THE FREE TRADE AREA OF THE AMERICAS

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

We are meeting at a very important moment. It is now a little more than five years past the creation of the North American Free Trade Agreement; and under the schedule set by the two Summits of the Americas in Miami and Santiago, we have a bit more than five years left before the completion of the Free Trade Area of the Americas.

This midway point is, typically, a time in which press and public interest in trade negotiations fade. The celebration of the kickoff is behind us; the suspense of the conclusion is still some years ahead. But this is also among the most important times in any trade negotiation. This year, we are building the framework of the final agreement, through nine Negotiating Groups in Miami; and thus historians may look back on this as the year in which the FTAA/ALCA project tipped toward inevitable success.

That is not inevitable, however, because this is also the time in which the vision is most at risk. Those in our business community and media interested in trade are focused, understandably and naturally, on the new Round and the China negotiations. The political community will focus more and more in the months ahead on our Presidential campaign. Likewise, Presidential campaigns are already a factor in Argentina, Chile and Uruguay, and the same will soon be true in Mexico – all of which are joining us in democratic elections soon.

So this is a moment when those of us concerned, professionally and personally, with hemispheric relations must be most forceful in our work to keep the FTAA/ALCA project on track. And tonight I would like to discuss two points: first, the basic and enduring rationale for the Free Trade Area of the Americas; and second, the specific tasks we can complete this year to ensure the project's success.

FOUNDATION OF THE FTAA/ALCA

From the U.S. perspective, the FTAA/ALCA is the single best opportunity we have to create an enduring and mutually beneficial relationship with our neighbors in the next century. And as important as our relationships overseas may be, I believe it is fair to say that in terms of American national security; growth and living standards; environmental protection, crime control and the quality of life; and the advance of basic values, simple common sense tells us that we have no relationships more important than those that are closest to home.

With respect to strategy and security, we and Latin America are neighbors; we will always be neighbors. And if the Latin American republics are friendly, stable neighbors, then our own country's security will always be immeasurably greater. Those who recall the debates of the 1980s – over guerrillas, death squads, foreign military aid – should appreciate every day what a blessing it is to be debating trade, environmental protection and crime control. These are the issues that concern a country and a region at peace.

In business and trade, a profitable and open hemispheric economy means workers and families in the U.S. will live better lives. To use a convenient statistic, in 1998 the United States did slightly over $2 trillion worth of goods and services trade with the world. About $750 billion of this -- computers, grain, movies, aircraft, music, software, sports equipment, semiconductors, cars -- was with our neighbors in the Western Hemisphere: $380 billion in exports, $370 billion in imports. So trade, even while impeded by high tariffs, sometimes arbitrary customs and non-transparent port procedures, and all the other trade barriers those of you in the private sector meet every day, already supports economic growth, family living standards and millions of jobs here and throughout the Hemisphere.

When one considers the issues of the quality of life, we are affected most deeply by our neighbors. The health of the Caribbean Sea, the Pacific fisheries, the air and water on our southern border, all depend on cooperative and productive ties with our neighbors. Likewise, as prosperity and the rule of law advance, we not only see our economic interests better defended, through more effective protection of investments and intellectual property, but also are more able to cooperate effectively against transnational crimes from narcotics trafficking to terrorism.

THE NEW CONSENSUS

And when we look at our relationship with our neighbors, we see something remarkable. Today, for the first time in two centuries of independence, we share with our southern neighbors a consensus not only on closer economic and political relations, but on basic ideals and values:

-- Democracy. Thirty-four of the thirty-five nations in the hemisphere now believe that democracy, backed by freedom of the press, fair and regular elections, and the rule of law, is the most moral form of government; and also the form of government most likely to remove violence from politics and promote economic development.

-- Markets. The same thirty-four nations believe that the free market is the most effective means of developing economies and reducing poverty.

-- Civil society. And the same thirty-four countries believe in the essential role of civil society -- citizen associations, business organizations, labor organizations, academics, environmental groups, local governments, non-governmental organizations or NGOs -- in forming the policies of modern democracies.

Likewise, we share a sense of mutual respect that, in the past, was too often lacking.

Not long ago, many Latin Americans regarded the United States as an inevitable, paternalistic source of monopolization, intervention, interference and all the rest. The perception could be summed up by Porfirio Diaz:

"Poor Mexico – so far from God, so close to the United States."

The mirror image was the view in the United States of Latin America as a land of caudillos and "tin horn" dictators; communist guerrillas; opportunistic nationalist politicians denouncing the *norteamericanos* to mask inefficiency and corruption at home. Latin America was viewed as, essentially, a source of trouble, or worse, as a *chiste* from the standpoint of being taken seriously as competitors and partners in a common destiny.

These stereotypes and resentments, while not entirely gone on either side of the border, are receding every year. We can see that at the level of government; in the remarkable growth of business relationships, academic ties; and scientific and research partnerships; and most evidently in a cultural exchange which deepens by the year.

Americans buy the novels of Garcia Marquez, the poems of Neruda and the essays of Octavio Paz; they take dance lessons in salsa and samba and eat at the Latin restaurants that have proliferated in all of our major cities; collect donations at Washington markets to help Caribbean and Central American families rebuild after this winter's hurricanes. At the All-Star game in Fenway Park a few days ago, the MVP was the Red Sox starting pitcher -- Pedro Martinez of the Dominican Republic -- and the other hometown starter was a California shortstop, Nomar Garciaparra. Even in politics, you may have noticed that both the Vice President and the Governor of Texas took the time to speak a few lines of Spanish when they announced for President.

THE OPPORTUNITY

Altogether, we live at a remarkable moment. Never before has the hemisphere been so closely integrated; never before have we worked so closely and gained so much from one another; never has the opportunity to realize a shared destiny of peace, prosperity, health, safe environments and mutual respect been so great.

The effects of this are clear in the movement throughout the hemisphere toward trade integration: the Caribbean Basin Initiative; the US-Canada Free Trade Agreement and NAFTA; Chile's trade agreements with so many of its neighbors; Mercosur; the trade agreements in the Caribbean, Central America and the Andes. All have taken advantage of the moment to create a hemisphere more prosperous, more stable, more democratic, more respectful of the rule of law.

And in the FTAA/ALCA, we can transcend them all.

That is the opportunity we set out to realize in the first Summit of the Americas, at Miami in 1994. Its agenda was very broad, including a program for universal education in the hemisphere; work to ensure access for all to modern telecommunications and the Internet; cooperative programs on environmental law enforcement, crime and narcotics control, anti-corruption measures and much more.

At the heart of its vision, though, was the Free Trade Area of Americas: a rigorous trade agreement, covering each issue central to trade in the modern world, and including every democratic nation in the Western Hemisphere. This would be the world's largest free trade zone, offering unparalleled opportunity to businesses, farmers and working families from Patagonia to Alaska. Strengthening the hemispheric consensus on open markets under the rule of law. And allowing us to pursue and realize the aspirations our people share for the good life.

OPENING THE NEGOTIATIONS

Over several years, we explored the existing trade regulations and practices in the hemisphere and began to identify issues for negotiation. Then, last year in Santiago, the Leaders authorized us to begin the realization of this vision, through the painstaking, detailed work of trade negotiations.

They directed us to seek ideas and advice from the broadest possible range of people and civil society groups. That is well underway. The Committee on Civil Society, established to hear from all affected groups and individuals and report back to Trade Ministers by the next FTAA Ministerial Conference in Toronto this November, has received 69 separate submissions from throughout the hemisphere -- business associations, labor unions, environmental groups, consumer groups, and private citizens – which we are now reviewing carefully as the work proceeds.

And they set clear and explicit negotiating goals for 1999:

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

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

PROGRESS THUS FAR

We are working to meet that schedule. Last September 1st, nine negotiating groups began their sessions at their negotiating site in Miami. Although -- or maybe because -- they have not received much press attention, their work has gone very smoothly thus far.

Negotiations toward completion of the chapter outlines are on schedule, and should be complete by the next Ministerial in Toronto.

With respect to business facilitation measures, we have made some progress but are at a critical point. At the next meeting of the FTAA Trade Negotiations Committee, in Cochabamba less than two weeks from now, the participating countries must agree on the initial package of these measures. There is a meaningful and practical set of proposals on the table, most critical of which are those that make a substantial difference in easing commerce throughout the hemisphere through improvements in customs administration. All FTAA/ALCA countries agree that there is much to be done to simplify the conduct of business in the hemisphere, helping all participants take advantage of opportunities, making our companies more competitive, and helping the Americas become more attractive to investors and traders everywhere.

BUSINESS FACILITATION MEASURES

A number of these -- generally the less demanding ones -- are proceeding without much difficulty. These include measures on express shipment, more flexible treatment of promotional and marketing materials, simplification of customs for low-value imports, and better dissemination of information on customs procedures.

However, for some of the more complex customs facilitation proposals -- which are also the most valuable to business -- consensus-building has proceeded a bit more slowly. These include:

- Implementing Codes of Conduct for customs officials, which will help ensure clear, honest and timely customs procedures;

- Risk Analysis and Targeting Methodology which would both ease customs procedures and strengthen crime-fighting by helping customs enforcement officers focus on high-risk goods and travelers;

- Control and Release Systems which allow importers to bring in their goods, subject to appropriate controls, before completing all the relevant paperwork. This is absolutely critical for just-in-time manufacturing processes.

The time to build momentum for all the customs facilitation measures, including the most ambitious, is now. Implementation of these measures is of great importance, first of all for the immediate effect on hemispheric trade. While these are not topics that often gets headlines, as a former businessman I can tell you that their importance for real-world commerce cannot be overstated. Especially for those of you already doing business in the hemisphere, as the Americas continue to grapple with the lingering effects of the financial crisis, rapid implementation of trade facilitation will be a tangible source of confidence and growth.

Furthermore, slow movement within the FTAA on these measures poses the risk that the Western Hemisphere will fall behind, as other regional trade groups pursue a pro-trade agenda that includes business facilitation. At the recent APEC Ministerial in New Zealand, for example, business leaders met in a roundtable discussion with government officials to stress the importance of implementing a significant package of business facilitation measures, including in customs. As Asian economies rebound and investors renew their focus on the region, Latin America must demonstrate that it is creating an economical and competitive environment for business. Otherwise, the investment dollars Latin America needs to continue its development, make its businesses more competitive, and improve its infrastructure will flow across the Pacific. Even in recent newsletters of emerging market mutual funds we can see discernible shift in activity toward Asia and away from Latin America. If we in the Americas are not in front of the parade, we'll get run over and left behind.

And finally, success in business facilitation will have an immensely important psychological effect on the FTAA/ALCA talks. This is, after all, a critical point in the entire hemispheric integration project. To succeed, it must be a concrete and tangible project as well as a vision and an aspiration. Implementing ambitious business facilitation measures by the end of this year is the clearest signal that each of us can send about the broader negotiations.

The FTAA's Trade Negotiating Committee will meet in Cochabamba less than two weeks from now, with business facilitation as one of the principal items on its agenda. If the business community in the hemisphere does not speak out clearly and forcefully on behalf of significant business facilitation measures, it is unlikely that the Cochabamba meeting will be sufficiently ambitious in its deliberation. On the other hand, a clear signal from the business community, and from this Conference in particular, would help to inspire a significant response from governments, as well as strengthened commitment to pursue additional rounds of business facilitation in the future.

CONCLUSION

In a way it is fitting that we will be meeting in Cochabamba. It is, after all, a Bolivian city. And Bolivia is, of course, named for the man with whom the ideal of hemispheric unity is forever associated: the South American liberator, Simon Bolivar. Bolivar himself called the first Pan-American Conference, in the 1830s. And success at Cochabamba can mark significant, practical steps to make his dream reality.

For those of us who can see the future – an open hemispheric market, based upon personal freedom and the rule of law, which unites democratic nations in pursuit of growth, higher living standards and better lives – this is a time of immense hope and promise.

But it is also a moment that poses substantial challenge and risk. In the months ahead, we must redouble our efforts and renew our commitments. Our Administration is willing and able to do it. I believe that our negotiating partners have the same commitment.

We are now halfway there: just over five years since the Miami Summit brought a democratic hemisphere together for the first time; a little more than five years before our work is done. And we will not let the promise and the vision slip away.

Thank you.

Remarks by Ambassador Richard Fisher
Deputy U.S. Trade Representative
Hanoi, Vietnam
July 25, 1999

Minister Tuyen and I have arrived at an agreement in principle on the terms of a bilateral trade agreement.

We have been working on this agreement for over three years, since President Clinton normalized diplomatic relations with Vietnam and directed us to begin the process of economic normalization under relevant laws. My colleague Joe Damond has since made over a dozen trips to Vietnam; he and Vice Minister Leung have had eight rounds of discussions.

Having reached this agreement in principle, we will now consult with the Congress and others, and work toward completion of a formal Bilateral Commercial Agreement and a mutual granting of Normal Trade Relations. This would represent, of course, an historic event, the final chapter in the transformation of our relationship from adversaries to trading partners.

The scope of our agreement in principle is comprehensive. It addresses import quotas, import bans and tariffs, as well as liberalization of restrictions on financial services, telecommunications, distribution, and other matters relevant to access to the Vietnamese markets for U.S. goods and services, agriculture, and intellectual property. Importantly, Vietnam has also agreed to a series of measures to ensure transparency in regulations and rule-making affecting trade.

I would like to thank Trade Minister Truong Dinh Tuyen for his commitment to this effort. He has been a tireless negotiator and has represented his government with distinction. We have been working together since the APEC Ministerial in Kuching last year.

I would also like to thank Deputy Prime Minister Nguyen Tan Dung, who played a vital role in this negotiation. He is an impressive man who is fully engaged in the transformation and modernization of the Vietnamese economy. I enjoyed our two long meetings this week.

Finally, I would like to thank Ambassador Pete Peterson. He personally embodies the long voyage and the meaning of what we have accomplished this week.

THE UNITED STATES AND KOREA
CHARTING A COURSE FOR A RENEWED PACIFIC AGE

Ambassador Richard Fisher
Deputy U.S. Trade Representative

U.S.-Korea 21st-Century Council

October 19, 1999

I appreciate being here today, especially seeing my friend and mentor of some 20 years, Fred Bergsten. Fred and I go back to the Carter Administration. In fact, my first trip to Korea was in 1979 with President Carter, working alongside of Fred. Fred is a Very Smart Man. I know that because he is so smart, he had me managing the Institute's money when I ran Value Partners before coming back to government two years ago!

A few weeks ago, I was able to say the same thing about Ray Vernon in a speech at Harvard's Kennedy School. I proudly told the audience one of my pleasures in life had been to manage Ray's money for over a decade. At the time, Ray was dying of cancer; he just passed away two weeks ago, leaving a hole in the hearts of those of us who loved him and had depended on his wisdom to guide us in developing trade policy. Sick as he was at the time, his wit remained rapier sharp. He yelled out, "That's right. Fisher managed my money for a dozen years. Which is why I am still working at 85!"

Thank you for inviting me to participate in this annual meeting of the U.S.-Korea Twenty-First Century Council. I am honored to be speaking today, along with my esteemed counterpart Ambassador Chung.

Before I begin my remarks on the U.S.-Korea economic relationship, I would like to respond to the discussion this morning about the possibility of a free trade agreement between the United States and Korea. This is an interesting idea. In fact, the negotiations we have had on a Bilateral Investment Treaty have seemed at times like negotiations on an investment chapter in an FTA. That said, the only way to set the stage for an FTA between our two countries would be to resolve advance significantly our major trade issues, about which I will speak in more detail in a moment.

Let me put this morning's discussion in context. Geography, personal ties, and economic interests combine to make the U.S. relationship with Korea among the most important we have anywhere in the world.

Our relationship, of course, began as a military alliance, premised on a shared view of geopolitics in general, and the military situation on the peninsula in particular. This alliance remains strong today, as our colleagues in the U.S. and Korean political and defense agencies address the economic decline and uncertain political future of North Korea.

Over the decades since the war, however, we have developed cultural and personal ties that, upon reflection, are astonishing – when you consider how different our nations were in 1950; and much more so when you realize that when we first met, Korea was a conservative Confucian monarchy with 2000 years of history, and the United States a new nation recovering from Civil War, just short of its 90th birthday.

Today, we share political sympathies as two of the leading Pacific democracies. Hundreds of thousands of Americans and Koreans cross the Pacific for business, tourism, and family visits each year. More than a million Americans trace their families to Korea. Chan Ho Park plays for the Dodgers; the animation for "The Simpsons" is done in Seoul; Park Wan-so's stories are on sale in our bookstores; and if you walked by the White House last month, you saw a Daewoo combine on South Lawn preparing the grounds for Labor Day.

THE ECONOMIC RELATIONSHIP

As Korea has grown into an industrial giant, our economic ties have grown to become one of the largest trade and investment relationships anywhere in the world.

For a Deputy USTR, the Korean portfolio is one of the most important, complex, occasionally frustrating, but always fascinating and rewarding:

- Korea is our sixth largest export market; our fourth largest market for agricultural products; and nearly twice as big an export market as China.
- At over $40 billion a year in two-way trade, our trade relationship with Korea is larger than that with France, or that with Brazil, or the Netherlands. Every single day, more than $200 million worth of goods and services cross paths on their way by air, sea and cyberspace from Los Angeles to Pusan and Washington to Seoul.
- The U.S. is Korea's largest source of imports, its largest foreign investor, and the largest recipient of Korean foreign investment.

At the same time, our trade negotiations are some of the most demanding and difficult anywhere in the world. Americans have found Korean markets in many fields opaque and difficult to work in, both for exporters and investors.

Each year we publish a "National Trade Estimate" report that details our trade policy agenda with our major trading partners. Our section on Korea reviews tariffs, quantitative restrictions, import licensing, import clearance policies in agriculture, technical standards, labeling requirements, government procurement, motor vehicle registration, cosmetics testing and quite a bit more. At 20 pages long, it is shorter only than our reviews of Japan and the European Union – showing Korea's importance to us as a trading partner, and also the depth and complexity of the trade problems we encounter in the Korean market.

THE FINANCIAL CRISIS

The challenges evident in this report arise, first of all, from the importance of Korea as a trading partner. But they also arise from the path Korea took to become an industrial power: a series of industrial policies involving import restrictions, subsidies, and export promotion, in which the government became a silent partner of most leading Korean businesses.

It is fair to say that this proved to be a highly effective method of creating industrial growth. But it has seemed less effective in today's technologically more advanced world. In the modern world economy, protection and subsidies are often weaknesses rather than sources of strength; a Maginot Line, rather than a fortress.

The debate over the cause of the financial crisis, and all the extraordinary suffering it brought to Korea, will go on for many years. But among its causes were clearly the policies which had brought a long era of growth, but also left most of Korea's leading companies overextended and deeply in debt.

There are some who call the crisis a "blessing in disguise," or words to that effect. I refrain from doing so: it was an experience which brought misery to millions of Korean families, and was one of a series of inter-linked events that brought the world economy as close to collapse as at any point in my lifetime. But that is past, not future. In its aftermath, we have an important opportunity for the reforms which can make a future crisis less likely.

Korea, one must say, has responded with remarkable – although perhaps not surprising – determination and courage to this traumatizing event. The nationwide self-help campaign of the winter of 1997 saw donations of gold from nearly twenty million of South Korea's forty-two million people – jewelry, family heirlooms, savings that parents had hoped to pass on to their children. And under President Kim, the government has built upon this foundation of patriotism and self-sacrifice a set of reforms that I believe will take Korea into a new generation of economic growth and technological progress.

REFORM AND RECOVERY

The most advanced economies today draw strength from interconnections, rather than walls; speed, rather than deliberative action; and diffusion of power to players other than states and governments.

President Kim clearly understands this. During his Administration, the course of Korean economic policy has changed. He has passed 57 economic reform measures through the National Assembly. While others in his region -- including Japan – clung for too long to failed models for economic development and growth, President Kim and his team have had the grasp of public opinion and the political courage to leave the past behind.

The older Korean model for economic development relied on the government choosing the winners; more and more, President Kim's Korea relies on the market. Along with the market, he has embraced freer trade and investment and increasingly open competition. This has helped Korea return more quickly than any other nation to growth; and it has carried over from finance and administrative policies to trade.

THE TRADE RECORD

In the past two years, Minister Han Duck-soo and I have been down in the trenches, working out the details of some exceptionally complex and politically charged issues. He is a good negotiator of Korea's interest and a most worthy counterpart. He also fully recognizes the advantage of an open economy for the living standards of Korean families, and for the competitiveness and technological progress of Korean industry.

This is evident in the progress we have made in a number of politically charged trade issues over the past year. A few specific examples:

- Implementation of our year-old Memorandum of Understanding on motor vehicles has been smooth. The Korean government has worked to reform auto financing, reduce discriminatory taxes on foreign cars, and streamline certification. A major test of progress will take place next May, when an auto import show will take place with the sponsorship of four Korean Ministries. The objective is to have an open and fully-competitive auto market in Korea, something which has thus far eluded us.

- This year, the Korean government eliminated a regulatory barrier to the introduction of new drugs into the Korean market (specifically, a requirement that clinical trials in other countries be finished before they could even begin in Korea); committed to adopting international guidelines on the acceptance of foreign clinical test data, which should help in the approval process of new drugs; and set up a task force to review its medical insurance reimbursement system, which foreign companies have found to be problematic. We are seeking to revamp a system to encourage rather than stifle the development of research-based drugs.

- We have moved ahead on our negotiations towards a Bilateral Investment Treaty, although we continue to have some differences on a number of important sectors.

- The Korean Parliament has recommended a bill to place its liquor tax system in compliance with WTO rules, as required by a recent panel ruling. This is a first step in what we hope will be increased market access for foreign distilled spirits.

- The Korean government has shown a willingness to use the media to increase public understanding and acceptance of open markets and free trade, through opinion pieces in newspapers, advertisements and so forth, a sharp departure from past practice. This action stems, at least in part, from the provisions in the 1998 MOU on motor vehicle trade on improving consumer perception of imports.

One area where we are still experiencing difficulty, however, is in steel. The U.S. response to the steel crisis has been measured and WTO consistent. We expect other countries to take actions to help alleviate friction in this area. While we have made progress in reducing overall imports from their 1998 levels, we remain extremely concerned about steel imports from Korea, which remains the single largest source of continued surges.

We remain concerned about the sale of Hanbo and the full privatization of POSCO. The Korean government has an obligation to ensure that the sale of Hanbo is transparent and market-based. POSCO's privatization must be complete and we expect that any deal between Hanbo's creditors and potential purchasers will not include conditions regarding employment or forced requirements on production. And, as with POSCO, there must be no electricity discounts, export credit financing, export industry facility loans, or loans from the National Agricultural Cooperation Federation if, as Minister Han promises, the Kim government is to be "completely out of the business of steel." This is critical to Korean credibility as a true reformer. The same is true for *chaebol* reform, and other corporate restructuring.

THE U.S. AND KOREA IN THE TRADING SYSTEM

There is a danger, for example, in handling the thorny Daewoo matter, that in deciding who should pay what and to whom, Korean policymakers will send messages to the market which counteract the good signals coming from President Kim's reform agenda, or from specific successes like the Bond Stabilization Fund's recent successful management of a sharp decline in corporate bond yields.

But taken as a whole, the direction of Korean reform is correct and is getting results. And this era of reform has opened remarkable possibilities for us to work together, not only to strengthen and improve our own trade relationship, but to help develop a more open and prosperous Pacific region; and a better world trading system.

I recall someone once referring to Korea as "a shrimp among the whales" – a small, vulnerable country at the point where Japan, China and Russia meet. Today, I think, a better metaphor might be that Korea is a "dolphin among the whales" – an intelligent, adaptable leader that can lead the way to the calm water beyond the reefs.

You can see that happening today. In APEC, we are working with our Korean colleagues to revitalize the Pacific economy, developing measures on business facilitation, electronic commerce, and trade liberalization. The result, ultimately, can be a renewed Pacific age in which markets rather than governments drive the direction, pace, and choices in commerce.

Within APEC, one thing is very noticeable. At the Ministerial level and at the Leaders level, the ministers and leaders cock an interested ear when Minister Han and President Kim speak. There is a new found respect for Korea at APEC based on the Kim Administration's willingness to take the bull by the horns and "do" reform, rather than just talk about it. In Texas, when we see that someone is all talk and no action, we say they are "all hat and no cattle." Today in APEC and regionally, Korea is viewed as driving a significant herd of market reforms, deserving of other's respect and cooperation.

This cooperative work goes beyond the Pacific region. A signal element of this year's APEC meeting in New Zealand was its commitment to an active, reformist agenda in the world trading system. In their September declaration, the APEC Ministers endorsed the elimination of export subsidies, an initiative on transparency in government procurement, industrial market access negotiations in the next round, and continued tariff-free trade in electronic commerce.

We are now just over a month away from the WTO's Ministerial Conference in Seattle – the largest and certainly the most widely discussed trade event ever held in America, one I hope many of our Korean friends here will attend. This event will launch a new, worldwide Round of international trade negotiations in which we have shared interests and the potential to reach goals that will help us both.

Transparency in Government Procurement

As we approach the Ministerial, Korea has already taken the lead on an initiative of exceptional importance not only for creation of practical trade opportunities, but the principles of open, honest and accountable government. President Clinton, last Wednesday, noted that:

> "There's one special aim we should achieve at Seattle: we should follow the lead of Korea and Hungary, and work together on an agreement to promote transparent procedures and discourage corruption in the $3.1 trillion government procurement market worldwide."

As the President noted, we applaud Korea's leadership on this issue, and we're proud of our partnership in cosponsoring the initiative in Geneva. Its completion would send a powerful message to the markets and help countries move toward the type of reforms Korea has adopted, building greater confidence in governments and protecting taxpayers from exploitation. It will help to promote worldwide the core principles of transparency, accountability, honesty and fair play at the heart of Korea's economic reforms.

In the Round

Implementation of existing WTO agreements is the foundation on which the new Round rests. Many of our bilateral issues with Korea -- for example on beef (speaking of "all hat and no cattle") and other agricultural products, airport procurement, and pharmaceuticals -- involve Korea's commitments under existing WTO Agreements. If you are committed to do something, the best way to engender confidence is to just do it. If Korea were to take action now to resolve these issues, it would strengthen its bilateral economic relationship with the United States, and at the same time, send a clear signal that the Korean government is committed to full implementation of its WTO obligations.

As to the Round itself, these negotiations can open up markets in areas of great importance to Korea as well as America. We may not agree on all issues, but we should resolve our differences as much as possible, and cooperate closely on the issues on which we share interests.

The Accelerated Tariff Liberalization initiative begun in APEC is one especially important area in which we have shared interests. Its completion will offer new opportunities to Korean industry in such sectors as chemicals, environmental technologies, scientific and medical instruments, and energy equipment. Furthermore, the ATL initiative will reduce the cost to Korea of purchasing world-class equipment in such areas as energy and environmental technology; anyone who has spent a morning climbing up Namsan knows not only that Seoul has one of the world's most beautiful settings, but that its air has gotten more than a little dirty over the years.

Likewise, we share interests in a more open world for services trade – finance, telecommunications, audiovisual and others – both to create export opportunities and to promote competition and technological advance in our domestic economies.

We also agree with Korea on the need to go beyond the built-in agenda of agriculture and services to include negotiations on tariffs and non-tariff barriers affecting trade in industrial goods. This will ensure that the Round is focused on expanding market access, in which all WTO members stand to gain. However, to be beneficial, we need to ensure expeditious results -- which dictates against overburdening the negotiations with issues not yet ripe for new or revised rules.

We realize that agriculture in particular is a sensitive area for Korea. That said, agricultural market access is at the heart of the new Round, and of special interest to those WTO members that have not developed as Korea has in its climb to the status of OECD membership.

Korea has an opportunity to lead in reform and improvement of the WTO itself. Some of the changes contemplated to the organization – for example, opening dispute settlement procedures; ensuring a greater role for civil society in debates and meetings; earlier releasing of documents and decisions, and coordinating policies between the WTO and international financial institutions – have strong parallels to issues President Kim is focusing on at home. It would be entirely fitting for Korea to take the lead on them internationally as well.

CONCLUSION

We should not, of course, look too far beyond the challenges of the moment.

Economic recovery in Korea and much of Asia remains fragile; and reform in Korea as elsewhere is still incomplete. Our bilateral trade relationship continues to be tested by a number of limited but still highly contentious issues. And the development of a consensus agenda for the Round – much less completing it – is no easy task.

But when we consider the events of the past years, we should approach the future with confidence and hope. Korea has begun its recovery more quickly and strongly than almost anyone could have predicted. It has used the experience to open an era of reform that has strengthened the Korean economy, and opened prospects for technological advance and more stable growth.

We have used this experience to open a new and stronger relationship, in which our economic ties are premised not only on national interest; but on the responsibilities we share to create a more open, prosperous and sustainable Pacific economy; and on the ideals we share as democracies in a more open, transparent, and free world.

Thank you very much.

REMARKS OF AMBASSADOR RICHARD FISHER
Deputy U.S. Trade Representative
to the
American Intellectual Property Law Association
October 21, 1999

I understand that both the incoming and outgoing Presidents of the AIPLA are Texans. Now that is impressive. And convenient. It was Mirabeau B. Lamar, the second president of the Republic of Texas back in the 1830s, who declared that "the cultivated mind is the guiding genius of democracy." We are here today to talk about the product of the cultivated mind – intellectual property.

OVERVIEW

In almost every speech or testimony on intellectual property, the emphasis is on its immense economic importance. It is true that the economic value of intellectual property production – software, films, music, books, etc. – is immense, accounting for at least $280 billion in value added to the U.S. economy.

The value of intellectual property rights, however, goes well beyond its present economic value: a system of strong intellectual property protection is fundamental to ensure that artists and inventors and scientists are rewarded for their work; and thus incentivized to push the envelope of artistic creativity and scientific advancement in the future.

To paraphrase Thomas Edison (who wasn't a Texan), the greatest machine ever invented is the human mind. Our commitment to intellectual property rights – to products of the American mind – at home and abroad is the foundation of our ability to create the manufacturing successes, the distribution systems, the computer programs, the medicines, the defense systems, the films and the music of the future.

Almost all types of intellectual property, however, are highly vulnerable to piracy. And toleration of piracy can swiftly remove all incentives to create new innovations. The result would be erosion of America's comparative advantage in high technology; and ultimately loss of the benefits of new advances in health, public safety, education, defense and freedom of information for the entire world. In a sense, the intellectual property of the American economy is like a warehouse of ideas. For people to walk in to that warehouse and steal from it is no more tolerable than theft of goods. That is why we at USTR place such an emphasis on ensuring that our trading partners pass, enforce and continue to enforce, laws that ensure respect for our rights.

The same concept also holds true for other countries. I would submit that all other countries and administrative authorities, including China, Hong Kong and Taiwan, should be as concerned as we are about protecting from theft the ideas and inventions of their creative and innovative citizens.

BILATERAL INITIATIVES AND SPECIAL 301

Many of you are already familiar with the process by which the United States Government intercedes directly in countries where IPR piracy and counterfeiting are especially prevalent or governments are exceptionally tolerant of these activities. Among our most effective tools in this effort is the annual "Special 301" review by USTR as mandated by Congress in the 1988 Trade Act. Publication of the Special 301 list warns a country of our concerns. And it warns potential investors in that country that their intellectual property rights may not be satisfactorily protected.

In many cases, consultations and cooperation with countries identified under Special 301 lead to permanent improvement in the situation. Bulgaria, for example, was once one of Europe's largest sources of pirate CDs. We worked through the Special 301 process to raise awareness of the problem in Sofia, and Bulgaria has at this point almost totally eliminated pirate production.

In 1999, we have reviewed 72 countries in our Special 301 review, with 54 countries recommended for specific identification and (two subject to Section 306 monitoring). During this review we focused on three major issues.

First, we are working to ensure full implementation of the World Trade Organization commitments on intellectual property.

Second, we are addressing new issues raised by the rapid advance of technology, in particular control of piracy in newly developed optical media – for example, music and video CDs, and software CD-ROMs.

Third, we have mounted a major effort to control "end user" software piracy – that is, the unauthorized copying of large numbers of one or two legally obtained programs, in particular by government agencies. We have used the example set the Vice President Gore's announcement of a U.S. Executive order mandating the use of only authorized software by U.S. Government agencies to win similar commitments from Colombia, Paraguay, the Philippines, Korea, Thailand, Taiwan, Jordan, and China. Spain, Macao, Israel and others are actively considering such decrees.

MULTILATERAL INITIATIVES

Bilateral negotiations are and will remain central to the efforts of the U.S.A. to improve copyright standards worldwide. However, as time has passed, our trading partners have begun to see the positive effect of stronger standards at home. This allowed us to make a fundamental advance with the TRIPS agreement at the creation of the World Trade Organization in 1995. Our overriding objective at the moment is to secure full and timely implementation of the TRIPS agreement by all WTO members, and broaden this to new members. The WTO's "built-in agenda" includes a review of the TRIPS agreement scheduled to begin in the year 2000. This will help us build a consensus for possible next steps to improve.

CHINA IPR ISSUES

Our IPR policy with the People's Republic of China is a good example of both the bilateral and multilateral aspects of our IPR trade policy. On the bilateral side, IPR protection has been an important item on the U.S.-China bilateral agenda for more than a decade. Our discussions have covered the full gamut of IPR issues, including copyright, patent, trade secret and unfair competition, and semiconductor layout design and trademark laws, and perhaps more importantly the enforcement of those laws. These discussions have produced results, but much more needs to be done.

In January 1992, as a result of an investigation under the Special 301 provisions, we agreed on improved protection for U.S. inventions and copyrighted works, including computer software, motion pictures and sound recordings, trademarks, and trade secrets. Although China improved its intellectual property laws after 1992, enforcement of these laws was poor, and virtually nonexistent with regard to copyrighted works. USTR initiated a Special 301 investigation into China's IPR enforcement practices in 1994. In addition, domestic piracy in China constituted a serious barrier to the entry of U.S. companies into the Chinese market.

The ensuing negotiations were tough. The U.S. Government was prepared to impose 100-percent tariffs on more than $1 billion worth of Chinese imports into the United States. Just as we were about to impose these sanctions, the U.S. and China initialed the IPR Enforcement Agreement in February 1995. In 1996, we had to have another serious discussion to ensure that China implemented its earlier agreement and continued to take action against piracy.

As a result of these actions, China has a functional system which protects copyrights more effectively than before. Significantly, most if not all illegal optical media lines appear to have been closed. Most recently, in March, China's State Council followed our example in issuing a directive to all government ministries mandating that only legitimate software be used in government and quasi-government agencies.

Many Chinese industries and their governing ministries have heeded the calls within and outside of China to improve IPR protection. Enforcement efforts have produced noticeable results including increased raids against pirate CD factories, fining and imprisoning IPR violators and a campaign to disseminate IPR rules and information to government officials and enterprise managers to increase awareness of IPR issues.

As World Intellectual Property Organization Deputy Director General Castelo noted just last week, "Within less than 20 years, China has developed from scratch a modern, well-functioning intellectual property system which is in harmony with the international intellectual property laws and practices."

The recently-issued 1998 report of the State Intellectual Property Office is notable as an indication of its ability to elicit cooperation from other IPR agencies within China. The report also shows increases in patent applications (up 6.8%), counterfeiting cases handled (up 7%), pirated works confiscated (up 255%). The report also includes separate sections on the IPR work by the Customs Administration, which seized some 20 million pirated optical discs; and a description of the role of public security agencies in combating IPR violations, and notes that they have seized 23 illegal optical disc production lines.

While progress in protecting IPR in China may not be all that foreign companies wish, and we will delve into continuing problems in a moment, many multinational consumer product companies operating in China seem to recognize the need for a new approach in protecting their intellectual property. They believe that the Chinese Central Government increasingly recognizes the need to strengthen laws and enforcement systems to deter counterfeiting. Government agencies are currently drafting revisions to the PRC trademark, copyright, and patent laws as well as the product quality law. The Supreme People's Court is considering issuing rulings on counterfeiting and other infringement disputes. Therefore, many U.S. consumer product companies have decided to adopt new strategies which emphasize intensified cooperation with Chinese central and local governments, local industry and other organizations.

I consider it very encouraging that an August editorial in the People's Daily notes that China "should develop high-tech industries with its own intellectual property". As this happens, China will increasingly recognize the need to protect this intellectual property.

FURTHER IMPROVEMENTS NEEDED

Improving IPR protection in China, however, will be a continuing process. I want to highlight some of the continuing problem areas from our perspective in China's protection of intellectual property rights. Substantively, the most serious IPR problems of U.S. companies in China fall into the following areas:

First, copyright and trademark infringement, especially at the retail level, continue to be major problems. According to one estimate by a group of foreign manufacturing companies, on average 15-20 percent of products sold in China under their companies trademarks are fake. Pirated optical disks, for example, are once again reportedly being sold openly in Beijing, reflecting a significant deterioration over the past few months in control over this trade. Just walk down "Silk Alley" – a few hundred feet from the U.S. Embassy – and you'll see what I mean.

In second and third-tier cities, and for items such as apparel, software, and VCDs, the percentage of fakes is significantly higher, sometimes in the 80-100 percent range. To give you and example of the magnitude of the problem, China is the world's largest VCD market, with an estimated 30-40 million VCD player owners that purchase an average of 10 VCDs each year. The demand for VCD content is enormous. China's National Copyright Administration estimated that 100,000 VCDs are being smuggled into China per day – more than 36 million per year.

To become more effective, China's anti-counterfeiting efforts must address problems of inadequate criminal enforcement, insufficient penalties, and local protection of counterfeiters. Following the international trend, foreign industry associations are recommending that the PRC adopt a new anti-counterfeiting law that would supplement its Criminal Code and cut across the bureaucratic lines established under existing IP laws.

Second, business software piracy losses continue at high levels. A recent Business Software Alliance study estimated that losses due to piracy of business software have reached a staggering $1.2 billion annually.

Third, weak IP protection continues to plague pharmaceutical companies. Many companies in the pharmaceutical sector find protection of technology a difficult process. A troubling pattern has been a Chinese government practice which allows Chinese drug companies to copy drugs with foreign patents while applications for so-called "administrative protection" are still pending. During the lengthy period while applications are being considered, information about the drug apparently is being made available to Chinese companies. Chinese companies have begun to manufacture these drugs during this interim period. Eli Lilly's Prozac, Novartis' fungicide Lamisil and Warner-Lambert's Lipitor are but a few of the drugs that have faced problems from this unfortunate Chinese practice.

WTO ACCESSION AND TRIPS

China has agreed to implement the TRIPS Agreement immediately upon accession to the WTO. This means that China will need to amend many of its laws and enact new laws prior to accession. That effort is now ongoing. China has legislation under review amending its patent, copyright, and trademark laws. We anxiously await the outcome of this process in the hope that important improvements will be made, bringing China into conformity with TRIPS and WIPO. We also look for improvements in trade secret protection and in other areas.

Most importantly, we need to see improvement in enforcement of the rights that China's laws and regulations provide to us and to China's own rights holders. We need to see an increased recognition and commitment throughout China to effective enforcement and market access for legitimate products to meet the needs of China's companies and other consumers.

CONCLUSION

Intellectual property protection is one of our most important and challenging tasks. We protect U.S. intellectual property rights to protect the research, investments, and ideas of some of our leading artists, authors, and private-sector and academic researchers. It is also to protect America's comparative advantage in the highest-skill, highest-wage fields; and to help ensure that the extraordinary scientific and technical progress of the past decades continues and accelerates in the years ahead and that all of mankind prospers.

Through the passage of the Special 301 law, and the passage of the Digital Millennium Copyright Act implementing the WIPO Treaties in 1996, the United States continues to move forward in its protection of intellectual property. We urge all other countries, especially China, to move forward with us in this mutually advantageous effort.

BRAZIL AND THE UNITED STATES: IN HEMISPHERIC INTEGRATION AND THE TRADING SYSTEM

Ambassador Richard Fisher
Deputy U.S. Trade Representative

Brazil-U.S. Business Council
Washington, DC

October 26, 1999

I am pleased to be here with the members of the Brazil-U.S. Business Council. First of all, of course, because you are good company. But also for substantive reasons. Our last meeting in January was one of the most productive I have had this year in terms of sharing ideas, taking advice and building consensus for the work before us.

Today, I thought I would review the progress made this year toward creation of the Area de Livre Comercio das Americas, and the tasks of the months ahead. I will also touch upon our preparations for the World Trade Organization's Ministerial Conference in Seattle next month, another area where Brazil and the United States have much to gain by joining forces. Along the way, we can address how these two initiatives, with their related objectives, will complement one another.

TRADE POLICY PRINCIPLES

In his speech on the World Trade Organization agenda two weeks ago, the President recalled a wartime address given by Franklin Roosevelt, who said:

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

This vision of Roosevelt – of a rise in living standards and its peaceful, democratic effect – is the vision which the United States and Brazil shared fifty years ago, as creators of the Rio Treaty and as founders of the General Agreement on Tariffs and Trade. Ever since, our two countries have worked together to realize the principles of these historic agreements.

Given that ours are the two largest nations in the Americas, we jointly bear a <u>great</u> responsibility to lead the realization of this vision. We are both continental nations. We are the hemisphere's leading economic engines. We have propelled the movement toward democracy, integration and peace in the Americas.

Leadership in trade requires us to set an example: of open markets at home, and of respect for the commitments we make to our trading partners.

That is not always easy. An open economy means competition. Competition means change and adjustment to change. And respect for our own commitments means willingness at times to make politically difficult decisions.

But Americans and Brazilians have always set high standards for ourselves. The history Brazil will commemorate next April 22nd, marking the 500th anniversary of Cabral's landing on the Atlantic coast, is one of exploration; of welcoming a challenge; of overcoming obstacles to progress. And ultimately, of course, overcoming obstacles to freer trade and rising to the challenge to further open markets benefits our own people most of all.

- With freer trade, consumers have greater choice and quality; technological progress accelerates; businesses become more efficient and competitive;
- With a strong trading system, we gain export opportunities in other countries (remember, as large as the American and Brazilian economies may be, the vast majority of the world market is beyond our borders);
- And with open markets at home, imports create the competitive prices that raise family living standards, especially for the poor. Brazil has experienced all of these benefits as it has begun to dismantle the import barriers of its past.

MOMENT OF OPPORTUNITY

In the aftermath of the Cold War, the 34 nations of our hemisphere have united around a consensus of values unprecedented in 200 years: democratic government; the rule of law; open markets; and economic integration. As I have mentioned in many speeches tracing the history of trade in our hemisphere, the ideals of hemispheric free trade were championed over a century ago by leaders as diverse as Bolivar and Hidalgo. Yet, they have only recently become a reality with a series of sub-regional agreements – Mercosul and NAFTA; CARICOM and the Central American Common Market; the Andean Community and the free trade agreements Chile has negotiated with a number of its trading partners. And with the Summit of the Americas in Miami five years ago, we began the historic effort of the ALCA – envisioning a free trade area stretching the entire length of the hemisphere.

MOMENT OF DECISION

Now we are faced with a tough test of our resolve.

Brazil and several other South American economies are under great pressure from the economic slowdown and drop in commodity prices in recent years. Farm families and manufacturing exporters in the USA are feeling the effects of these same forces. It is not surprising that public concern about trade initiatives is increasing.

Those of us in the trade field must meet these concerns squarely – not through retreat on principles, but by ensuring that we build momentum and enthusiasm for our trade agenda – while giving those concerned with the potential impact of trade liberalization a chance to offer their ideas and advice. Particularly in the U.S., where the Congress is wary of providing fast track negotiating authority, and in Brazil, where there is reluctance to further liberalize after the openings of Mercosul and the Uruguay Round, we must show the tangible benefit of the initiatives we have begun. And ultimately, to ensure continued growth and prevent a backlash of protectionism that would throw us back to an era of global recession, we must offer a vision of the future which inspires confidence and hope.

This is not a time to hold back on enthusiasm for continued liberalization to obtain tactical advantage in the upcoming ALCA and WTO negotiations, especially if the goal is enhanced access to the U.S. marketplace. Here I want to be frank and to the point: if we cannot show real, tangible evidence that ALCA is moving forward, and that the WTO is going to deliver measurable progress, then we provide no incentive for the U.S. Congress to give us Fast Track, and, indeed, run the risk of stoking the fires of protectionism and resistance to further opening the U.S. market.

We do have resistance to further liberalization. There are serious "pockets" of resistance in the USA. In my opinion, addressed appropriately, they are, however, manageable at this stage in the business cycle – while the U.S. economy is fully employed and expanding. But if we hesitate and miss the opportunity of Toronto and Seattle, we run the risk of trying later to make progress when the U.S. economy may not be as strong.

The ability to resist protectionist impulses will weaken. We are proud of what we have accomplished as a nation, stretching out the business cycle through prudent fiscal and monetary policy, continued deregulation and advanced use of technology. But it would be the height of conceit to think we have conquered the business cycle. The time to show leadership by staking out ambitious goals is now, when we are strong. As Brazil comes out of its recession, it needs more open markets in this hemisphere and globally.

STATE OF ALCA TALKS

That brings me to the work of the days and months ahead.

Next week, the 34 Trade Ministers of the hemisphere will meet in Toronto for the first ALCA Ministerial conference since the negotiations began in earnest after the Santiago Summit. They will review an excellent negotiating record. We are at the midpoint of the time allotted for completing the ALCA – five years after Miami, five before the negotiations are to conclude – and we are precisely on schedule.

Our government negotiators have done a superb job. As directed by the leaders at the Santiago Summit, this year they have agreed upon "Annotated Outlines" of each ALCA chapter. These include nine chapters on issues from market access to services. And their work shows a strong consensus not only on the broad goal we are to reach, but also the detailed work we must complete to go on from here.

We have also created an innovative and inclusive committee, the Government Committee on Civil Society, an important forum for those interested in the negotiating process to have a say, to improve the quality of the agreement and to broaden public support for its result. By the way, this is a perfect example of the hemisphere benefitting from Brazilian leadership, given that we took a page from Brazil's playbook when the *Foro Consultativo Economico Social* was developed for Mercosul, pioneering the concept of taking civil society views into account as a trade agreement is grown.

Our first request for public comment in the ALCA talks was highly successful. It brought in submissions from 68 groups around the hemisphere, including from the Brazil/U.S. Business Council's counterpart, CNI (Confederacão Nacional de Industrias), and from the Association of American Chambers of Commerce in Latin America, to which many of you may belong, and several other submissions from Brazil. Only half the submissions came from North America, dispelling the myth that only North Americans need to worry about civil society. It is critical that these voices continue to be heard as the negotiations progress.

THE ROAD FORWARD

It is essential that our negotiations of the ALCA continue to advance. Were the ALCA to lose momentum at this point, not only might it not recover, depriving us of an historic opportunity, but this would have a devastating effect on trade liberalization worldwide – particularly in the WTO. To maintain momentum in the negotiations, the Ministers meeting in Toronto must establish clear, concrete and ambitious benchmarks for the negotiating process.

Next Steps in Negotiations

Specifically, in Toronto our Ministers should commit our ALCA Negotiating Groups to move beyond the annotated outlines to develop draft texts for each ALCA chapter by the Argentine Ministerial in April 2001. That is, under the chairmanship of Argentina, we should move from *describing* the steps needed to move toward the ALCA to actually *writing* the agreement itself. Of course, the most controversial items will remain in what negotiators call "brackets" – but nearly every ALCA country agrees that this is the next logical step in realizing our vision of hemispheric free trade.

You will note that I said "nearly every ALCA country." I'm going to be frank here: we have seen some reluctance from Brazil to take this next logical step, and this is deeply disconcerting. Without leadership from Brazil, our hemisphere cannot realize a successful Free

Trade Area of the Americas, and without an ALCA on the move, the Europeans and others who would like to slow global trade liberalization will feel no pressure to move forward in the WTO. They must feel the risk of being left behind if they do not push the envelope of freer trade.

It is my hope that the Brazilian business community will reinforce to the Brazilian Government the importance of this next step in the ALCA, if only to enhance Brazil's own growth prospects, to say nothing about our shared responsibility for the ALCA negotiations.

Business Facilitation

Almost as important as the progress made in the actual negotiation of an ALCA agreement is the immediate "deliverable" of trade facilitation at Toronto. In Toronto, the Trade Ministers will announce that we are ready to take concrete steps toward implementing eight business facilitation measures that will improve customs procedures throughout the hemisphere. The Ministers will also adopt several other measures providing transparency in laws and regulations to help us to better understand and be more accessible to our ALCA partners.

When put into effect, beginning on New Year's Day, these measures will send a clear message that ours is a region opening up and confident in its shared destiny. Asia has moved toward customs facilitation in APEC and we must not be left behind. Instead we must create our own dynamism and business opportunities, reducing the friction and delay that impede economic growth and progress. Brazilian farmers need to know that their tropical produce can reach North American markets without spoilage. Manufacturers in the United States and to the south must be able to sell parts to plants making appliances, power equipment and so on, confident that they will arrive ready for just-in-time production. Brazilian *executivos* arriving anywhere from Mexico City to La Paz with commercial samples should be able to expedite their work, knowing that their wares will not be held up in customs.

At Toronto, our Trade Ministers will announce measures that help make these scenarios reality; we should then begin to identify helpful business facilitation measures in other areas. That is where bureaucrats need to hear from those of you in the trenches to understand where business facilitation can best fill a need. The Brazil/U.S. Business Council could help us enormously by identifying priority measures for the next round of business facilitation.

Civil Society

Third, we should ensure that the civil society dialogue continues throughout the ALCA negotiations. The negotiators need business community involvement to ensure that the talks meet the top priorities of each nation. Likewise, the broader dialogue created by the civil society committee helps us maintain support for the ALCA process as a whole.

TOWARD THE NEW ROUND

If we meet these objectives and take these next steps, hemispheric integration will retain its momentum. In addition, we will help to build throughout the hemisphere a set of common positions as we open the new Round of multilateral trade negotiations at the WTO, set to begin in Seattle next month. We ALCA countries represent what will be the largest free trade area in the world. We should use this leverage to move the WTO negotiations toward our joint interests. This is an advantage that we would be foolish to ignore.

In the ALCA negotiations, for example, Brazil has helped forge a hemispheric consensus on eliminating agricultural export subsidies. That is important to farmers in the *sertão*, in the American heartland, and in rural areas throughout our hemisphere. And it is a problem we cannot solve through the ALCA, since 85% of the world's agricultural export subsidies originate in Brussels. If we do not eliminate these export subsidies, the benefits we draw from the ALCA in agriculture will be limited and may be actually undermined. We must turn to the Round, and work together, in particular to address our problems with Europe. This is just one of a remarkable set of opportunities and shared interests in the new Round:

- in agriculture, we are looking beyond the elimination of export subsidies toward reduction of tariffs and trade-distorting domestic supports; and for guarantees that farmers and ranchers can use the most modern technologies without fear of trade discrimination.

- in the services industries, Brazilian architects, bankers and entrepreneurs will benefit from a stronger General Agreement on Trade in Services (GATS) that opens markets and helps countries adopt fair and transparent regulatory policies.

- and our manufacturing industries will benefit from lower tariffs and reduced impediments to markets worldwide, as well as within the hemisphere.

As leading industrial and agricultural economies, we have a responsibility to ensure that this Round remains focused on meaningful trade liberalization in agriculture, services and industrial tariffs in a relatively-short, three-year round. To do this, we must concentrate our negotiating energies (and political capital) on a tightly defined negotiation. We must avoid the temptation to pile onto the Seattle agenda. I might add that the latter approach is being promoted by the Europeans, who are scared to death of losing their sacred Common Agricultural Policy. Don't go down that road. A limited, strategic agenda is the key to obtaining concrete results in a time frame that is meaningful for business people.

CONCLUSION

Thus, as we accelerate momentum in the ALCA talks; as we open the new Round, we need to work together to build the hemispheric community and the world economy of the next century. We must provide real, tangible evidence that we are moving forward in the ALCA, or we will quickly see global resolve for bold trade liberalization in the WTO evaporate. This would squander two opportunities for leadership – one in our hemisphere and one in the world. Without the leadership of key Brazilian officials – particularly the current Foreign Minister of Brazil – the Uruguay Round would have never reached its potential and the same can be said of this next Round and of the ALCA.

We must act now in the spirit of the leaders who fifty years ago, in the GATT and the Rio Treaty, joined together to create a hemispheric consensus for peace, economic growth and shared destiny; and perhaps even of those earlier adventurers, Cabral and Columbus, who were able in their time to envision and to create a new world.

It is a remarkable opportunity. I hope, and I believe, that we should make the most of it.

Thank you very much.

SERVICES IN THE WORLD TRADING SYSTEM

Ambassador Richard Fisher
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World Services Congress
Atlanta, Georgia

November 1, 1999

Good morning. Thank you, Dean, for that introduction, and for inviting me to speak at such a timely event.

THE BENEFITS OF SERVICES TRADE

We are just a few weeks away from the WTO's Ministerial Conference in Seattle, and the launch of a new Round with services trade at the heart of its agenda. The work before us in the Round is vast. The services negotiating agenda will cover a broad range of industries, from finance and telecommunications to distribution, health, audiovisual, education, environmental protection, travel and tourism, construction, law, engineering, architecture, express delivery, and more. And within each of these industries, the issues we must address are complex, demanding and sometimes unique to their field.

So as we begin to set specific objectives for the years ahead, I would like to offer some thoughts on our broader goals.

I ran an international investment firm and globally-diversified fund for twenty years, before being invited to serve my country. As a financial services professional, I know from experience that success in any market access negotiation can be easily measured in new export opportunities for service providers. If you want to grow your profits, you have to have access to new markets to expand sales in a globalized economy. From my perspective as a public servant, I am also aware of the impact a strong services sector can have on the economy as a whole, through job creation and benefits for consumers. Here, it is worth reviewing the experience of the United States.

SERVICES IN THE U.S. ECONOMY

Services industries in the U.S.A. provide nearly 100 million jobs and $6 trillion worth of production – 70% of American GDP, and more than one dollar in seven of world production.

Services are the infrastructure that allows our industrial and agricultural sectors to function productively. For example, an open and competitive financial services sector provides cheaper capital, allocates it more efficiently in support of economic growth, and can better withstand financial market instability. Efficient transport and distribution helps our farmers get their products to market without spoilage and ensure that manufacturing components reach the factory in time for production.

Prolific legal and accounting services give businesses the contractual and business framework in which to function and promote confidence by consumers. Efficient energy services – energy transmission, distribution, and storage – promote competitive energy markets and provide affordable energy to more companies and families. Software and information dissemination are essential to the functioning of all modern U.S. industries. Our entertainment and artistic creations promote the free flow of ideas and information while offering artistic and intellectual diversity. The way we have developed new technologies, in particular the Internet and electronic commerce, has stimulated a vast increase in the efficiency and productivity of service industries. We in the U.S. have been blessed by a liberal and pro-growth approach to service sector development.

PROGRESS THUS FAR

Globally, the Uruguay Round's creation of rules for trade in services, together with specific commitments in a number of sectors – generally to maintain current levels of market openness – was a fundamentally important step toward realizing for the world what we have been experiencing in the U.S.

Seventy governments from each part of the world, for example, took the bull by the horns with the WTO's 1997 agreements on Financial Services and Basic Telecommunications.

The Basic Telecom agreement, in effect for only a year and a half, is already yielding impressive results. Through commitments on market access, national treatment and regulatory safeguards by these 70 WTO Members, it has encouraged billions of dollars in international investment in new telecommunications facilities and significant job creation. As a result, economical and highly efficient telecommunications services are removing geography (and borders) as constraints on delivery of a broad range of services and products, and driving down costs for consumers.

Enforcement of the WTO agreement has forced dominant carriers to reduce rates causing a surge in demand for telecommunications services and electronic commerce. For example, rates with most OECD countries have dropped to around 20 cents per minute, and in some cases (e.g., Canada, U.K.) rates are at 10 cents per minute and lower. Rates have been cut by *one-half* on calls between the United States and countries such as Japan and Mexico in the 18 months since the WTO Telecommunications agreement went into force.

This benefits consumers in both the U.S. and foreign countries, and has led to a remarkable boom in investment in undersea fiber optic cables (which are forecast to expand 50-fold by the end of 2001). Such expansion has created competition for investment to develop regional data and electronic commerce hubs, encouraging many WTO members – like Hong Kong, Korea, Japan, India, Singapore and Jamaica – to unilaterally improve their market access commitments.

Likewise, the 1997 Financial Services Agreement represents a successful, joint effort by WTO Members to open markets to insurance, banking, securities and financial data services. The Agreement has already helped service suppliers to expand existing operations and find new market opportunities across a wide spectrum of developed country and emerging markets, including Asia, Europe, Eastern Europe and Latin America.

Growth potential for competitive financial services suppliers is high, including to help emerging markets modernize their financial services systems and to improve their infrastructure for trade in goods and services. In developed countries and many emerging markets, people are living longer. At the same time, the pool of workers is shrinking in many countries. This places enormous pressure on governments to find new ways to guarantee comfortable and secure retirements for their citizens. The budgetary implications of this are enormous and many countries looking more closely at further liberalizing insurance products or encouraging growth of private pensions as a supplement to existing governmental activities.

THE WORK AHEAD

In the new Round, we can do more. There remain substantial barriers to trade, and therefore substantial opportunities:

- Inefficient, pollution-prone power and transport reduce efficiency, worsen the quality of life, and waste investment. Energy firms experience market entry difficulties in too many parts of the world where such as restrictive regulatory practices, requirements that firms purchase energy from one supplier, and high licensing fees for foreign firms work against the interests of efficiency.

- In telecommunications, markets reserved for government monopolies make service worse for consumers and business more difficult for firms. Satellite and trans-oceanic capacity is expanding rapidly, as new entrants unaffiliated with former national monopolies are allowed to build facilities and provide service. By one estimate, telecom capacity across the Atlantic will expand by a factor of more than ten over the next five years, and across the Pacific by a factor of greater than forty.

- In many parts of the world, monopolies in distribution reduce the efficiency of farms, fisheries; some WTO Members do not allow foreign companies to distribute products at all. Companies cannot have adequate market access if they are not able to provide – or themselves have adequate access to – wholesale and retail services, maintenance and repair, transportation and other distribution-type services.

- In some economies, express delivery firms are unable to wholly own or control express delivery operations, obtain courier licenses, truck licenses, customs brokerage licenses, or bonded warehouse licenses.

- About a third of WTO members have not made commitments to permit healthcare services such as telemedicine and remote diagnostics, which recently have emerged as cost-effective alternatives to the maintenance of expensive medical facilities.

- In the area of arts and entertainment, providers of cinema and television programming face a constantly changing, and unpredictable, array of barriers, ranging from quotas to forced investment requirements, often with the rationale of "protecting" national cultures. We realize that culture is important. Yet trade rules offer the flexibility to take cultural sensitivities into account, and in fact to affirmatively promote national cultures. In the United States, for example, our GATS schedule reflects that only U.S. citizens and companies are eligible for the limited assistance provided by our National Endowment for the Arts.

- The recent global financial crisis has highlighted the necessity of working to strengthen the world's financial systems, and make them more open. Measures like those exemplified by the Financial Services Agreement are important steps in that direction. Foreign participation with fair competition in financial services is a key ingredient in building a reliable and durable financial system. This in turn builds confidence, fosters growth, and is thus critical for stability.

Lest anyone think that export opportunities in services are only for developed countries, a number of developing countries, in their formal submissions to the WTO, have begun to identify sectors in which *they* have an export interest, including audiovisual services, tourism, private healthcare, computer services, and professional services.

In addition, some countries' interests in the negotiations lie in better access for temporary entry of individuals – or "natural persons" – as services suppliers. Many U.S. companies share an interest in this area as well.

PREPARING FOR THE ROUND

To serve these diverse interests we must launch in Seattle a disciplined negotiation that encompasses a broad array of sectors, reflecting interests of a wide range of WTO members, so as to allow the negotiators the breadth of issues necessary to realize attractive trade-offs.

We should work toward liberalizing substantially a broad range of service sectors through several different types of negotiations.

- We must explore sectoral agreements, developed through creation of "model" sets of GATS commitments for key sectors of interest to WTO Members. These model schedules, or "templates," would be equivalent to the zero-for-zero tariff elimination we have done for goods.

- We must examine cross-sectoral or "horizontal" methods of service liberalization, as referenced by Dean in his introductory comments, by improving regulatory practices across industries, for example, for all countries to provide transparency and good-government practices to ensure that domestic regulations do not undermine the value of country commitments.

- And countries should retain the ability to make individual requests of trading partners using the "request-offer" approach used in the Uruguay Round.

At the same time, we should take care to ensure that the WTO's services rules prevent discrimination against particular modes of delivering services, such as electronic commerce.

We must anticipate the development of new technologies. Examples of the potential of new telecommunications, information technologies and the Internet to support trade in services are obvious in almost every field, from colleges which can teach, hold examinations and grant degrees via the Internet; to home entertainment products delivered by satellite; long-distance environmental monitoring of air and water quality; and advanced health care delivered directly to the home or to rural clinics via telemedicine. Service providers in years to come will find many new opportunities to use new technologies to deliver their products overseas, and should not encounter discrimination based on choice of technology.

Electronic Commerce

Ancillary to the services negotiations, but essential to success in keeping the WTO at the forefront of economic activity, are our goals in electronic commerce. Clearly a number of services – telemedicine, distance education, some forms of entertainment, news – can be more efficiently and more easily delivered electronically.

We therefore have a broad program underway at the WTO to help ensure unimpeded development of electronic commerce, beginning at the Seattle Ministerial with our "duty-free cyberspace" program, in which we are seeking extension of the WTO's current moratorium on application of tariffs to electronic transmissions. We are asking countries to commit to avoid measures that unduly restrict development of electronic commerce; to ensure WTO rules do not discriminate against new technologies and methods of trade; to accord proper treatment of digital products under WTO rules; and to ensure full protection of intellectual property rights on the Net. We are open to pursuing other issues in an ongoing work program. And we are supporting a capacity-building program, to help developing countries develop their ability to use the Internet, speeding their development and technological progress.

WTO Reform: Trade Facilitation and Capacity-Building

At the same time, we are developing ideas for reforming and improving the WTO in some of the areas directly related to services.

One example is trade facilitation, with a special focus on ensuring timely, reliable, and transparent customs procedures. This is especially important in the context of distribution services – an efficient distribution network can lose much of its value if long delays let food spoil in transit or delay shipment of auto parts and semiconductors for factories.

PREPARING FOR A SUCCESSFUL NEGOTIATION

That is the substantive side of our preparation for the services component of the Round. Equally important are two elements of any successful negotiation: ensuring that we reach a conclusion in a reasonable timeframe, and developing consensus on the specific results that conclusion should achieve.

Timetable and Scope of Negotiations

We are working with other WTO members to set a timetable and a negotiating agenda that will ensure that the Round yields significant benefits rapidly.

We have set a goal of concluding the negotiations within three years. We have also proposed a limited and manageable agenda. The operative words in the last sentence bear repeating: "a limited and manageable agenda." If the services negotiations are to succeed in a reasonable time, it is very important for the WTO reach consensus on this point.

I am thinking especially of developing countries. They have legitimate concerns about implementing commitments – especially in services but also in areas like agriculture and intellectual property. As such, they are highly unlikely to accept a set of *entirely* new issues. While we have strong consensus for talks on the "built-in agenda" for services and agriculture, together with a number of industrial products, issues such as competition policy and investment have no such consensus. If we are to get results in a relatively short time, we must be disciplined and focused in selecting our agenda.

ACCESSIONS AND REGIONAL INITIATIVES

Before concluding, I would like to mention the WTO accessions and also the regional initiatives presently underway. We envision setting precedents and developing models for the achievements we can reach in the Round. At last count, there are 33 separate negotiations on accessions to the WTO and regional initiatives underway.

With respect to the WTO accessions, in the past year we have completed the accessions of Latvia and Kyrgyzstan. Estonia's accession is completed and awaiting parliamentary approval. We have completed bilateral negotiations with Albania, Croatia, Georgia and Taiwan; and made significant progress on a number of other accessions, including those of China, Armenia, Oman, Jordan. In each of these, we have sought commitments in broader ranges of service sectors, and agreement to participate in the Financial Services and Basic Telecommunications agreements. These set baselines for future accessions, an example for improving the commitments of today's WTO members, and a foundation from which we can work in the next round.

Regional initiatives also play an important role.

An especially important case is the work toward establishment of a Free Trade Area of the Americas – the FTAA, or the Spanish acronym, the ALCA. These talks include a Negotiating Group on Services, which like the other FTAA Groups completed an "annotated outline" of an FTAA services chapter this fall. This will both help us create an early model for worldwide liberalization of services trade, and build a Western Hemisphere consensus on shared goals as the Round approaches. The trade ministers of the 34 democratically-elected governments of the Hemisphere will meet on Wednesday and Thursday of this week in Toronto. They will be announcing that Argentina will assume the chair of the FTAA, and that the government under newly elected President de la Rua will be charged with drafting of the FTAA agreement by mid-2001.

Other regional arrangements have similar benefits for services. In the Transatlantic Economic Partnership (TEP) with the European Union, the U.S. is working toward a framework for negotiating Mutual Recognition Agreements – that is, agreeing to recognize accreditation or licensing granted by one another's regulatory bodies – in services fields. In Japan, Washington and Tokyo have for three years now jointly engaged in an Enhanced Initiative on Deregulation and Competition, in which we have agreed upon concrete deregulatory measures in sectors including telecommunications, financial services, energy and distribution services, as well as broader horizontal issues such as transparency. And in the President's Africa initiative, we are strengthening GATS commitments for a number of African members, and working with African governments to improve capacity-building in areas such as finance and telecommunications.

CONCLUSION

The bottom line for services is that we have set an agenda, together with methods of negotiation, that can substantially open world services markets in the new Round. And through our WTO accessions and regional initiatives, we have begun to set concrete precedents on the results we can achieve worldwide.

If we succeed, the results will be truly profound. Service providers, of course, will have vast new opportunities in a more open world. But the achievement will go much deeper: a more stable and productive world economy, greater competition and greater affordability for consumers of services, and a rising quality of life for the world's people; a world which offers its young people more opportunity and more hope than ever before.

Thank you.

Achieving the Vision: Brazil and the United States in the New Century

Ambassador Richard Fisher
Deputy U.S. Trade Representative

Brazil-U.S. Business Council
Washington, DC

January 19, 2000

Thank you very much. I am very pleased to be here with my friend Ambassador Barbosa and with each of you, as we celebrate the new millennium and prepare for Brazil's own 500th anniversary celebration – what we might call Y½K – on the 22nd of April.

I last met with the Council quite recently – in fact, this past October. But we have had a lot of water under the bridge since then. As we see in the aftermath of the WTO's Ministerial Conference in Seattle, trade policy is under closer scrutiny; is asked to do more; and arouses stronger emotions than ever before. So this afternoon I would like to offer some thoughts on the goals and principles of our trade policies; the concerns about the trading system here and abroad; and the road forward in the context of the longer-term agenda of the World Trade Organization, and the Free Trade Area of the Americas, or Area de Livre Comercio das Americas.

THE PRINCIPLES

Let me begin with the goals we seek in each of these efforts. They are simple and clear: a stronger peace in the western hemisphere and around the world; economic development and rising standards of living for Americans and for our neighbors; and the creation of a more decent and just world economy. And for fifty years, since the era of Franklin Roosevelt and the Rio Treaty, our commitment to open markets has helped us reach these goals.

This is clear in logic. By opening markets to one another's goods and services:

- We strengthen peace. As we become one another's investors and customers, we gain greater stakes in one another's stability and growth, strengthening hopes for a lasting peace.

- We promote investment, development and growth. As businesses gain the opportunity to export and sell to wider markets, they develop economies of scale and are more able to invest in technology and employment. Likewise, an open economy means access to the most modern technologies and management expertise, helping poorer nations develop more rapidly.

- We raise living standards. The competition inherent in an economy open to imports ensures that families have the widest choice of goods and services at the best prices. This is most important of all for the poor, whose expenses on food, clothing and basic home appliances are greatest.

– And we improve the quality of life. As economies grow, governments gain the resources that help them to address social concerns, from environmental protection to workplace standards, health and hunger more effectively.

THE RECORD

It is also clear in practical experience. The United States and Brazil have been partners in the development of the trading system for more than fifty years, as founding members of the GATT in 1948. More recently, we have been leaders in the development of regional integration efforts – for our part, the North American Free Trade Agreement and the Caribbean Basin Initiative; on the part of Brazil, Mercosul; and now our work together on the FTAA/ALCA.

And the record we have built is very good. Since 1950, world trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. For Brazil, since the early 1970s, opening world markets have allowed Brazil's exports to rise by 725%; and to diversify from a reliance on natural resource industries and coffee to manufactured goods and value-added agriculture.

And these statistics mean life has improved nearly everywhere in the world. During the same period, world life expectancy grew by twenty years; infant mortality fell by two-thirds, and still more sharply in Brazil. In every country participating in this growth of trade, daily life has been enriched in perhaps small but remarkable ways: the tropical fruit and green vegetables our trade with Brazil offers Americans in mid-January is just one example, and a case study .

And in the financial crisis of the past two years, the trading system proved its worth in another way. It has been a period of enormous human stress, which continues today. The signs of recovery we see now owe most to the fortitude of ordinary people, and to the skill and determination with which President Cardoso and others have handled this crisis. But they are also testimony to the importance of the trading system, which during this crisis has helped to guarantee markets essential for their recovery -- Brazil's exports to the United States have reached record levels this year -- and enabled governments to avoid the destructive temptations of protection and retaliation which made the Depression of the 1930s so devastating.

THE OPPORTUNITIES AND CHALLENGES OF THE PRESENT

Today we have the opportunity to go further.

Brazil and the US, for example, share a strong interest in opening agricultural trade. This is the central issue for any new Round of negotiations at the WTO, and Brazil will lead the hemisphere on agricultural trade negotiations as Chair of the FTAA/ALCA Negotiating Group on

Agriculture beginning this month.

We are both committed to the development of new policies and ideas that ensure that our less prosperous neighbors gain all the advantages they should from trade, both within the western hemisphere and on the world scale.

We both see clearly the challenges that the revolution in science and technology has put before us: from the development of electronic commerce and the Internet, to the issues raised by the application of biotechnology techniques to agriculture.

And yet we are also aware of growing challenges to and concerns about trade policy and the trading system. These have been evident for some time, but were most obvious during the WTO's Ministerial Conference in Seattle last month.

The WTO members, as Ambassador Barshefsky said, came with good will and the intent to launch a new Round, centered upon the negotiations to which all WTO members were already committed on agriculture and the services industries, but also taking up technology, trade facilitation and other topics. As all of you are aware, this did not happen. The Ministerial suspended without opening a Round. And as we look ahead, without engaging in competitions to assign or avoid blame, we should understand and act on the reasons it did so.

In my opinion, in Seattle we saw the convergence of three fundamental problems:

- First, the difficulty of many of the negotiating issues themselves. The European Union, for example, remains unwilling to contemplate major changes in its agricultural subsidies and protection. Japan has similar constraints. Developing countries feel more power to demand market access concessions from the industrial world – which is healthy – but often remain ambivalent about their own obligations, in this case by requesting broad exemptions from a number of commitments they have already made. And we in the United States, of course, have our own sensitivities to address as well.

- Second, criticism of the WTO -- often justified -- on institutional grounds.

  - Many WTO members – principally newer members, small countries and the least developed – felt unable to contribute to the negotiations as fully as they should, or even excluded. These concerns can and must be met: the United States has proposed jointly with Bangladesh and four African nations, for example, a set of capacity-building measures that will help, and we are looking forward to the results of consultations by the WTO's Director-General on broader procedural issues.

  - At the same time, outside the WTO, civil society organizations argued that the system is not transparent and accessible enough. Some of these concerns are reasonable: a business, or a citizen group, concerned with a trade dispute at the WTO ought to be able to see the panel argument. And the trading system must be mature and responsive enough to act on reasonable, constructive criticisms, if it is to enjoy the support it should have in the years ahead.

– And third, a set of concerns that go beyond trade policy per se. Many in the developed world feel that policies to promote growth and open markets worldwide have outpaced policies to address sustainable development and working conditions. These fears are balanced by suspicions in poorer countries that these concerns might be abused to discriminate against their products, and that the world is already less open to the products in which they hold comparative advantages.

Taken together, these gaps -- but I think above all the reluctance of the EU and Japan to engage on agriculture -- ultimately made launch of a Round impossible. And thus Ambassador Barshefsky decided to suspend the Ministerial, and give the various delegations time to refocus on their goals, review their negotiating positions and perhaps develop some fresh ideas. All countries need to reflect on their responsibilities. Certainly our trading partners look to both Brazil and the United States for leadership; and indeed, Minister Lampreia played a central and constructive role in determining the best approach after talks began to break down in Seattle. But there also must be global leadership if a global trade negotiation is to succeed.

This type of breakdown, I should note, is actually nothing new. Typically, the trading system has moved ahead despite, or even as a result of, periodic breakdowns – or, to borrow President Cardoso's metaphor, like water wearing away a stone. Our work to establish the General Agreement on Trade and Tariffs in 1948, for example, built upon a failure to set up an "International Trade Organization" in 1947. More recently, GATT members failed to launch the Uruguay Round in 1982, and to conclude it in 1990; the more recent negotiations on Financial Services and Basic Telecom also collapsed; and all ultimately ended in success.

However, while we should not exaggerate the problems of the moment, neither can we afford to be complacent. Our task is to ensure that the trading system responds to constructive criticism, from both inside and outside; makes the institutional adjustments necessary to accommodate a broader and more diverse membership; and develops a negotiating agenda that will take advantage of the opportunities before us, at minimum through the launch of broad negotiations in agriculture and services as already scheduled.

PROGRESS OF THE FTAA/ALCA

In this, the WTO can draw lessons from our experience with the FTAA/ALCA talks.

The FTAA/ALCA is an extraordinarily ambitious, and complex, initiative. It brings together 34 democratic nations – from continental giants like the U.S. and Brazil, to least developed nations like Haiti and Honduras. It addresses the most complex issues: the opening of services markets, the development of electronic commerce, the response to the growing interest in trade and trade policy by civil society, and more. And its rewards are commensurately great.

In the largest sense, it is an effort to capitalize on a unique hemispheric convergence of values and ideas – democratic governance, free and open markets, shared destiny. In more concrete economic terms, it is a project of growth and rising living standards for the entire Western Hemisphere. By 2005, it will create a single trade zone which includes nearly a billion people; which deepens a trading community that already takes more than half of all the goods exports from both Brazil and the United States; and which stretches across a vast section of the globe – south from Alaska and the Canadian Arctic to Cape Horn; and west from Recife to the Hawaiian Islands.

And thus far we have proven up to the task. Over the nearly two years since the Summit of the Americas in Santiago, we have discussed the outlines of the FTAA/ALCA. And in Toronto last November -- almost unnoticed in the storm of publicity given our agreement on China's WTO accession and the Seattle Ministerial -- we committed ourselves to begin drafting the actual text of the agreement.

That marks a fundamental step forward. Our hemispheric republics have discussed the free trade zone concept on several occasions in the past, at the various inspirations of Simon Bolivar, James G. Blaine and John F. Kennedy. But the Toronto meeting marked the moment at which, for the first time in the history of the independent Western hemisphere, we set down to the work itself.

THE ROAD FORWARD

Much work remains ahead, of course. But I think we can draw some lessons from our success thus far, because the FTAA/ALCA talks have addressed some of the issues raised by our experience in Seattle in a thoughtful and effective way.

First, the FTAA/ALCA offers some ideas and precedents for addressing the issues of transparency and inclusion that were so evident in Seattle.

The FTAA/ALCA, for the first time in any major international trade negotiation, established a Committee on Civil Society. Since 1998, it has solicited ideas and input from anyone wishing to contribute to the work of the governments involved in the negotiations. We took submissions from each part of the hemisphere: Brazil and the United States; Canada; the Caribbean islands; Central America; the Andes; and the southern cone. And we heard from 68 groups ranging from the Brazilian National Confederation of Industry, to the Consultative Andean Labor Council, the Ecuadorian Center for Environmental Law, and the Latin American School of Social Sciences in Chile.

The report to Ministers summarizing the submissions from civil society has been posted on the FTAA/ALCA web page -- an important step in ensuring the broadest debate and consensus for our approach. In Toronto, Ministers or Vice Ministers from 22 FTAA/ALCA participants attended a civil society forum which deepened and extended this exchange. And as a result, the FTAA/ALCA talks have developed a base of public understanding and support which will help us immensely as the negotiations proceed. Brazil and the United States need to ensure that the FTAA/ALCA continues to move ahead in an environment of openness and dialogue with the public.

Second, the substantive work of the FTAA/ALCA in the year ahead, as it opens hemispheric trade, can help to build consensus for broader multilateral negotiations.

Especially important here will be Brazil's work as Chair of the Agricultural Negotiating Group. This will help us confirm the hemispheric consensus on such issues as elimination of agricultural export subsidies, and extend it to other issues such as tariffs, domestic supports and the proper treatment of biotechnology. It will also ensure that WTO members which have opposed agricultural trade reform, notably in Europe, will see farmers in the U.S., Canada, Brazil, Argentina and elsewhere in our hemisphere gain competitive advantages if they continue to resist progress.

And third, the FTAA/ALCA is implementing practical business facilitation measures that bring immediate benefit, which the WTO can draw upon as it approaches questions of trade facilitation. In 1999, the suggestions and technical assistance your Council provided helped us agree on practical business facilitation reforms in eight separate fields, from ensuring that visa and customs requirements are posted on the web to streamlined customs procedures for express shipments and commercial samples. Your support for this year's second round of business facilitation, in which we are looking toward such measures as adopting OECD privacy principles, electronic signatures, eliminating redundant testing and certification requirements, and ensuring duty-free cyber-space, will be equally important.

CONCLUSION: THE CENTRAL VISION

What is most important, however, is the central vision represented by the FTAA/ALCA, and also by the WTO: a community of nations, united by high ideals and practical goals, and moving toward a future of peace, development, and shared destiny.

The counsel of logic, and the experience of history, tell us this is the right vision. As neighbors and as partners, we have worked towards its realization for half a century. And this generation of Americans and Brazilians has the chance to accomplish the integration of the hemispheric economy; the development of the world trading system; the coordination of these initiatives with protection of the environment we hold in trust for future generations and the well-being of working people.

This is not an easy vision to achieve; and in fact, nothing important is ever easy. But we should always aim high, despite the fact that our goal may be difficult to reach; and if we do not always succeed the first time, we should not be tempted to give up.

That, above all, is the lesson we should take from the work of the past year. If we remember it; if we continue to work together as the leaders of the Americas; if we remain true to the shared values and ideals which have brought us this far; we can approach the future with great confidence.

US-Japan Trade Relations, Deregulation, and the Road Ahead

Ambassador Richard Fisher
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US-Japan Society
New York, NY

January 27, 2000

Thank you very much.

As you are all aware, 1999 was a very lively year in trade. And most of you will also be aware that during 1999, the headlines did not always go to Japan. But while history sometimes proceeds ahead with shouting, publicity and street marches – as in our agreement with China or the WTO's Ministerial Conference in Seattle – at other times it proceeds more quietly but with implications equally important.

And that is the case, I maintain, in many of our negotiations on trade with Japan over the past two years. Next week, I will meet with my fellow co-chair, Deputy Foreign Minister Yoshiji Nogami, to discuss the third year of the so-called "Enhanced Initiative on Deregulation and Competition Policy" created by President Clinton and then-Prime Minister Hashimoto at the Denver G-8 Summit in 1997. It is a slightly dull name for a very exciting and fundamentally important medium for decisions: effecting Japan's transition to a new economic model at home; and, with this domestic transition, an accompanying transition to a less acrimonious trade relationship.

NEW CHALLENGES

Let me begin this discussion by looking backward. Over the past fifteen years, our trade relations with Japan have fundamentally changed. In the early and mid-1980s, trade policy focused essentially on managing Japanese imports in autos, steel and other manufacturing sectors. Today, we focus largely on the Japanese market.

This reflects changes in our economic relationship. Ten years ago, as we all well remember, Japan was booming and America was questioning its future. The speculation at home and abroad was that America had entered a period of long-term decline; and that Japan, with superior manufacturing processes and greater social stability, would inevitably take America's place as the world's leading economic power. American scholars were writing that Japan was "number one;" Japanese propagandists spoke of a Japan that could simply "say no." The prevailing state of mind was illustrated very well by Paul Kennedy in the hot book of 1987, *The Rise and Fall of the Great Powers*:

> "The task facing American statesmen over the next decades is to recognize that broad trends are under way, and that there is a need to "manage" affairs so that the *relative* erosion of the United States position takes place smoothly and slowly."

Today, the tables have turned: the hot books are saying more or less the same thing about Japan's relative erosion and tamped-down prospects. And Americans are in a bit of a chest-thumping mood. I should say that this is a bit overdone, of course. We have reason to take pride in our work over the past decade on the budget, crime, scientific and technological progress and so forth. But we also have reason to be somewhat humble, in the face of the work remaining to address poverty, improve elementary and secondary education and many other social problems.

Likewise, Japan also retains the strengths its admirers pointed to ten years ago. Its manufacturing industries this year will produce almost as much as America's, in a country with half our population; and in an economy three fifths our size, Japanese firms, universities and government laboratories will invest as much money as we do in state-of-the-art research and development. Its entrepreneurs are among the world's most creative and adaptable – as we see, for example, in the success of Japanese popular culture, most recently the Pokemon empire, here in the U.S. In social terms, Japan remains the envy of the world: its citizens have the world's longest average lifespan; its students rate at the top of comparative international surveys; its streets are virtually free of crime.

But Japan's problems are also quite real: we are all well aware of their manifestation in a decade of low growth, financial difficulties and declining competitiveness. However, I do not believe these are insoluble problems. They arise from specific policies, which in turn reflect an outdated regulatory philosophy which both weakens existing companies and acts to prevent new ones from emerging. Trade policy and, specifically, our joint exercise in Deregulation and Competition can help Japan address this problem.

MACHINE AGE AND INFORMATION AGE

Our modern economy has drawn a great deal from the Japanese experience: the quality and productivity of American manufacturing today has built upon both the competitive spur Japanese companies have provided, and upon lessons drawn from Japanese factories.

Likewise, Japan can draw upon some of our experience as it takes up the problems it has experienced in the past decade.

Fundamentally, I believe that the roots of Japan's present problems lie in its slow transition from the age of machinery to the age of information. This in turn rests in the slow transition Japanese government officials and industrial leaders have made from an era in which government helped to control economic outcomes to one in which government provides the impartial and transparent regulation that can spur competition and innovation.

This is a field in which the United States can claim a genuine and long-term, although perhaps still partial, success. Much of our present economic buoyance derives, I believe, from a decision to leave the regulatory fields of the 1930s, 1940s and 1950s – in which government imposed controls over input, output and prices. This involved setting airline schedules, monitoring and controlling wages, telling farmers what to grow and setting rates for phone, power and similar services.

Our move away from this approach has been a slow, difficult, but also successful and bipartisan approach. It began with Alfred Kahn and the Carter Administration in energy, airlines and then telecommunications, and has since moved into many other industries. At the same time, we have progressively opened our economy to trade and competition. And as a result, many of our industries have become innovative in adopting new technologies and internationally much more competitive than they might have been ten years ago.

This set of reforms, however, has been premised not on a nihilistic premise that the best government is no government. Rather, it accepts an important and in some areas growing role for impartial regulation. Above all, as government turns decisions on prices and production levels to the private sector and the market, it can concentrate more effectively on areas which the market will not always offer solutions. These include areas such as environmental protection, public health and consumer protection, in which companies can at times find regulation burdensome but where regulation overall can promote efficiency, reduce waste, and offer us a combination of industrial growth and a rising quality of life.

This shift has been much slower in Japan. Japanese ministries remain far more concerned than their American counterparts about overseeing prices, production, competition (from domestic sources as well as from abroad) and economic outcomes. And their instinct is, of course, to protect the market share, revenue and employment of their industrial clients, whether in power, heavy industry, housing, telecommunications or natural resources. As a result, a Japanese company today pays more for everything it needs to run its business – from telephone calls, to energy bills, office rent, construction materials and beyond – than its foreign competitors.

This in turn creates a series of competitive problems. High phone rates mean that American's use their telecom network, by minutes of use, three times more than the Japanese. This means Japanese Internet usage is well below American levels, and that Japan begins to lag behind in the development of electronic commerce. More broadly speaking, the barriers to formation of new businesses with new ideas are higher in Japan; and existing companies are subtly weakened and become less able to compete with foreign firms. That in turn creates a cycle in which industries, unable to compete, lobby for protection – and once they receive it, feel no need to adapt to newer methods. So rather than encouraging companies to become leaner, more efficient and productive, the Japanese government is sheltering them from competition and creating a downward spiral.

This is the foundation, by the way, of Japanese activism on the anti-dumping issues: Japan's recent push for a revision of the U.S. anti-dumping law is at bottom a way to avoid restructuring of the steel industry. And you can see it in one sector after another – from traditional industries like construction, sawmills, agriculture, air services, to newer sectors such as nursing homes and fiber-optic cable.

U.S. TRADE POLICY

Ultimately Japan has to make the leap away from controlling outcomes to accepting competition. And Japan must make that decision itself, in its own interest. These are intimidating and difficult decisions which raise concerns about job tenure and family security and ultimately social stability. The recent formation of an LDP party group to "study" the purported negative impact of regulatory change on small businesses is a case in point.

But these are, I hope, minority views; they are clearly incorrect views. The small business sector in Japan, for example, has benefitted more than any other from the space created by deregulation to date. And we can see the profound and positive effect of deregulation in many other areas. For example, Japan deregulated the cellular phone industry in 1993; and since then, cell phone prices have plunged, cell phone use has grown remarkably, with private investment in mobile service likely to reach $14 billion this year. In real-life terms, this means millions of families and hundreds of thousands of businesses have gained convenience and efficiency.

This is an especially important story for our topic of trade policy. The fact is, our trade negotiations – so often portrayed as confrontations in which decisions to open markets are "victories" for the United States and "defeats" for Japan – are to the contrary procedures from which both sides can see results that create new opportunities for economic growth and technological progress. Because the fact is, the deregulation of Japan's cell phone market is indeed the result of a trade agreement we reached in 1993.

In many other areas the story is the same. Financial services is an example, in which Japan's successful implementation of the measures contained in our 1995 agreement on financial services complements Japan's own liberalization under the "Big Bang." Here, Japan has allowed new products – liberalizing securities derivatives, promoting a more vigorous asset-backed securities market, and introducing defined contribution pension plans. It has fostered competition, through liberalizing foreign exchange trading, easing registration for new companies, and allowing cross-entry among financial industry segments. And it has enhanced its accounting and disclosure standards. As time passes, full and effective regulatory reform of Japan's financial markets will increase competition, help improve Japan's long-term growth prospects, and contribute to a wider variety of investment opportunities for individuals and Japanese companies.

Our trade policies, of course, are rooted in the interests of the United States in a more open Japanese market. But the over-regulation, lack of competition and informal cartels we are attempting to address are also barriers between Japan and the information age; that is, between an era of slow growth and shrinking horizons and one of progress, optimism and returning strength. The matters of which I speak are not about "the U.S. versus Japan." They are about "Japan versus the Future." This fact, evident in the cellular phone anecdote, is clear on a much larger scale in the Enhanced Initiative on Deregulation and Competition Policy.

- In telecommunications, we agreed at the Birmingham Summit of 1998 on a set of measures to reduce interconnection costs, cut the cost of telephone service by hundreds of millions of dollars and speed up introduction of new telecommunications. To be sure, many beneficiaries will be American telecom companies hoping to sell new services in Japan; but every Japanese firm will also find itself more competitive, as costs decline and ability to use the Internet and other innovations rise. Today, because of NTT's inefficiency and regulatory sway, Japanese businesses pay about 30 cents a minute to make a phone call from Tokyo to Osaka, whereas we pay about 10 cents a minute for a call from Washington to New York, an equivalent distance. Telecommunications costs in the

Information Age are the equivalent of the cost of oil in the Machine Age. The effect of NTT's monopoly power in today's economy is thus equivalent to Japan's saying it will insist on paying $86 a barrel for crude oil, three times more than any of its competitors, just to feather the nest of one Japanese oil company. This is patently absurd. And the real-world effects are obvious, for example in the fact that only a sixth of Japanese households, compared to half of America's, are now linked to the Internet.

- In housing, we have agreed that Japan would adopt performance-based standards and testing requirements equivalent to those used around the world. These measures will open opportunities for American construction firms and suppliers; but they also reduce the cost of housing for families and building rental for businesses -- especially new ventures.

- And in energy, we want new competitors to enter the electricity generation market. We are working together to bring Japan from a monopoly to a competitive electrical market, eliminating market access barriers such as burdensome testing and inspection requirements and using performance-based standards rather than narrow, technical standards in energy. The goal is to reduce electricity costs in Japan to internationally-competitive levels. This means taking on the entrenched interests of incumbent electric utilities, no easy feat. Success here would present opportunities for American service providers, but will also result in lower barriers to entry for Japanese entrepreneurs, and greater competitiveness for existing Japanese companies.

In the weeks ahead, we will build on these achievements. Last October, Ambassador Foley presented a 45-page set of specific recommendations in these sectors and in many new areas. To cite some important and promising areas –

- We have asked that Japan adopt a "Big Bang" in telecommunications, analogous to the financial Big Bang of 1997. This would fundamentally reorient Japan's telecommunications policies, rewriting regulatory policies and encouraging the rapid introduction of new services.

- In the medical field, we have proposed a series of concrete measures that will make new pharmaceuticals available more quickly, speed approval of new medical devices and medicines, and make regulatory policy more transparent and predictable.

- In energy, we have offered ideas on incentives for competition, transparency in regulation and reducing barriers to investment and market entry.

- And we make further recommendations in a broad range of sectors and cross-cutting policy areas, from housing to financial services, distribution, competition policy and transparency.

ENTREPRENEURIAL SOCIETY

The work of deregulation may be complex. For some, it may even seem a little dull –

although not for some of our negotiating counterparts, who continue to see deregulation as a negotiating "concession" and perhaps a threat to some of the companies they oversee. But as these negotiators recognize – although in a way that is ultimately unhelpful to the old keiretsu or the monopolist like NTT – the effects of deregulation can be profound.

At the most immediate level, it means concrete and measurable benefits: lower costs for communications, office space and energy. Which in turn means more efficient companies and better returns on investment. Which in turn means improved opportunities for economic growth.

But a second effect may be still more important. That is, Ministries may remain reflexively suspicious of and conservative toward deregulation, to say nothing of Diet members who are looking to protect themselves and their patrons in any upcoming elections. But at the broader level Japan's government has intellectually accepted its importance, saying that its goal is to replace a "bureaucrat-led culture" with an entrepreneurial society. Trade policy is a means to that end. This includes not only the Enhanced Initiative but the 37 agreements we have with Japan in fields from agriculture to insurance, high technology and manufacturing. The work underway in the Enhanced Initiative, therefore, has parallels with our work on a series of topics that could make up a separate speech, about the serious concerns we have with respect to flat glass, steel, insurance, and autos and auto parts.

Successful negotiations ultimately will help Japan create the non-discriminatory, transparent laws and regulations that ease trade and entrepreneurial activity, and encourage efficient allocation of investment. Thus they offer a chance to break the cycle of declining competitiveness and rising costs; to provide opportunities for people with ideas and new products to enter the market; to give Japanese consumers today a greater variety of goods and services at better prices; and to give Japan as a nation greater strength and confidence in the future.

CONCLUSION

In parallel with this, my hope is that the legacy of a decade of trade negotiations with Japan, beyond any specific agreement or export figure, will be a third transition in the trade relationship. Having moved from a focus on restricting Japanese imports to a focus on opening and deregulating the Japanese market, we can now perhaps begin to move again, from an era in which trade negotiations are considered largely adversarial to an era in which both sides see the benefits clearly and view themselves as benefitting from each other's success.

This will not be an easy transition, because it is a transition of mind as well as policy. But if it does take root, and helps to guide the next set of trade negotiations with Japan, we will have done something of great importance.

That is, we will stabilize the overall political relationship, which is so important not only for our two countries but for the world. And we will at last enable this alliance to reach its full potential. As a creator of wealth for our countries and our neighbors. As a source of ideas, invention and science that will astonish the world. And as it has been for the past half century, as the strongest guarantee of lasting peace in the Asian-Pacific.

I'll leave it there, and I thank you very much.

Remarks by
Ambassador Richard Fisher
Deputy United States Trade Representative

Brazilian-American Chamber of Commerce
Sao Paolo, Brazil
February 15, 2000

[Text as Prepared for Delivery]

Thank you very much. I am pleased to be here, although a little surprised, as I am sure many of you are, that I am the keynote.

Secretary Daley asked me to express his regrets. He was looking forward very much to coming. But President Clinton asked him to return to the United States for the day, because as we speak the President and the Secretary are meeting with our country's largest Internet companies.

Over the past week, a serious problem has developed – hackers are jamming the Internet, cutting off commerce. In our country, so dependent on information technologies, this is an area that needs immediate attention.

In fact, for all of us in the hemisphere to reap the benefits of this technology, we must find appropriate ways of ensuring its reliability. Several of the companies on this trade mission are engaged in e-commerce as their primary business, and all of the others use the Internet in the conduct of their business. I am confident that we will find the solutions to these latest incidents.

Yesterday, we spent a productive day with our business delegation in Brasilia. There we had a very productive meeting with President Cardoso and several ministers, including Ministers Alcides Tapias and Luiz Felipe Lampreia. They talked about the full range of trade and investment issues of importance to Brazil and the U.S., including the Free Trade Area of the Americas (ALCA – Associacao de livre Comercio das Americas), the World Trade Organization, and bilateral issues such as intellectual property, steel and electronic commerce.

What's most important is that our business delegation is here in force – 19 American companies all prepared to do more business with Brazil.

Giants like AT&T that has been in Brazil for much of the last century, and now does almost $3 billion in business in Latin America.

My fellow Texan Terry Thorne is here from Enron Corp. Enron has $2.8 billion invested in Brazil – from electric generators to natural gas and distribution.

We have agri-chemical companies and pharmaceutical companies like Pfizer, and are very pleased to have the Chairman of Merck with us – Raymond Gilmartin. Since 1996, our pharmaceutical industry has committed to invest more than $2 billion in Brazil, and another $2 billion is estimated to come in the next five years.

And we have smaller companies, like MCM Enterprise, with 20 employees, that want to sell devices that monitor hydroelectric generators.

And there is The Fluency Group – with six full-time workers – that sells a test to examine English proficiency.

Se Vosais Tes Ta Sem O Mayo Portugues, A-O now Iria Passar.

(If they tested my Portuguese, I would not pass the test).

It is because of companies like these that the United States now has $38 billion invested in Brazil, more than any other country. Brazil and the U.S. have been partners for more than 50 years in developing a trading system – since we both were founding members of the GATT in 1948.

More recently, we led in developing regional integration efforts – for our part, the North American Free Trade Agreement and the Caribbean Basin Initiative; on the part of Brazil, Mercosul; and now our work together on the FTAA/ALCA.

The record we have built is extremely good. Since 1950, world trade has grown fifteen-fold. World economic production has grown six-fold, and per capita income nearly tripled. For Brazil, since the early 1970s, opening world markets has allowed Brazil's exports to rise by 725 percent.

Especially in the financial crisis of the past two years, the trading system proved its worth in another way. I know it has been a period of enormous human and commercial stress, which continues today. But we are seeing the signs of recovery here in Brazil, thanks to the fortitude and industriousness of ordinary people, and to the skill with which Brazilian policymakers have avoided the financial shoals.

Our ability to weather the storm is also testimony to the importance of an open trading system. During this crisis it helped to guarantee markets essential for Brazil's and other countries' recovery.

Fortunately, the U.S. economy continued to expand through the financed turmoil in Asia, Russia, and Latin America, providing an enormous, critical outlet for production from countries whose own consumption was falling.

For example, last year the U.S. was Brazil's most important and best performing export market. Brazil's exports to the United States were up 10 percent last year, while exports to

Europe declined 7 percent and exports to Mercosur fell 24 percent. The openness of the U.S. market enabled Brazil and other governments in the region to cushion the effect of domestic recession and to avoid the destructive temptations of protectionism.

We now have the opportunity to go further – much further. Through the ALCA and the WTO we have the opportunity to expand trade – in both directions – between Brazil and the U.S. to an even greater extent than we have in recent years.

We should ask ourselves, for example: why is the U.S. selling 50 percent more to Korea than to Brazil? Why does the U.S. buy nearly three times as much from Korea than from Brazil? We have enormous opportunities in the immediate future to change that situation for our mutual benefit.

To start with, Brazil and the U.S. share a strong interest in opening agricultural markets. This is the central issue for any new Round of negotiations at the WTO, as well as in the ALCA, and Brazil will chair the agricultural negotiations at the FTAA/ALCA. So Brazil can set the pace for that negotiating group.

Within the WTO, of course, we face great challenges in negotiating agriculture. The European Union remains unwilling to contemplate major changes in its agricultural subsidies and protection. This is a time-worn problem. The EU accounts for 85 percent of the trade distorting export subsidies in the world. Japan has also severe political constraints in agriculture. Prime Minister Obuchi is loath to confront his agricultural sector.

Similarly, the current political position of President Kim undermines his ability to reform Korea's rice sector. The bottom line is that it will be extremely difficult to get significant liberalization in agriculture in the face of such a strong constellation of protectionist forces.

Nevertheless, Brazil and the U.S. must continue to show leadership in moving the trading system forward, notwithstanding the setback in Seattle. Other countries in the WTO also recognize the need to press forward. In Geneva, various delegations have begun to refocus on their goals, review their negotiating positions, and are developing some fresh ideas. On Monday a week ago, the General Council of the WTO in Geneva initiated the mandated negotiations in both agriculture and services.

All countries will need to put their shoulders to the wheel, moving toward successful negotiations in those two critical areas – now that we have firm dates to begin – February 21 for services, and March 22 for agriculture. We also must pursue additional areas of negotiation and work in the WTO, for example, in industrial market access, trade facilitation, and new technologies.

Certainly our trading partners look to both Brazil and the United States for leadership; Ambassador Barshefsky is working overtime to determine the best approach to move toward initiating a new round.

Indeed, Minister Lampreia and I discussed this matter yesterday, EU Commissioner Pascal Lamy will be in Brazil the week of March 21, and then Minister Lampreia will be visiting Secretary Daley and Ambassador Barshefsky in Washington March 28-29.

So we will see if we can turn rhetoric into action. This much we know: for our part we will not announce a round until we are certain the EU can deliver on agriculture to make a round worthwhile. Keep in mind, trade rounds often begin fits and starts.

The type of breakdown experienced in Seattle is nothing new.

Work to establish the GATT in 1948, for example, built upon a failure to set up an "International Trade Organization" in 1947. GATT members failed to launch a New Round in 1982, and to conclude the Uruguay Round in 1990; the recent negotiations on Financial Services and Basic Telecom also collapsed.

But all ultimately ended in success.

While we should not exaggerate the problems, neither can we afford to be complacent. Our task is to ensure that the trading system responds to constructive criticism, from both inside and outside; makes the institutional adjustments necessary to accommodate a broader and more diverse membership; and develops a negotiating agenda that will take advantage of the opportunities before us.

In this, the WTO can draw lessons from our experience with the FTAA/ALCA talks.

The FTAA/ALCA is an extraordinarily ambitious, and complicated, initiative. It brings together 34 democratic nations – from continental giants like the U.S. and Brazil, to least developed nations like Haiti and Honduras. It addresses the most complex issues: the opening of services markets, the development of electronic commerce, the response to the growing interest in trade and trade policy by civil society, and more. But its rewards are commensurately great.

By 2005, it will create a single trade zone which includes nearly a billion people; which deepens a trading community that already takes more than half of all the goods exported from both Brazil and the United States.

Thus far we have proven up to the task. Over the nearly two years since the Summit of the Americas in Santiago, we have constructed the outlines of the FTAA/ALCA.

And in Toronto last November – we committed ourselves to begin drafting the actual text of the agreement.

That marks a fundamental step forward. Our hemispheric republics have discussed the free trade zone concept on innumerable occasions in the past. Any student of our hemisphere's history, can recite the free trade proposals of Simon Bolivar, James G. Blaine and Benito Juarez. I doubt that anyone in the room, however, knows of the dialogue on free trade between Thomas Jefferson and the Brazilian priest Father Serra.

The Toronto meeting marked the moment at which, for the first time in the history of the independent Western hemisphere, we set out to actually draft the provision of the agreement itself.

Much work remains ahead, of course. But I think we can draw some lessons from our success thus far, because the FTAA/ALCA talks have addressed some of the issues raised by our experience in Seattle in a thoughtful and effective way.

First, it offers some ideas and precedents for addressing the issues of transparency and inclusion that were so evident in Seattle.

The FTAA/ALCA, for the first time in any major international trade negotiation, established a Committee on Civil Society. Since 1998, it has solicited ideas and input from anyone wishing to contribute. We heard from 68 groups ranging from the Brazilian National Confederation of Industry, to the Consultative Andean Labor Council, the Ecuadorian Center for Environmental Law, and the Latin American School of Social Sciences in Chile. The comments are posted on the Internet.

In Toronto, Ministers and Vice Ministers from 22 countries attended a civil society forum, which deepened and extended this exchange. It was orderly and informative and free of the rancor which infected Seattle. As a result, the talks have begun to develop a base of public understanding and support which will help us immensely as the negotiations proceed. Brazil and the United States need to ensure that the talks continue to move ahead in an environment of openness and dialogue with the public.

Second, the substantive work of the FTAA/ALCA in the year ahead, as it opens hemispheric trade, can help to build consensus for broader multilateral negotiations.

Especially important here will be Brazil's work as Chair of the Agricultural Negotiating Group. This will help us reach a consensus on eliminating agricultural export subsidies, and a consensus on other issues such as tariffs, domestic supports, and the proper treatment of biotechnology. The latter is a very important issue for both our countries.

It will also ensure that WTO members which have opposed agricultural trade reform, notably in Europe, will see farmers in the U.S., Canada, Brazil, Argentina and elsewhere in our hemisphere gain competitive advantages.

And third, the FTAA/ALCA is implementing practical business facilitation measures that bring immediate benefit. These range from ensuring visa and customs requirements are posted on the web, to streamlined customs procedures for express shipments and commercial samples.

Now we are looking toward such measures as adopting OECD privacy principles in electronic commerce, electronic signatures, eliminating redundant testing and certification requirements, and ensuring duty-free cyber-space.

The U.S. commitment was launched by a Democratic President, Bill Clinton, but it's noteworthy that a leading Republican candidate, George Bush, favored the concept in his first foreign policy speech. They both see what is most important, namely, the central vision represented by the FTAA/ALCA: a community of nations, united by high ideals and practical goals, and moving toward a future of peace, development, and shared prosperity.

As neighbors and as partners, we have worked toward its realization for half a century. We now have the chance to accomplish the integration of the hemispheric economy.

This will not be easy to achieve; nothing important is ever easy. But we should always aim high – just as the companies with us today are aiming high.

We should approach the future with great confidence, like water wearing away the stone that used to frustrate our common destiny.

Thank you.

AMERICAN TRADE POLICY AND THE TRADE BALANCE

Oral Statement of Ambassador Richard Fisher
Deputy U.S. Trade Representative

U.S. Trade Deficit Review Commission
Washington, D.C.

February 24, 2000

Russell Baker of the *New York Times* used to say that Americans will "do anything for Latin America but read about it or think about it." I imagine he would modify this somewhat if asked about trade deficits: Americans read about them, but rarely think about them and what they mean.

I applaud the Commission's work. By making us think about the trade deficit, the results of your hearings and research can be immensely valuable as the public and Congress debate American trade policy in the years ahead.

U.S. TRADE RECORD AND PHILOSOPHY

I will open by making a few points about the general philosophy of American trade policy, and then discuss the interplay of trade policy and the trade deficit.

U.S. trade policy generally has <u>not</u> set the goal of achieving particular levels of trade balance. To begin with, as previous Administration witnesses before the Committee have noted, overall balance levels are mainly the result of macroeconomic factors. For example, the robust growth in the United States in the past two years, in contrast to weak growth and recessions abroad, have helped to increase the trade deficit.

Our view, therefore, is that U.S. trade policy should be measured by its success in achieving goals such as removing foreign barriers to our exports; and by fundamental results such as expanding exports and the high paying jobs they support, raising real purchasing power and living standards for Americans, and encouraging long term growth. This has been the guiding principle of American trade policy since the New Deal under the Administration of Franklin Roosevelt.

CLINTON ADMINISTRATION RECORD

Since then, Administrations of both parties have designed trade policy less to achieve particular levels of import-export balance than to contribute to larger economic goals of rising living standards and long-term growth. And the Clinton Administration's trade policies have been squarely in this tradition.

Building upon a bipartisan record of achievement, for which Ambassador Hills among others deserves a great deal of credit, we have completed nearly 300 separate trade agreements. These include three which have fundamentally changed our country's trade environment, both through further opening our own economy and through greatly increasing the opportunities available to us in foreign markets.

First, we cemented our most important relationships – those with our immediate neighbors, Canada and Mexico, which make up more than one dollar in three of all our trade with the world – through passage of the North American Free Trade Agreement in 1993.

Second, we strengthened the rule of law and opened markets worldwide through the completion of the Uruguay Round Agreements and creation of the WTO in 1995. Together with this we have pursued numerous bilateral market-opening agreements with Japan, Europe, Canada, Latin America and Korea. Our agreement on China's WTO accession is a similar step forward, opening the markets of the world's most populous nation to a degree unprecedented in the modern era.

Third, after the creation of the WTO, we completed a set of agreements on information technology products, telecommunications, financial services and most recently electronic commerce, that open the world to the high-tech products and services in which our country excels.

Thus, trade policy – together with a strengthening commitment to education and job training, investments in science and technology at home, and a restoration of fiscal discipline – has helped to fundamentally improve our country's situation.

Ninety-three years ago, Winston Churchill proclaimed that:

"the country in which the superfine processes are performed – the superfine [being], the most complicated terminal stages of manufacture – is the country which possesses that which [is] called commercial 'leadership.'"

Over the past decade, America has indeed built a record of commercial leadership:

- Growth: Our economy has expanded 31% to $9.2 trillion in real terms, during the longest economic expansion in America's history. The expansion of exports during this period, totaling well over $300 billion, accounted for a third of our growth until the recent financial crisis. Especially impressive has been the growth in American manufacturing, with production rising from $1 trillion to $1.4 trillion during this period.

- Job Creation: Our economy has created over 20 million new jobs, including a net gain of 259,000 manufacturing jobs.

Interesting to note: net job creation in Germany and Japan, whom we once held up as the paragons of excellence, rose by a paltry 130,000 jobs over the same period. Both are trade surplus countries (as is Russia, incidentally. My staff informed me this morning that Russia's surplus on goods trade is $32 billion – the third largest of any country). In contrast to Japan and Germany, our unemployment rates have fallen from 7.3% to 4.0%. This is the lowest unemployment rate since January of 1970. These benefits have been shared widely throughout our economy, with African-American and Hispanic unemployment rates the lowest ever measured. Nearly 12 million American jobs are related to exports.

- <u>Technological Progress</u>: Our economy is more competitive, with unprecedented technological advance and rising rates of investment. Impartial observers have rated us the world's most competitive economy for the past seven years.

- <u>Increased Investor Confidence</u>: Our competitive superiority has attracted massive capital flows into the U.S. The United States' share of world foreign direct investment has sharply increased, with foreign countries investment rising from $45 billion in 1994 to $193 billion in 1998 (Germany, I am told, has invested more in the U.S.A. in the last three years than in Europe). Many had expressed fears that a more open world would promote investment in countries with lower wages or weaker labor and environmental standards. Investment decisions obviously have many causes, but experience shows that our high standards have not been a deterrent to investment in the United States.

- <u>Rising Living Standards</u>: Our families enjoy higher living standards, with average wages for non-supervisory workers reversing a twenty-year decline to grow by 6.8% in real terms since 1992; record rates of home ownership; sharp declines in the poverty rate; and unprecedented growth of family assets, investment in mutual funds, and other measures of financial well-being. Over 80 million Americans are now invested in equities. This is a dramatic statement of the evolution of our society: any astute politician will notice that as many people read the green (Money) section of *USA Today* as do the red (Sports) section. The American dream used to be owning a home; now it is to also own a well-performing mutual fund.

- <u>Economic Security</u>: While trade is often considered a factor promoting change, trade policy has also helped to give us guarantees of economic security in crisis. This was made very clear during the Asian financial crisis, when our network of trade agreements helped to prevent a worldwide cycle of protection and retaliation that would have done immense damage to American farmers, manufacturing exporters and our overall economic health.

Finally, a comment that is particularly relevant to my generation. I mentioned that our unemployment rate has fallen to its lowest level since 1970, when we last had 4% unemployment. In 1970, trade as a fraction of GDP – the sum of exports and imports of goods and services – was 13%. Today it is 31%. Then, at the height of the hot war in Vietnam and the Cold War with the

Soviet Union, defense spending accounted for 8% of GDP. Today it accounts for 3%. We have accomplished since 1970 a shift from creating employment and structuring our economy through conducting and preparing for war to an economy driven by the more peaceful challenge of competing internationally on the economic front.

THE TRADE DEFICIT

Based on these most fundamental criteria, therefore, trade policy should be judged a success. The record of the past seven years, however, has also coincided with a sharp increase in our trade imbalance, from a rough balance during the last recession in 1991, to a deficit (goods and services) of about 1.4% of GDP in the period between 1994-1997 (compared to 3.2% of GDP in the late 1980s); and then to last year's level of $271 billion, or 2.9% of GDP.

Administration officials appearing in previous meetings of the Trade Deficit Review Commission, notably Dr. Robert Lawrence of the Council of Economic Advisors, have ably laid out the reasons for this increasing deficit. As Dr. Lawrence noted, the growth of the deficit has been driven by many factors, most notably:

- The strong growth of the U.S. economy coupled with weaker economies abroad. This reflects the recent financial crisis, which cut U.S. exports to South Korea, the ASEAN states and much of South America; the recession in Japan, leading to a decline of approximately $8 billion in exports; and a period of slower growth in Europe. Thus, while imports have continued to grow at rates comparable to those of the mid-1990s, exports remained at levels between $917 billion and $932 billion from 1996 to 1998, and have only recently begun to grow again.

- Stronger U.S. national investment, given that investment rates have risen more rapidly than national savings rates (since 1991 national investment rates have grown by 4.4% points while national savings rate are up by 2.5% points).

The difference in growth between the U.S. and the rest of the world has led to an increase in our trade deficits with almost all of our major trading partners:

Goods Trade Deficit ($Billions)*

Country/ Region	1997	1999*	Change
Japan	56.1 billion	73.9 billion	17.8 billion
China	49.7	68.7	19.0
Other Asia	15.8	44.1	28.3
EU-15	16.8	43.7	26.9
NAFTA	30.0	54.9	24.9
Latin America (excluding Mexico)	*9.3 surplus*	3.2	12.5

*Final 1999 service export figures by country will not be available for several months. The U.S. typically runs a substantial services trade surplus; the figures above thus represent only goods trade and overstate the total goods and services trade imbalance.

Looking ahead, it appears likely that strong growth in the U.S. market will keep imports growing. This is not a cause for regret; as noted earlier, imports tend to promote competition, raise living standards and keep inflation low. Go to any store where ordinary Americans shop – Target or Home Depot or, in the rural areas of East Texas, Dollar General, and you will see the shelves stocked with imported goods that help our consumers stretch their hard-earned dollars and cut the cost of living.

U.S. exports of goods and services appear to be resuming their earlier rapid growth as prospects for the world economy are beginning to brighten, and global growth accelerates. Exports of American goods and services have risen from year earlier levels for the last 8 months (through December 1999) with an average monthly gain of 3.7%, whereas in 11 out of the preceding 12 months (May 1998 to April 1999) they had fallen.

TRADE POLICY AND FUTURE TRADE BALANCE LEVELS

As this analysis and statistical review indicates, trade policy is likely to have only a small effect on overall U.S. trade balance levels.

Conceptually, a return to substantially higher trade barriers, would kill two birds with one stone: protectionism would be very damaging to America's poor and would likely prompt retaliation against American farmers and manufacturing workers, while having at most a minimal effect on U.S. deficit levels. In fact, by threatening foreign economies and reducing demand overseas, it would simply shrink both exports and imports, and would be likely to force American workers to move from higher-wage, higher-skill fields to less rewarding jobs.

A further program of market-opening – as we have laid out in our negotiating agenda at the WTO, with our major bilateral trading partners, and with respect to China's WTO accession – will allow us to build upon the successes we have achieved thus far in terms of fostering higher-wage jobs and long-term, sustainable growth and rising living standards. Trade policy will not, however, be the principal factor either in determining the different rates of growth at home and overseas, or in changing national savings and investment patterns.

It will, however, contribute to the more fundamental goals of all our economic policies: sustainable long-term growth; rising standards of living at all levels of American society; and our broader aspirations for the rule of law and strengthening international peace.

CONCLUSION

As we consider the questions raised by the trade deficit, and by trade policy more generally, the counsel of logic, and the lessons of experience, are clear. Open markets and free trade are of fundamental importance to America's economic and strategic interests.

To turn our back on open trade would be to accept a lower standard of living, loss of export opportunities, reduced rates of investment in plants and hiring, and ultimately a loss of national strength and influence worldwide.

To accept an open economy for ourselves, and to promote freer trade worldwide, is to set high standards for ourselves; to open new possibilities for our working people and industries; to reduce the cost of the essentials of life for the poor; and to accept our responsibility for world leadership.

That is the policy of the Clinton Administration, and it is one we are proud to maintain.

Thank you very much.

New England and China's WTO Accession

Ambassador Richard Fisher
Deputy U.S. Trade Representative

The New England Council
Washington, DC

March 8, 2000

Thank you all very much for coming, and special thanks to Jay Dunn for bringing us together this afternoon. Let me begin with a brief introduction of my agency, and then turn to our central issue priority for the coming year.

USTR INTRODUCTION

At the Office of the U.S. Trade Representative, we have one of the smallest agencies in government. As Daniel Webster once said of Dartmouth College, it is a small place but I love it anyway. We have 178 full-time employees and a budget of $26 million; which is in fact not much more than the Defense Department spends on stationery every year. With this we address $2 trillion in U.S. trade with the world; we monitor and enforce hundreds of agreements; and with help and advice from Congress, we develop the American trade agenda for the future.

We believe in open and fair competition, together with strong standards to ensure protection for our consumers, workers and environment. At home we are committed to an open market which increases competition and choice. Overseas, we create opportunity for American businesses, working people and farmers as we remove trade barriers, cut foreign subsidies and fight unfair trade practices.

Under President Clinton, these principles have helped us negotiate nearly 300 separate trade agreements, including the North American Free Trade Agreement, which cemented our strategic relationship with Canada and Mexico; the Uruguay Round, which created the World Trade Organization; and three agreements on Information Technology, Basic Telecommunications and Financial Services, which in totality make up a larger agreement than the Uruguay Round; a commitment by all WTO members to preserve the Internet as a duty-free zone; and most recently, our agreement on WTO accession with China.

In part because of this, American exports reached nearly a trillion dollars in goods and services last year – 55% more than in 1992. We have a well-diversified trade portfolio: 1/4 of what we sell goes north to Canada; 1/5 to the South (2/3 of which goes to Mexico); the remainder is split between trans-Atlantic sales and trans-Pacific sales. New England has benefitted as much as any region in America by our explosive trade growth. Its exports are up nearly $10 billion since 1992; New Hampshire, in fact, has seen its exports double.

Opening the world trading markets has helped our country develop a remarkable record.

- Growth: Our economy has grown from $7.0 trillion to $9.2 trillion in real terms, during the longest expansion in American history. Only two nations in the world other than the United States, by the way – Germany and Japan – have economies larger than $2 trillion.

- Jobs: We have created nearly 21 million new jobs nationwide since 1992, whereas Germany lost 700,000 jobs and Japan gained only 830,000. New England, in fact, gained as many jobs during the past seven years as all of Japan – with over 800,000 more New Englanders on the job today. Unemployment in the region has fallen from 8.6% to 3.2% in Massachusetts, 9.0% to 3.7% in Rhode Island, and 6.7% to 2.9% in Vermont and nationwide, we have the lowest unemployment since January of 1970, at 4%.

- Rising Living Standards: Not only is the economic climate as a whole better than ever before, its benefits are broadly shared: hourly wages for non-supervisory workers are up, poverty rates have fallen to the lowest levels in 30 years, and unemployment for African-Americans and Hispanics is at a historic low.

- Industrial Expansion: Since 1992, U.S. industrial production has risen by 40.5% – the highest rate of growth in the industrial world.

- Stock Market: The stock market over this period has tripled, which is important to the 80 million Americans who now invest in stock, many through mutual funds. Not only do more people have jobs, but more are financially secure.

- Social Dividend: At the same time, the percentage of our rivers and streams fit for fishing and swimming doubled; the number of citizens living in cities with unhealthy air fell by half; many endangered or threatened species, including the bald eagle, are recovering; and the number of workplace deaths fell 60%. We 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. All this happened as America's share of world foreign direct investment rose sharply, with foreign countries investing well over $500 billion in America the past four years, despite fears that a more open world would reward countries with lower wages or weaker labor and environmental standards.

In sum, our economy has been transformed. Trade is not the sole cause of this success, but it is a vital component. I mentioned that our unemployment rate has fallen to its lowest level since 1970, when we last had 4% unemployment. Consider this: in 1970, trade as a fraction of GDP – the sum of exports and imports of goods and services divided by our nation's total output – was 13%. Today it is 31%. Then, at the height of the hot war in Vietnam and the Cold War with the Soviet Union, defense spending accounted for 8% of GDP. Today it accounts for 3%. We have accomplished since 1970 a shift from creating employment and structuring our economy through conducting and preparing for war to an economy driven by the more peaceful challenge of competing internationally on the economic front.

CHINA WTO ACCESSION

Where do we go from here? Let me give you a look at our top priority for this year, something the President is addressing up the street as we speak: China's accession to the World Trade Organization.

Last November, after many years of negotiation, we completed a bilateral agreement on the terms under which China will join the WTO. We will be asking for help and support from each member of the New England Congressional delegations on it. This is a big deal for you and for America.

We already buy a lot from China – almost $82 billion last year. Go to any story where real people shop – go to any Mall – and you'll see lots of clothing or tools or everyday goods made in China. But we sell little to China – only $13 billion, so that we run a $69 billion deficit with them.

Our bilateral agreement secures broad-ranging, comprehensive, <u>one-way</u> trade concessions on China's part, granting the United States substantially greater market access across the spectrum of services, industrial goods and agriculture. It strengthens our guarantees of fair trade. It gives us far greater ability to enforce Chinese trade commitments. And yet, for our part, 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.

THE BILATERAL AGREEMENT

If approved, China's WTO accession, together with permanent NTR, will create a remarkable set of opportunities for Americans.

First, there is the pure trade element. Just as New England began our trade relationship with China, with the departure of the *Empress of China* from Boston Harbor in 1785, so New England will be among the regions of the United States best placed to benefit from the new trade relationship this agreement can create.

For those of you in manufacturing, China's industrial tariffs will fall from an average of 25% in 1997 to an average of 9.4% by 2005. These cuts come across the board:

- For the high-tech community along Route 128 or in southern New Hampshire, tariffs on information technology – computers, computer equipment, semiconductors and others – will fall from an average of 13% to zero by 2005.

- For sawmills in Vermont and Maine, tariffs drop from 10.6% to 3.8%. China, incidentally, is already the world's third-largest importer of wood products.

In agriculture, tariffs on U.S. priority products including Maine's potato flour and french fries will drop from an average of 31% to 14% in January 2004.

And essential for both agriculture and manufacturing, in virtually all products China will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose, free of requirements to go through government middlemen.

In services, the agreement will open the market for distribution services, for financial services, for telecommunications, for professional, business and computer services, motion pictures, environmental services, and other industries. These are especially interesting fields, because of their inherent economic importance, but also because they are fields in which China's market has been almost entirely closed since the communist revolution in 1949.

Finally, as we open these markets, we also strengthen guarantees of fair trade for our companies and working people. We secured a ban on forced technology transfer, together with a broader reform of investment policies intended to draw jobs and technology to China, such as local content, offsets and export performance requirements. In addition, we strengthen protections for Americans against import surges from China, and we ensure that we retain strong measures to fight unfair export practices like dumping.

CASE STUDY: LOBSTER

I will leave behind the entire text of the speech my staff prepared for me on the particulars of the agreement, as it is summarized in trade speak – the language of trade wonks. Long ago, my wife was a waitress at Friendly's in Wellesley, Massachusetts. She is always telling me to "talk Friendly – speak the language of people that came in for a frappe or a lobster roll at the Friendly's counter. If you can't explain it on their terms, you'll never make the sale." So let me summarize the trade agreement with China this way: let's talk lobsters. You may not know it but China was our largest foreign market for frozen lobster in 1998. With the China deal, we will do even better:

- First, we open China's market for lobsters directly. We cut China's tariff on frozen and fresh lobster from 30% to 15%. We bar China from imposing any new quotas. And we ensure that China's border inspections will rest on scientific judgments rather than attempts to exclude our products.

- Second, we guarantee trading rights: that is, we allow Chinese buyers to purchase lobster directly, without special government middlemen or licenses. For the first time in fifty years, Chinese hotels and restaurants can import fresh or frozen lobster foods directly from the United States.

- Third, we open China's distribution markets. For example, we enable American express delivery firms to fly live produce directly to China; and we let fishery companies advertise their products.

Thus, one part of this agreement, in essence, is a comprehensive agreement on lobster trade. And we match it, although specific features differ, in every industry of significant concern to New England and to the U.S. economy.

PERMANENT NTR

All of these, again, are one-way concessions. By contrast, we do very little. As China enters the WTO, we make no changes in our tariff rates. We change no laws controlling the export of sensitive technology. We amend none of our trade laws. We do have one obligation: the United States must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China's commitments through WTO dispute settlement.

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

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

THE FUTURE OF US-CHINA RELATIONS

The President, today, is sending to Congress a bill to grant permanent Normal Trade Relations and complete the work. Right now at the John Hopkins' School for Advanced International Studies, President Clinton is putting this in the context of our broader strategic and security goals.

Let me cite someone closer to your New England home, the late Senator John Chafee of Rhode Island. Besides being one of the nicest men God ever created, John – as a veteran of the Korean War, as Secretary of the Navy, as one of the Senate's leading experts on trade policy for many years – was one of the Americans most uniquely qualified by personal and professional experience to comment on our relationship with China.

He was also the author of the first bill on permanent NTR for China, whose purpose he put in these terms:

> "Many important challenges facing us require a steady, stable United States/China relationship – whether it is nuclear non-proliferation, adherence to human rights, security around the globe, protection of intellectual property or the transition of Hong Kong. Thus the permanent grant of NTR to China is in the best interests of the United States and her citizens ... allowing the establishment of a stable relationship that would bring prosperity and growth to both countries."

That is, essentially, what is at stake today.

We do have serious disagreements with China, in some issues of profound importance. We should never imagine that a trade agreement will cure all our disagreements.

But we must recognize how important a stable and peaceful relationship with China is – for the Chinese, for the world, and for America. And thus, as John Chafee recognized, we have a fundamental responsibility to act in those areas in which we share interests and benefits, when the opportunity presents itself. That time is now.

CONCLUSION

Your New England Senators and Representatives will make history when they vote on permanent NTR. To make the wrong choice is not only to put at risk a remarkable and one-way set of trade commitments; it is to turn away from support for reform in China, and to the possibility of creating a stable, mutually beneficial relationship with the world's largest nation.

The WTO accession, together with permanent NTR, has the potential to create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy.

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

And ultimately, it can offer the prospect of a relationship with China which, despite moments of tension, will lead us to common ground and strengthened hopes for peace.

That is the opportunity before us. These are the stakes. Both are enormous. And that is why I have taken advantage of this time with you to ask for your support as we pursue permanent Normal Trade Relations status for China on the basis of this historic agreement.

Thank you very much.