific community. As China has reformed its economy and opened to the world, its stake in Asian stability and prosperity has grown. At the same time, China's economic reforms have helped to move its government away from the revolutionary foreign policy of the 1950s and 1960s, and towards a positive and constructive role in maintaining peace on the Korean Peninsula, in the Asian financial crisis, and as a member of the UN Security Council. And the WTO accession will be the most important step in this process in twenty years.

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

That is our record in fifty years of leadership in the trading system: one of helping to create opportunities and raise the living standards of Americans; of spurring development and growth worldwide; of advancing American values; and of building a stronger peace.

With this accomplishment behind us, we may well wonder why the trading system has become a bit controversial recently; but I think it is not a mystery at all. We live in an age when telecommunications and the Internet, together with improving education, are challenging old ways of doing business. In many ways, the WTO has not yet caught up with these changes. Likewise, few can now speak and act, as President Truman and his colleagues did, from personal experience with the Depression and the contribution misguided trade policy made to it -- to the contrary, the success of the trading system in preventing such an event in the more recent past tempts us to take its benefits for granted. These facts require us to do more and work harder to make the case for open markets to the public.

It should also not be controversial to say that the trading sy

**TOWARD THE FREE TRADE AREA OF THE AMERICAS:  
THE RECORD AND FUTURE OF HEMISPHERIC INTEGRATION**

Ambassador Charlene Barshefsky

U.S. Trade Representative

Council of the Americas

Washington, DC

May 2, 2000

Thank you very much. I am very pleased to be here again at the Council of the Americas -- it has been almost a year since our last meeting, and I very much appreciate this opportunity to update you on the events of the intervening months. This is also an especially appropriate time for us to take stock of hemispheric trade -- because, as it happens, we are meeting at a rather historic moment.

Three months ago, our negotiators in Miami began drafting the agreement that by 2005 will create the Free Trade Area of the Americas. This is, as many of you know, a concept that has been discussed throughout the Americas on many previous occasions, dating all the way back to Simon Bolivar in the earliest days of South American independence. It is only with the Summit of the Americas in 1994, however, that the idea moved from the realm of daydream to vision; and only in this millennial year have we brought the FTAA concept into the world of concrete negotiation.

**THE EXPERIENCE OF HEMISPHERIC INTEGRATION**

As we begin the new century, therefore, our negotiators are looking ahead to one of the most demanding trade negotiations in history: with the goal of a comprehensive agreement, addressing every major industry, commodity and trade issue from agriculture to goods, services, intellectual property, electronic commerce and more; linking 34 democracies and 800 million people; and covering nearly a third of the globe, from the Arctic Ocean to Tierra del Fuego and Easter Island to Nova Scotia.

This will be no simple task, and we should underestimate neither the technical nor the political challenges we will face in the next five years. But we should begin with the confidence that comes from shared ideals and common aspirations; and also from the practical experience we have gained in more than a decade of hemispheric integration.

Our negotiations build on experiments conducted in every part of the hemisphere. The United States has led in creating the Caribbean Basin Initiative and the Andean Trade Preferences Act; and has joined in the US-Canada Free Trade Agreement, and then the North American Free Trade Agreement. Others, including some of our partners in these initiatives, have joined in Caricom, the Central American Common Market and the Andean Community; Mercosur; and the free-trade agreements completed by Chile, Mexico and others.

Each of these offers policy lessons and ideas to our negotiators. But their most important contribution has been to demonstrate in real life the shared prosperity, job creation, and strengthened security we will all draw from the FTAA project that will unite and transcend each of our initiatives to date.

### **CBI RECORD AND ENHANCEMENT**

Today, Congress is very close to completing an enhancement of the Caribbean Basin Initiative. This has been a central Administration trade priority for several years, and we are very pleased to be near the finish line today, because when we review the record, we see that the CBI is one of the most successful trade programs in the world today.

When the CBI was enacted, the region's economies of the region relied on oil and coffee for close to 60% of their exports to the United States. This left them with reduced job opportunities and made the region's economies highly vulnerable to swings in commodity prices. This in turn contributed to the region's political instability, and ultimately to the Central American civil wars that were at the center of Latin American policy debates in the 1980s.

Fifteen years later, oil and coffee together make up only about 15% of Caribbean exports to the U.S., and are joined by semiconductors, apparel, computers, shrimp and many other products. This has reduced the economic insecurities posed by fluctuations in commodity prices; created jobs; built a larger tax base that supports education, environmental protection and health. In Nicaragua and El Salvador, parties that once fought on the battlefield now debate one another in elections and in Parliament. And the CBI deserves substantial credit for this transformation: as El Salvador's President Flores wrote a few months

ago:

"enhanced trade with the United States has become critical to the region's ability to promote economic growth and to maintain social and political stability."

We in the United States have benefitted as well, in practical economic terms as well as through a more stable and peaceful neighborhood. The growth created by the CBI helped to double U.S. exports to the Caribbean Basin over the last decade, to \$20 billion in goods a year.

### **NORTH AMERICAN FREE TRADE AGREEMENT**

We see the same developments, on a larger scale, in the North American Free Trade Agreement. With eight years to go before it is fully implemented, it has already changed economic relations in North America fundamentally and for the better.

Since the US-Canada Free Trade Agreement, our trade relationship with Canada has been the largest two-way goods trade relationship anywhere in the world. And since 1993, when the CFTA broadened into the NAFTA, our trade with Mexico has grown at a truly remarkable rate, from \$76 billion in 1993 to nearly \$200 billion in two-way trade last year.

To put this in context, our exports to Mexico alone now make up nearly one dollar in eight of our goods exports to the world. In February alone, \$8.4 billion worth of U.S. exports crossed our southern border to customers in Mexico. That is \$400 million worth of semiconductors in a single month; nearly 18,000 cars and trucks; \$42 million worth of surgical equipment, 200,000 tons of corn, and 177,000 golf balls together with 4,000 sets of clubs.

The agreement has thus contributed -- together, of course, with fiscal discipline, a broader opening of world markets embodied in nearly 300 trade agreements since 1992, and a commitment to education -- to a remarkable economic record. Since the NAFTA's passage, the U.S. has created 20 million new jobs. We have reversed 20 years of wage stagnation, with the average salary for a non-supervisory worker growing, in real dollars, by \$1,500. And, dispelling fears that a more fully open world market would reduce incentives to invest in the United States, we have seen real private investment in factories, equipment and technology rise nearly 80%, from \$680 billion in 1993 to over \$1.2 trillion last year.

Our partners benefit just as much. In economic terms, Mexican employment has grown by 2.2 million jobs between 1992 and 1998; and NAFTA has helped concentrate employment in higher-wage jobs, as research finds that Mexican export businesses pay wages an average of 30% above those of other firms. On a broader scale, since the early 1990s Mexico's infant mortality rates have dropped from 40 to 31 per thousand, and life expectancy has risen by two and a half years. Studies over a longer period of time find literacy rising and child labor rates dropping by nearly a third.

## **HISTORIC TRANSFORMATION**

This historic transformation has touched the whole Western Hemisphere.

The effects of economic reform at home, and integration within the hemisphere, are reflected in the lives of families and working people. Since the early 1980s, virtually every country in Latin America has cut illiteracy and infant mortality, in some cases by half. Child labor rates have fallen sharply - from 15% to 7% in Paraguay; 25% to 15% in the Dominican Republic; 10% to 5% in Costa Rica -- and life expectancy has grown by five years.

These effects are evident in the policies and governments of nations. Governments devote more of their resources to health and education. Every one of the 34 nations now participating in the FTAA has joined on the basis of a free choice made by an elected, democratic government.

And they are clear in greater long-term economic security. The strength of NAFTA during the peso crisis helped ensure Mexico's rapid recovery. More recently, it helped farmers and manufacturing workers in all three members avoid the worst of the consequences of the Asian financial crisis. South American trade arrangements, notably Mercosur, did the same, helping to stabilize the economic recovery now underway in Brazil and Argentina.

## **TOWARDS THE FTAA**

The lessons are very clear. Trade integration, accompanied by the appropriate domestic policies, has helped nations throughout the western hemisphere build healthier, more prosperous societies. It has helped to spark long-term economic development and address crisis. Ultimately, it has helped to make our Americas a more free, more democratic, and more peaceful region.

And this is the experience on which we build as the FTAA negotiations begin. Since the second Summit of the Americas in Santiago two years ago, we have been laying the foundation, proceeding deliberately and methodically through each preparatory step. We have kept to the schedule set by the elected leaders; and met each deadline along the road to the FTAA's completion by 2005.

- Over the course of 1998, we set up nine formal Negotiating Groups to cover each of the areas of the FTAA -- market access; competition policy; subsidies, anti-dumping and countervailing duties; intellectual property; government procurement; investment; agriculture; services; and dispute settlement -- with most FTAA participants serving as Chair or Vice Chair of a group at some point in the negotiations.

- Also in 1998 and into 1999, we solicited ideas and advice through the FTAA Committee on Civil Society - the first such committee in any major international trade negotiation. This brought 68 formal submissions from each part of the hemisphere, ranging from the Council of the Americas to the National Association of Manufacturers and the AFL-CIO in the U.S., the National Congress of Trade Unions in the Bahamas, the Caribbean Coastal Area Management Foundation, the Panamanian Association of Engineers and Architects, Pontificia University in Colombia, farm groups from Argentina to Canada, human rights organizations, consumer groups, religious institutions and more.

- During 1999, we drafted "annotated outlines" of each FTAA chapter, sketching out the range of issues to be negotiated in each area of the agreement.

- And then last November in Toronto, we took the decisive and historic step I noted when I began, formally committing ourselves to begin drafting the actual text of the agreement in the year 2000.

### **AGENDA FOR 2000**

The consequence of this decision cannot be overstated. We may recall the words of Franklin Roosevelt, who called for a hemispheric free trade agreement in the first days of his Presidency, and spoke of its human potential in his address to the Inter-American Conference for the Maintenance of Peace in Buenos Aires:

"Through democratic processes we can strive to achieve for the Americas the highest possible standard of living conditions for all our people -- men and women blessed with political freedom, willing to work and able to find work, rich enough to maintain their families and to educate their children, contented with their lot in life and on terms of friendship with their neighbors."

This is the goal we have set for the years ahead. In the coming months, our work will intensify, in two separate areas.

### **1. FTAA Text**

First, of course, will be the drafting of the text for each FTAA chapter. Each of the nine groups will be expected to complete this work by the end of the year.

This does not, of course, mean completing the agreement - as in most negotiations, the most difficult issues and political decisions will come at the end. Rather, by the New Year, we expect to draft what we call 'bracketed' texts covering the full scope of the FTAA. This will also enable us, we hope, to settle some of the less controversial specific issues. Each of the nine Negotiating Groups has begun its work, and is on schedule to complete the task assigned to it on time. It is of great importance that all the Negotiating Groups remain on schedule, and finish the job on time.

### **2. Business Facilitation**

Second, in parallel with the negotiations on the text, we will implement practical business facilitation measures that bring immediate benefit.

This has been a hallmark of the FTAA process since its beginning. As governments take the policy decisions and draft legal text, we also work with the private sector to implement practical initiatives that ease commerce and help establish long-term trade relationships. This means immediate benefit, and also ensures that even before the FTAA is complete, it will begin fulfilling its potential as a source of prosperity and growth for all 34 participating countries.

Thus, we have already agreed upon and begun to implement measures to ensure, for example, that visa and customs requirements are posted on the web. We are also implementing streamlined customs procedures for express shipments and commercial samples.

We are now looking forward to the next step and some more challenging ideas. These will include a number of proposals of special interest for high technology and the development of hemispheric electronic commerce: adopting measures such as privacy principles in electronic commerce, and

recognition of electronic signatures.

## **THE WORK AHEAD**

Fundamentally, the work of our negotiators is on schedule; and the plan we have set for the balance of the year is ambitious but also realistic. But it is also clear that the most difficult negotiations and decisions remain ahead.

The negotiations themselves will be demanding, even if we consider only their technical aspects. We seek a state-of-the-art agreement, going beyond relatively simple if politically sensitive questions on tariffs and market access to address high technology issues, electronic commerce, biotechnology and other highly complex issues.

At the same time, the public -- in the United States and elsewhere -- clearly expects trade policy to respond more effectively than it has in the past to many citizen concerns. This is clear in the range of submissions the Committee on Civil Society received. Our FTAA negotiations must pay appropriate attention to substantive issues like the relationship of trade to core labor standards, and the environment. Just as important, they must remain characterized by transparency and citizen contribution if the results are to be credible.

Most important, the negotiations are now moving away from concepts and frameworks and into the actual agreement itself. As this continues and accelerates, negotiations on timetables and specific commitments will naturally become more intense and emotional, requiring political willpower and some courage from all participants.

That is natural. It occurs in every major trade negotiation. And our responsibility therefore -- as representatives of governments, academia, NGOs or the private sector -- is to make sure that these discussions proceed conscious of the larger vision the FTAA represents: the common aspirations, the commitment to mutual benefit, and the embrace of shared destiny that in the past two decades made the Western Hemisphere the most peaceful and democratic region in the world.

## **CONCLUSION**

The challenges ahead are complex and difficult. But as the work begins, we are building on a remarkable foundation of success -- to which every country participating in the FTAA has made its contribution.

And when we are done, we will transcend all that we have accomplished so far.

The Free Trade Area of the Americas will build closer ties among the people and governments of the hemisphere.

Joined with the appropriate domestic policies, it will create a set of opportunities -- for prosperity, for rising living standards, and for the quality of life - unmatched in the history of the Americas.

Ultimately, it will help us to realize a dream two centuries old: of a hemisphere united in democracy and peace.

Let history show that we were up to the task.

Thank you.

**CHINA'S WTO ACCESSION  
AND PERMANENT NORMAL TRADE RELATIONS**

Testimony of Ambassador Charlene Barshefsky  
U.S. Trade Representative

House Committee on Ways and Means  
Washington, D.C.

May 3, 2000

Mr. Chairman, Congressman Rangel, Members of the Committee:

The House's vote on extension of permanent Normal Trade Relations to China, as China enters the World Trade Organization, will be one of the most important trade and foreign policy decisions the United States has made in many years. I thank you for this opportunity to join with Secretary Summers and Secretary Daley, in testifying on its significance for the United States.

**INTRODUCTION: ONE-WAY CONCESSIONS**

In a sense, this decision presents us with a simple choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession which secures broad-ranging, comprehensive, one-way trade concessions on China's part. These concessions:

- Open China's markets to American exports of industrial goods, services and agriculture to a degree unprecedented in the modern era, through specific and detailed commitments on tariffs, quotas, trading rights, distribution, sanitary and phytosanitary measures, the full range of services industries and other issues.
  
- Strengthen our guarantees of fair trade, with specific provisions to address dumping into the U.S. market, import surges, technology transfer as a condition of investment and other practices intended to draw jobs and research to China, textile trade and other issues.
  
- Give us far greater ability to enforce China's trade commitments.
  
- And facilitate the WTO accession of Taiwan, which has made an equally valuable set of market access 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.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. Regardless of our decision, it will continue to sell in the American market. The only question Congress will decide is whether we accept the benefits of China's accession and the agreement we negotiated; or whether on the contrary, by turning away from permanent NTR, we enable our competitors in Asia, Latin America, Canada and Europe to take advantage of these benefits while American entrepreneurs, farmers and factory workers are left behind.

## **I. CHINA'S WTO ACCESSION IN HISTORIC CONTEXT**

From the perspective of trade policy, therefore, this is a relatively simple decision. But China's WTO accession also has deeper implications.

China is the world's most populous country; over the past decade, it was the world's fastest-growing major economy. Our relationship thus affects all of America's foreign policy and security goals in Asia today, and its future course will be one of the major issues for Americans throughout the next decades. And the WTO accession, together with permanent NTR, will have a substantial impact on the future of

## China and our relationship with China.

When we look at our relationship with China today, we see a number of serious differences. In these cases, we have and will continue to assert our values and interests with candor and firmness -- as we have recently done at the UN Human Rights Commission in Geneva. At the same time, however, we also see a responsibility to develop a stable, mutually beneficial relationship in which we and China act upon areas of shared benefit and mutual interest. China's WTO accession, together with permanent NTR, is an example of just such shared interest and benefit.

- By opening the Chinese economy to U.S. goods, services and agricultural products, the WTO accession and PNTR will create significant new opportunities for American businesses, farmers and working people; and it will help to reform and improve a deeply imbalanced existing trade relationship.

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

- And by integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. Together with our military presence in the Asia-Pacific and our alliances with Japan, South Korea and other Pacific democracies, it will thus be a factor in favor of long-term regional peace.

## AMERICA AND THE TRADING SYSTEM

Let me now turn to a detailed review of our bilateral agreement on WTO accession, beginning with the historic context in which we should view this event.

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

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 113 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest importer and exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

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

### **CHINA FROM REVOLUTION TO REFORM**

This brings me to China.

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

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living

standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

And as China has opened its economy to the world, it has become a more integrated, responsible member of the Pacific community. To choose a specific example, in 1997, South Korea and the ASEAN states were the market for \$22.3 billion worth of Chinese semiconductors, video CD players, rice, apparel and other goods. Setting Hong Kong aside, that is one dollar in six of China's exports to the world. These countries were also the source of \$6 billion in foreign direct investment in China, meaning (again with Hong Kong excepted) a seventh of the FDI China received that year.

This has implications not only for China's economy, but to our own vital interest in a peaceful and stable region - because 1997 was, of course, the year of the financial crisis. A generation ago, China might have seen the event as a revolutionary opportunity. In 1997 its reaction was entirely different: the crisis was a threat to the export markets that support Chinese factories and farm income, and to the Asian investment that creates jobs and growth.

The constructive and stabilizing policies China adopted, through currency stability and contribution to IMF-led recovery programs, thus reflected basic self-interest. But in historic context, they enabled us to deal with the crisis primarily as an economic and humanitarian disaster, rather than a security crisis. And they are thus evidence of a change in China's view of its own regional interests and role whose importance for our national security cannot be overstated.

## THE ROLE OF U.S. TRADE POLICY

A bipartisan U.S. trade policy over the past thirty years has contributed to these positive trends.

Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful agreements that open opportunities for Americas. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, more specific agreements in the 1980s; and then a series of recent and highly focused agreements including:

- Intellectual Property - In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property-based products cost our industry hundreds of millions of dollars and led to trade

confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1995, and then won further commitments in 1996 that led China to close over 70 pirate production facilities; cease the export of pirated products and significantly improve enforcement - the principal focus of the agreements.

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

- Agriculture - Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to China's unscientific sanitary and phytosanitary measures. As in the cases of intellectual property and textiles, we continue to hold frequent consultations with the Chinese authorities charged with implementing the agreement, and have seen very significant results in the first shipments of Pacific Northwest wheat, California and Florida citrus, and U.S. meats to China.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done.

China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only \$10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

## **II. CHINA'S WTO ACCESSION, PNTR, AND U.S. TRADE INTERESTS**

The WTO accession agreement therefore builds upon thirty years of work, to reach a detailed, specific and enforceable series of commitments covering the range of American trade priorities in China. As China has looked to WTO accession to create jobs and foster sustainable growth through economic reform, we have won commercially meaningful and enforceable commitments that help Americans on

the farm and on the job export to China by addressing the many layers of trade barriers and policies which limit access; strengthen guarantees of fair trade; and give us additional tools for enforcement and compliance.

Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago. Let me now offer an overview of the agreement, and then turn to its specific features.

## OVERVIEW

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

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

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

I will now turn to a review of the details in each major sector.

## INDUSTRY

In industrial goods, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005 and bind

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

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

Fertilizer - As an addendum to our November 1999 bilateral agreement, we have reached an agreement with China that will effectively provide market access for U.S. fertilizer. The agreement sets up a TRQ system for importation of fertilizer products of priority interest to the United States that is similar to the system we negotiated for agricultural products.

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

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

Information Technology Agreement - China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items by 2003 in most cases and 2005 in a few others.

Autos - China will reduce tariffs on autos from rates of 80%-100% today to 25% in 2006, and on auto

parts to an average of 10% from an average of over 23%.

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

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

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

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

Non-Tariff Barriers - China will eliminate quotas and other quantitative restrictions upon accession for top U.S. priorities, including certain fertilizers and fiber-optic cable.

## **AGRICULTURE**

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

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

Current Level Under the Agreement

Beef 45% 12%

Pork 20% 12%

Poultry 20% 10%

Citrus 40% 12%

Grapes 40% 13%

Apples 30% 10%

Cheese 50% 12%

Crayfish 30% 15%

Lobster 30% 15%

Wine 65% 20%

Beer 70% 0%

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

1998 Total Imports Initial TRQ 2004 TRQ Private Share

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

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

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

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

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

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

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

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

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

## SERVICES

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

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

Distribution - As noted above, China now generally prohibits firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement, China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

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

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

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

Telecommunications - China now prohibits foreign investment in telecommunications. With WTO accession, it will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services such as the Internet within two years, mobile and cellular within five years, and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, allowing 49% foreign investment in all services and 50% foreign ownership for value-added and paging services in two years.

Audiovisual - China does not now allow foreign participation in distribution of sound recordings. Under the agreement, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction and ownership and operation of cinemas. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Travel and Tourism - U.S. travel agencies will now be able to provide a full range of services for Americans in China, such as access to government resorts and major tourist centers.

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

## PROTOCOL ISSUES

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

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

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

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

Subsidies - Likewise, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account. Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share of those benefits, the United States could take action under our unfair trade laws.

The agreement also establishes that the U.S. can determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

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

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

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

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

## COMPLIANCE AND ENFORCEMENT

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

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

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

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

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China's implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 136 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 135 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China's commitments.

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

Finally, however, enforcement (as in any agreement) depends on U.S. commitment. We will relentlessly monitor and enforce China's compliance with its Protocol of Accession and all of the WTO agreements. We are already preparing for an increased monitoring and enforcement effort through President Clinton's request for \$22 million in new enforcement and compliance resources for USTR, the Commerce Department, USDA, and the State Department. The President has requested resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and strong enforcement of our trade laws.

The additional resources sought for the Office of the U.S. Trade Representative in the FY 2001 budget would create new positions in four areas of expertise -- legal, economic, geographic, and sectoral -- to be devoted to negotiating, monitoring, and enforcing trade agreements; and would almost double the number of USTR staff dedicated to China trade compliance. President Clinton's initiative also would

triple resources at the Department of Commerce dedicated to China - including administration of our antidumping and countervailing duty laws.

The Administration will be monitoring China's compliance on three fronts: (1) on-the-ground in China, where State, Commerce and Agriculture officers will seek to resolve U.S. business complaints and prevent compliance problems before they arise; (2) here in Washington, where special interagency teams of government experts will be created to examine China's implementation of each of the 20 WTO agreements as well as WTO commitments unique to China; and (3) at the WTO in Geneva, where the United States will join 135 other WTO members in the multilateral review mechanism designed especially for China.

USTR will create a special interagency structure that coordinates these initiatives to ensure that China fully complies with the commitments it has made. This will bring together our government's experts on both China and the subject matter of each of the 20 WTO agreements, to regularly and vigorously monitor China's compliance with all of the WTO agreements. These interagency teams will monitor everything from China's implementation of its tariff-rate quota commitments to the grant of insurance licenses and trading rights. Where they find non-compliance, we will use all the tools available to us -- under our trade laws, the WTO dispute settlement mechanism, the various WTO committees, and the special WTO transitional review mechanism -- to ensure implementation. In addition, we will create two new interagency committees to oversee two unique features of this historic agreement: one dedicated to U.S. participation in the multilateral review mechanism, and one to implement the product-specific safeguard mechanism to address import surges.

These interagency groups will base their work on information gathered from the American Embassy in Beijing, the Foreign Agricultural Service and Foreign Commercial Service; advice received from the business community, the agricultural community, trade associations, organized labor, and other non-governmental organizations; and information received from the public, including information received in response to requests for comment, via agency Web sites, and the Department of Commerce's domestic district office network.

The Administration will continue to work with Congress and American workers, farmers, and businesses to ensure effective monitoring and quick responses to non-compliance. At the same time, we will seek to prevent or reduce problems by working with the Chinese, including through technical assistance where appropriate, to ensure they fully understand their new obligations. WTO rules will require real and meaningful changes in China's application of trade rules and policies, and consultation and training will help head off problems before they arise.

## **PERMANENT NORMAL TRADE RELATIONS**

By contrast to this comprehensive set of Chinese commitments, the U.S. commitment is merely to continue our present policies. Thus, the United States:

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

Our sole obligation is to grant China permanent NTR. This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since our Bilateral Commercial Agreement and normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Under the legislation President Clinton sent to Congress on March 8<sup>th</sup>, permanent NTR would only be available to China when the President certifies that China has entered the WTO on the basis of the commitments we reached in our bilateral agreement.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical, as without permanent NTR we 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. To refuse to grant permanent NTR, therefore, would enable our trade competitors throughout the world to reap these benefits; but American farmers and businesses would be left behind.

### **TAIWAN'S WTO ACCESSION**

Finally, China's entry will facilitate Taiwan's entry into the WTO. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should thus be no surprise that Taiwan's new leadership supports both China's WTO membership and normalized trade between China and the United States.

### **III. WTO ACCESSION, PNTR, AND BROADER U.S. INTERESTS**

Let me now turn from the specific trade policy changes China's WTO accession and PNTR will make, to their implications for issues separate from trade, but central to the broader US-China relationship.

U.S. trade policy, ever since the Second World War, has been one element in a larger response, conceived under Franklin Roosevelt and developed into concrete policies and institutions under President Truman, to the lessons of the Depression and the Second World War. These included collective security, reflected by the United Nations, NATO, the Rio Treaty and our alliances with the Pacific democracies; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; and the fostering of open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

Each element in this set of policies and institutions, over the years, has had its own intrinsic benefit, but also helped to support and strengthen the others. And this will also be true with China's WTO accession and permanent NTR.

### **HUMAN RIGHTS AND THE RULE OF LAW**

With respect to reform within China, WTO accession represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date.

China's domestic reforms have reversed the most damaging policies of the Cultural Revolution and Great Leap Forward. WTO accession will accelerate and deepen this process, altering policies which date to the earliest years of the communist era. As it enters the WTO, China will:

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

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

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights - Martin Lee, the leader of Hong Kong's Democratic Party who visited Washington this week to restate his support for PNTR; Bao Tong, the reformer jailed for seven years after Tiananmen Square, whose appeal to the UN Human Rights Commission last month drew worldwide sympathy - support PNTR and see WTO accession as China's most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

#### **WTO ACCESSION AND AMERICAN NATIONAL SECURITY**

Perhaps still more important, the PNTR decision is a test of our ability to develop the type of stable, mutually beneficial relationship with China that will be critical to peace and stability in the Pacific region in the years to come.

Our relationship with China remains marked by substantial disagreements. When we disagree with China, to quote Theodore Roosevelt, speaking about the Open Door Policy to China in the first years of the 20<sup>th</sup> century

## **CHINA'S WTO ACCESSION AND PNTR: AMERICA'S CHOICE**

Ambassador Charlene Barshefsky

U.S. Trade Representative

National Conference of State Legislatures

Washington, D.C.

May 5, 2000

Thank you very much.

Let me thank Representative Paul Mannweiler of Indiana, President of the NCSL for inviting me to come speak at your plenary session today. I last came before you in February, at NCSL's Leader to Leader Conference, and it is a pleasure to be back.

A number of Legislators have made especially important contributions to our work, and let me recognize them here. As members of our Intergovernmental Policy Advisory Committee, John Dorso of North Dakota, Carol Fukunaga from Hawaii, James Lack of New York and Maryland Delegate Kenneth Montague have all helped to protect and advance the interests of states as we develop our trade initiatives. Likewise, Larry Diedrich of South Dakota and Clay Pope of Oklahoma, as chairs of the Agriculture and International Trade Committee, have helped us enormously and deserve special recognition.

### **THE STAKES**

In just a few weeks, Congress will vote on permanent Normal Trade Relations for China, as China enters the World Trade Organization.

This is the most important trade and foreign policy decision America will make this year; perhaps the most important we have made in many years. The choice Congress makes will affect the prospects of your neighbors on the farm and on the job; reform and the rule of law in China; and America's most fundamental national interests.

But at the basic level, the WTO accession and PNTR are trade issues -- so let me speak for a few minutes on the implications they have for America's trade interests.

### TRADE IMPLICATIONS

As a trade issue, the PNTR decision presents us with a simple choice.

Our agreement on WTO accession secures broad-ranging, comprehensive, one-way trade concessions on China's part. These concessions:

- Open China's markets to American exports of industrial goods, services and agriculture to a degree unprecedented in the modern era.
- Strengthen our guarantees of fair trade.
- Give us far greater ability to enforce China's trade commitments.
- And facilitate the WTO accession of Taiwan, which has made an equally valuable set of market access commitments.

By contrast, we change no market access policies -- not a single tariff line. We amend none of our trade laws and none of our laws controlling the export of sensitive technology. 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.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. Regardless of our decision, it will continue to sell in the American market. The only question Congress will decide is whether we accept the benefits of China's accession and the agreement we negotiated; or whether by turning away from permanent NTR, we enable our competitors to get them while American

entrepreneurs, farmers and factory workers are left behind.

## ONE-WAY CONCESSIONS

What are these benefits?

Representatives of rural districts will see new markets open for our farms and ranches. On U.S. priority products, China's agricultural tariffs will drop from an average of 31% to 14% in January 2004. These include cuts from 40% to 12% for beef; 20% to 12% for pork; 40% to 10% for citrus. Access for bulk agricultural products like wheat, rice and cotton will grow through tariff-rate quotas that offer dramatic new opportunities, and the first rights for private trade in these products. China will end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base border inspections on science.

For university towns and high-tech centers, China will eliminate tariffs and quotas on high-tech goods semiconductors, pharmaceuticals and computers; and deeply cut tariffs on medical equipment, scientific instruments and other high-value products. It will give us new tools to protect the results of our research on software, semiconductors and other intellectual property-related goods. And it will eliminate forced technology transfer as a condition for investment in China.

For your friends and constituents on the factory floor, China will open export opportunities and strengthen guarantees of fair trade for manufacturing from steel to autos, agricultural equipment, wood products, and home appliances. Chinese tariffs on industrial goods will drop, from an average of 25% in 1997 to 9.4% by 2005. China will allow distribution and trading rights. We will eliminate unfair investment practices like local content requirements and forced technology transfer. Beyond this, we will guarantee our right to use special methods to fight dumping for 15 years. And we will create a "product-specific safeguard" we can use to fight market-disrupting import surges for 12 years.

We also cover the artistic fields - books, music and film, as well as other copyright industries like software and video games - and each of the major services industries, from distribution to telecommunications, banking, insurance, motion pictures, accounting, law, travel and tourism, and other industries.

All these commitments are fully enforceable: through our trade laws; WTO dispute settlement; multilateral pressure from all 135 WTO members; increased monitoring by the U.S.; and other mechanisms such as the special anti-dumping and anti-import surge remedies.

Finally, and this is very important, China's entry will facilitate the entry of Taiwan into the WTO, as Taiwan's new leadership has noted in its formal support for China's membership and normalized trade with the U.S.. Taiwan's accession will have substantial direct trade benefits for the US, as Taiwan is already a larger export market for us than is China, and already is one of our largest markets for pork, seafood, grains and fruit.

## **PNTR**

By contrast to these historic commitments, our sole obligation is to grant China permanent NTR. If we fail to do so, we risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This, in terms of our policy toward China, is no real change. NTR is simply the tariff status which every Administration and Congress in the past 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. Without it, we will lose the vast majority of China's concessions, while our competitors take full advantage of them. Japanese auto firms could sell where Americans could not. Northern tier farmers would see the Canadian Wheat Board get the benefits of the agreement Americans negotiated. Southwestern ranchers would lose out to Argentina and Australia; high-tech manufacturers in New England and Silicon Valley would see Europe and Japan take our markets; citrus growers in Southern California and Florida would lose to Brazil and Southeast Asia.

## **WTO ACCESSION AND CHINESE REFORM**

So from an economic standpoint, rejection of permanent NTR would simply be a foolish decision. And this would likely be the least of the consequences.

As even my very brief review of China's commitments indicates, as it joins the WTO China will do much more than reduce tariffs and other trade barriers at the border. The WTO accession will, in fact, alter and reform policies dating to the very earliest years after the Communist revolution. 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 directly 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.

Many Hong Kong and Chinese activists for democracy and human rights see such commitments as a remarkable victory for reform. They include Bao Tong, jailed for seven years after Tiananmen Square, whose appeal to the UN Human Rights Commission drew worldwide sympathy last month; Martin Lee, the leader of Hong Kong's Democratic Party, who made a special trip to the United States last week to call on Congress for support for PNTR; Ren Wanding, a dissident who has spent years of his life in prison. This is why rejection of PNTR would be a blow to reform in China; and why support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## WTO ACCESSION AND U.S. NATIONAL SECURITY

But the full significance of the decision Congress will make is only clear when we consider the WTO accession as part of a larger U.S. relationship with China -- a relationship that is of fundamental importance to peace and security in Asia and worldwide in the coming decades.

We have substantial differences with China on issues relating to human rights and religious freedom; on a number of security questions; and in other areas as well. In these we vigorously assert our interests and values. But we also act upon areas of shared interest and benefit whenever possible - in the Asian financial crisis, for example; and in our work to keep the peace on the Korean peninsula.

In the WTO accession and PNTR we have an opportunity of comparable importance: to create a more open and reformed Chinese economy, which more fully reflects the rule of law; to increase China's stake in prosperity and security beyond its borders; and to spur jobs, growth and rising living standards for America's farmers, businesses and workers. And we have created this opportunity through a series of one-way concessions made by China.

Were we to retreat and reject these one-way concessions, we would make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country.

Such a stand would threaten every single interest we have in China -- from our work on non-proliferation and arms control, to reducing tensions in Korea and South Asia, and across the Taiwan Strait. It would complicate for the foreseeable future our Pacific alliances, as our Asian friends and allies would view rejection of PNTR as an unnecessary rejection of stable and constructive relations with their largest neighbor; and a turn away from the open, confident vision we have held for the Pacific over many years.

Over the long term, and perhaps most important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move. This in turn would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great consequence for every Pacific nation and for ourselves.

## CONCLUSION

That is the ultimate and most significant point at stake in the coming debate. To reject PNTR would do more than severely damage American trade interests: it would set back the cause of reform in China; and risk, without cause, a fundamental deterioration in our relationship with the world's largest country.

But if we have the wisdom and confidence to make the right choice, the WTO accession and PNTR offer us a remarkable opportunity: to help spur growth and opportunity at home; to strengthen prospects for long-term reform within China; and ultimately to help build a relationship with China that strengthens guarantees of peace and security for the world.

That is the opportunity before us. These are the stakes. Your friends and neighbors - on the job, on the farm, on military bases - have more at stake in this vote than in any other decision our government will make in this millennial year. And this is why it is so important that we approve permanent Normal Trade Relations for China, on the basis of our historic agreement.

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

**CHINA'S WTO ACCESSION  
AND PERMANENT NORMAL TRADE RELATIONS**

Testimony of Ambassador Charlene Barshefsky

U.S. Trade Representative

Senate Banking Committee

Washington, D.C.

May 9, 2000

Mr. Chairman, Senator Sarbanes, Members of the Committee:

The House's vote on extension of permanent Normal Trade Relations to China, as China enters the World Trade Organization, will be one of the most important trade and foreign policy decisions the United States has made in many years. I thank you for this opportunity to join with Secretary Summers in testifying on its significance for the United States.

**INTRODUCTION: ONE-WAY CONCESSIONS**

In a sense, this decision presents us with a simple choice.

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession, which secures broad-ranging, comprehensive, one-way trade concessions on China's part. These concessions:

- Open China's markets to American exports of industrial goods, services and agriculture to a degree unprecedented in the modern era, through specific and detailed commitments on tariffs, quotas, trading rights, distribution, sanitary and phytosanitary measures, the full range of services industries and other issues.
  
- Strengthen our guarantees of fair trade, with specific provisions to address dumping into the U.S. market, import surges, technology transfer as a condition of investment and other practices intended to draw jobs and research to China, textile trade and other issues.
  
- Give us far greater ability to enforce China's trade commitments.
  
- And facilitate the WTO accession of Taiwan, which has made an equally valuable set of market access 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.

This is the only policy issue before Congress. Regardless of our decision, China will enter the WTO. Regardless of our decision, it will continue to sell in the American market. The only question Congress will decide is whether we accept the benefits of China's accession and the agreement we negotiated; or whether on the contrary, by turning away from permanent NTR, we enable our competitors in Asia, Latin America, Canada and Europe to take advantage of these benefits while American entrepreneurs, farmers and factory workers are left behind.

## **I. CHINA'S WTO ACCESSION IN HISTORIC CONTEXT**

From the perspective of trade policy, therefore, this is a relatively simple decision. But China's WTO accession also has deeper implications.

China is the world's most populous country; over the past decade, it was the world's fastest-growing major economy. Our relationship thus affects all of America's foreign policy and security goals in Asia today, and its future course will be one of the major issues for Americans throughout the next decades. And the WTO accession, together with permanent NTR, will have a substantial impact on the future of

## China and our relationship with China.

When we look at our relationship with China today, we see a number of serious differences. In these cases, we have and will continue to assert our values and interests with candor and firmness -- as we have recently done at the UN Human Rights Commission in Geneva. At the same time, however, we also see a responsibility to develop a stable, mutually beneficial relationship in which we and China act upon areas of shared benefit and mutual interest. China's WTO accession, together with permanent NTR, is an example of just such shared interest and benefit.

- By opening the Chinese economy to U.S. goods, services and agricultural products, the WTO accession and PNTR will create significant new opportunities for American businesses, farmers and working people; and it will help to reform and improve a deeply imbalanced existing trade relationship.

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

- And by integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. Together with our military presence in the Asia-Pacific and our alliances with Japan, South Korea and other Pacific democracies, it will thus be a factor in favor of long-term regional peace.

## AMERICA AND THE TRADING SYSTEM

Let me now turn to a detailed review of our bilateral agreement on WTO accession, beginning with the historic context in which we should view this event.

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

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 113 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest importer and exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

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

## **CHINA FROM REVOLUTION TO REFORM**

This brings me to China.

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

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living

standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

And as China has opened its economy to the world, it has become a more integrated, responsible member of the Pacific community. To choose a specific example, in 1997, South Korea and the ASEAN states were the market for \$22.3 billion worth of Chinese semiconductors, video CD players, rice, apparel and other goods. Setting Hong Kong aside, that is one dollar in six of China's exports to the world. These countries were also the source of \$6 billion in foreign direct investment in China, meaning (again with Hong Kong excepted) a seventh of the FDI China received that year.

This has implications not only for China's economy, but to our own vital interest in a peaceful and stable region - because 1997 was, of course, the year of the financial crisis. A generation ago, China might have seen the event as a revolutionary opportunity. In 1997 its reaction was entirely different: the crisis was a threat to the export markets that support Chinese factories and farm income, and to the Asian investment that creates jobs and growth.

The constructive and stabilizing policies China adopted, through currency stability and contribution to IMF-led recovery programs, thus reflected basic self-interest. But in historic context, they enabled us to deal with the crisis primarily as an economic and humanitarian disaster, rather than a security crisis. And they are thus evidence of a change in China's view of its own regional interests and role whose importance for our national security cannot be overstated.

## **THE ROLE OF U.S. TRADE POLICY**

A bipartisan U.S. trade policy over the past thirty years has contributed to these positive trends.

Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful agreements that open opportunities for Americans. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, more specific agreements in the 1980s; and then a series of recent and highly focused agreements including:

- Intellectual Property - In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property-based products cost our industry hundreds of millions of dollars and led to trade

confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1995, and then won further commitments in 1996 that led China to close over 70 pirate production facilities; cease the export of pirated products and significantly improve enforcement - the principal focus of the agreements.

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

- Agriculture - Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to China's unscientific sanitary and phytosanitary measures. As in the cases of intellectual property and textiles, we continue to hold frequent consultations with the Chinese authorities charged with implementing the agreement, and have seen very significant results in the first shipments of Pacific Northwest wheat, California and Florida citrus, and U.S. meats to China.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done.

China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only \$10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

## **II. CHINA'S WTO ACCESSION, PNTR, AND U.S. TRADE INTERESTS**

The WTO accession agreement therefore builds upon thirty years of work, to reach a detailed, specific and enforceable series of commitments covering the range of American trade priorities in China. As China has looked to WTO accession to create jobs and foster sustainable growth through economic reform, we have won commercially meaningful and enforceable commitments that help Americans on

the farm and on the job export to China by addressing the many layers of trade barriers and policies which limit access; strengthen guarantees of fair trade; and give us additional tools for enforcement and compliance.

Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago. Let me now offer an overview of the agreement, and then turn to its specific features.

## OVERVIEW

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

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

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

I will now turn to a review of the details in each major sector.

## SERVICES

In services, China will open markets across the spectrum of distribution services, financial services,

telecommunications including the Internet, professional, business and computer services, motion pictures, environmental services, and other industries. In some fields, such as audiovisual services, China will be one of only a very few WTO members with specific and binding commitments. China will also participate in both of the WTO's newest services agreements - the Agreement on Basic Telecommunications and the Agreement on Financial Services.

Specific commitments in the services industries include the following

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

Financial Services Agreement - In joining the WTO, China agrees to participate in the Financial Services Agreement. This, 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, 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. This has the potential to significantly increase U.S. financial services exports -- which have already grown by \$4 billion since 1992, to total \$13.7 billion in 1998. We do not have final export figures by services industry as yet for 1999, but overall private services exports grew by approximately 5%.

China now stands ready to make such financial services commitments itself. In China we currently face one of the world's most restricted markets, as evident in our very small total of \$49 million in financial service exports to China in 1998. The WTO accession will make broad and deep changes in this situation:

Insurance -- Today, only two U.S. insurers operate in China's market. (Two others are expected to begin operations soon.) 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.

- Banking -- 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. With WTO accession, 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 American financial institutions established in China. China will allow internal branching and provide national treatment for all newly permitted activities. Geographic restrictions will be lifted on a set schedule, and abolished within five years. Foreign banks will be guaranteed the right to conduct business in foreign currency with all clients, and in local currency, with foreign clients on accession. They will be able to conduct business in local currency with Chinese enterprises starting two years after accession, and with Chinese individuals after five years. Financial leasing will be allowed for foreign-owned banks when allowed for domestic banks. Upon accession, non-bank financial institutions will be permitted to provide auto-financing without any market access or national treatment limitations.

- Securities -- 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.

China's commitments in our bilateral agreement also, of course, extend to the full range of services industries.

Distribution - China now generally prohibits firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement, China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right, and as noted below, will help our exporters of industrial goods and farm products to do business more easily in China.

Telecommunications - China now prohibits foreign investment in telecommunications. With WTO accession, it will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services such as the Internet within two years, mobile and cellular within five years, and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in

telecommunications services, allowing 49% foreign investment in all services and 50% foreign ownership for value-added and paging services in two years.

Audiovisual - China does not now allow foreign participation in distribution of sound recordings. Under the agreement, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction and ownership and operation of cinemas. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Travel and Tourism - U.S. travel agencies will now be able to provide a full range of services for Americans in China, such as access to government resorts and major tourist centers.

Other - Also covered is a broad range of other services. In the professions, China has made a full range of commitments for architecture, engineering, accounting, and legal services. Likewise, new opportunities will open in computer and business services, with China making commitments on hardware installation, data processing and tabulation services, and time-sharing services software implementation services, systems and software consulting services, systems analysis services, systems design services, programming services, systems maintenance services, data processing services, input preparation services. Other fields include management consulting, environmental services, franchising, express delivery and many more. In each, China has made specific, enforceable commitments that open markets and offer competitive American industries important new opportunities.

## INDUSTRY

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

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

Fertilizer - As an addendum to our November 1999 bilateral agreement, we have reached an agreement with China that will effectively provide market access for U.S. fertilizer. The agreement sets up a TRQ system for importation of fertilizer products of priority interest to the United States that is similar to the system we negotiated for agricultural products.

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

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

Information Technology Agreement - China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items by 2003 in most cases and 2005 in a few others.

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

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

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

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

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

Non-Tariff Barriers - China will eliminate quotas and other quantitative restrictions upon accession for top U.S. priorities, including certain fertilizers and fiber-optic cable.

## AGRICULTURE

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

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

### Current Level Under the Agreement

Beef 45% 12%

Pork 20% 12%

Poultry 20% 10%

Citrus 40% 12%

Grapes 40% 13%

Apples 30% 10%

Cheese 50% 12%

Crayfish 30% 15%

Lobster 30% 15%

Wine 65% 20%

Beer 70% 0%

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

1998 Total Imports Initial TRQ 2004 TRQ Private Share

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

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

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

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

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

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

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

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

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

## PROTOCOL ISSUES

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

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

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

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

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

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

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

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

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

## **COMPLIANCE AND ENFORCEMENT**

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

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

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

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

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China's implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 136 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 135 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China's commitments.

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

Finally, however, enforcement (as in any agreement) depends on U.S. commitment. We will relentlessly monitor and enforce China's compliance with its Protocol of Accession and all of the WTO agreements. We are already preparing for an increased monitoring and enforcement effort through President Clinton's request for \$22 million in new enforcement and compliance resources for USTR, the Commerce Department, USDA, and the State Department. The President has requested resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and strong enforcement of our trade laws.

The additional resources sought for the Office of the U.S. Trade Representative in the FY 2001 budget would create new positions in four areas of expertise -- legal, economic, geographic, and sectoral -- to be devoted to negotiating, monitoring, and enforcing trade agreements; and would almost double the number of USTR staff dedicated to China trade compliance. President Clinton's initiative also would triple resources at the Department of Commerce dedicated to China - including administration of our antidumping and countervailing duty laws.

The Administration will be monitoring China's compliance on three fronts: (1) on-the-ground in China, where State, Commerce and Agriculture officers will seek to resolve U.S. business complaints and prevent compliance problems before they arise; (2) here in Washington, where special interagency teams of government experts will be created to examine China's implementation of each of the 20 WTO agreements as well as WTO commitments unique to China; and (3) at the WTO in Geneva, where the United States will join 135 other WTO members in the multilateral review mechanism designed especially for China.

USTR will create a special interagency structure that coordinates these initiatives to ensure that China fully complies with the commitments it has made. This will bring together our government's experts on both China and the subject matter of each of the 20 WTO agreements, to regularly and vigorously monitor China's compliance with all of the WTO agreements. These interagency teams will monitor everything from China's implementation of its tariff-rate quota commitments to the grant of insurance licenses and trading rights. Where they find non-compliance, we will use all the tools available to us -- under our trade laws, the WTO dispute settlement mechanism, the various WTO committees, and the special WTO transitional review mechanism -- to ensure implementation. In addition, we will create two new interagency committees to oversee two unique features of this historic agreement: one dedicated to U.S. participation in the multilateral review mechanism, and one to implement the product-specific safeguard mechanism to address import surges.

These interagency groups will base their work on information gathered from the American Embassy in Beijing, the Foreign Agricultural Service and Foreign Commercial Service; advice received from the business community, the agricultural community, trade associations, organized labor, and other non-governmental organizations; and information received from the public, including information received in response to requests for comment, via agency Web sites, and the Department of Commerce's domestic district office network.

The Administration will continue to work with Congress and American workers, farmers, and businesses to ensure effective monitoring and quick responses to non-compliance. At the same time, we will seek to prevent or reduce problems by working with the Chinese, including through technical assistance where appropriate, to ensure they fully understand their new obligations. WTO rules will require real and meaningful changes in China's application of trade rules and policies, and consultation and training will help head off problems before they arise.

## **PERMANENT NORMAL TRADE RELATIONS**

By contrast to this comprehensive set of Chinese commitments, the U.S. commitment is merely to continue our present policies. Thus, the United States:

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

Our sole obligation is to grant China permanent NTR. This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since our Bilateral Commercial Agreement and normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Under the legislation President Clinton sent to Congress on March 8<sup>th</sup>, permanent NTR would only be available to China when the President certifies that China has entered the WTO on the basis of the commitments we reached in our bilateral agreement.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical, as without permanent NTR we 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. To refuse to grant permanent NTR, therefore, would enable our trade competitors throughout the world to reap these benefits; but American farmers and businesses would be left behind.

### **TAIWAN'S WTO ACCESSION**

Finally, China's entry will facilitate Taiwan's entry into the WTO. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should thus be no surprise that Taiwan's new leadership supports both China's WTO membership and normalized trade between China and the United States.

### **III. WTO ACCESSION, PNTR, AND BROADER U.S. INTERESTS**

Let me now turn from the specific trade policy changes China's WTO accession and PNTR will make, to their implications for issues separate from trade, but central to the broader US-China relationship.

U.S. trade policy, ever since the Second World War, has been one element in a larger response, conceived under Franklin Roosevelt and developed into concrete policies and institutions under President Truman, to the lessons of the Depression and the Second World War. These included collective security, reflected by the United Nations, NATO, the Rio Treaty and our alliances with the Pacific democracies; commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions; and the fostering of open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the GATT on the other.

Each element in this set of policies and institutions, over the years, has had its own intrinsic benefit, but also helped to support and strengthen the others. And this will also be true with China's WTO accession and permanent NTR.

## **HUMAN RIGHTS AND THE RULE OF LAW**

With respect to reform within China, WTO accession represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date.

China's domestic reforms have reversed the most damaging policies of the Cultural Revolution and Great Leap Forward. WTO accession will accelerate and deepen this process, altering policies which date to the earliest years of the communist era. As it enters the WTO, China will:

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

These commitments are a remarkable victory for economic reformers in China. They will give China's people more access to information, and weaken the ability of hardliners in government to isolate China's public from outside influences and ideas. More deeply, they reflect a judgment that prosperity, security

and international respect will not come from the static nationalism, state power and state control over the economy China adopted after the war, but that China's own interests are best served by the advancing economic freedom, engagement with the world, and ultimately development of the rule of law inherent in the initiative President Truman began in 1948 with the founding of the GATT.

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights - Martin Lee, the leader of Hong Kong's Democratic Party who visited Washington this week to restate his support for PNTR; Bao Tong, the reformer jailed for seven years after Tiananmen Square, whose appeal to the UN Human Rights Commission last month drew worldwide sympathy - support PNTR and see WTO accession as China's most important