DEREGULATION AND THE JAPANESE ECONOMY IN THE 21ST CENTURY

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to the Foreign Correspondents' Club of Japan
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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 that are equally important.

And that is the case, I maintain, in many of our negotiations on trade with Japan over the past two years. This week, I will meet with my fellow co-chair, Deputy Foreign Minister Nogami, to discuss the third year of the "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 transformation, an accompanying transition to less acrimonious trade relationships abroad.

NEW CHALLENGES

Let me begin this discussion by looking backward. Over the past 15 years, our trade relations with Japan have fundamentally changed. In the early and mid-1980s, U.S. trade policy focused essentially on restricting Japanese imports in autos, steel, and other manufacturing sectors. Since that time the focus has shifted to a policy aimed at gaining access to 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 an era of long-term decline; and that Japan, with superior manufacturing 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;" a few Japanese spoke of a Japan that could "say no" to impertinent gaijin. The prevailing state of mind only twelve years ago was illustrated 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 now saying more or less the same thing about Japan that they were saying then about the U.S. And, looking at our own growth and employment figures this past decade, Americans are in a bit of a chest-thumping mood.

This is all a bit overdone, of course. To be sure, Americans have reason to take pride in our work over the past decade. But we also have substantial reason to be humble, in the face of the work remaining before our country to eliminate poverty, improve elementary and secondary education and address other social problems. While Japan has its own real problems, which I will come to in a moment, Japan also retains the strengths its admirers pointed to ten years ago.

Japan's manufacturing industries produce almost as much as America's, in a country with half our population; and in an economy less than one-half our size, Japanese firms, universities, and government laboratories invest as much money as we do in state-of-the-art research and development.

Japan's entrepreneurs, when they have the opportunity, are among the world's most creative and adaptable. A century ago business greats such as Yotaro Iwasaki, founder of the Mitsubishi group, and financier and textile tycoon Shibusawa Eiichi created modern industry in Japan from scratch. The turmoil of post-war Japan gave rise to a new class of high-tech entrepreneurs such as Akio Morita of Sony and Kazuo Inamori of Kyocera. Today men like Son and Shigeta are leading a new class of dot.com venture businesses led by bright, international, risk-taking young people who are trying to forge a brand new Japan.

So while Japan's problems – evident in a decade of low growth, capped by last week's GDP figures; financial difficulties; and declining competitiveness – are real, they are also by no means insoluble. They arise from specific policies that reflect an outdated regulatory philosophy that both weakens existing companies and acts to prevent new ones from emerging. They can be solved by specific reforms. The discussions which bring me to Tokyo are part of the solution.

MACHINE AGE AND INFORMATION AGE

Our modern economy has drawn a great deal from the Japanese experience – the quality and productivity of American manufacturing has built upon both the competitive spur Japanese companies have provided, and upon lessons drawn from Japanese factories. Likewise, Japan may be able to 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 the slow transition in economies from the age of machinery to the age of information. This is 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, including setting airline schedules, monitoring and controlling wages, telling farmers what to grow, and assigning 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 the Carter Administration in energy, airlines and then telecommunications, and has since moved in many other industries. At the same time, we have progressively opened our economy to trade and competition. As a result, many of our industries have come innovative in adopting new technologies, and internationally much more competitive than they might have been 12 years ago. This in turn has led to the creation of 20 million jobs in the past decade – a dramatic development in contrast to only 830,000 new jobs created in Japan in the same period.

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 decision on prices and production levels over to the private sector and the market, it can concentrate more effectively on areas where the market will not always offer a solution. When the market fails to provide incentives to private firms to supply public goods such as environmental protection, public health and consumer welfare, regulation can promote efficiency, reduce waste and offer us a combination of industrial growth and a rising quality of life. Vigorous competition policy is one such public good that has become an essential element of economic governance in America. It has enabled us to ensure that powerful firms do not inhibit the growth of cutting-edge industries through anti-competitive behavior.

This shift to competitive markets has been much slower in Japan than in the America. Japanese ministries remain far more concerned than their American counterparts with controlling 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, construction, telecommunications, transportation or natural resources. As a result, a Japanese company today pays more for everything it needs to run its business - from telephone calls and Internet access to energy bills office rent, construction materials, and beyond - than its foreign competitors.

Nowhere does this threaten Japan's competitive future more than in telecommunications. NTT is a colossus whose market power has barely been affected by competition. Natsume Soseki may as well have been referring to this government-created monopoly when he wrote in his novel Kokoro that "the trouble with inheriting money from one's parents is that it dulls one's wits. It's a bad thing not to have to struggle for one's living." Like too many Japanese firms, NTT has chosen to lobby for protection of its bequeathed position of privilege rather than welcome the challenge from its emerging competitors.

Because the Japanese Government has allowed NTT to maintain its monopoly position, most of NTT's competitors are forced to use NTT lines, paying outrageously high interconnection charges that total between 40-70% of their call revenue. Since NTT collects fees from 94% of Japan's fixed-line Internet traffic, it's no wonder that Internet access costs 8-10 times more here than it does in the United States.

What does that mean for individual citizens. It means that my daughter Alison pays the equivalent of 900 yen a month for access to the Internet. That includes phone charges. Yoshiko, the daughter of a good friend here in Tokyo, can soon sign up for NTT's new flat rate service – for only 7830 yen a month! And that doesn't include the ISP (Internet service provider) charge. It's no surprise, therefore, that Alison spends a lot more time on the Internet than Yoshiko, doing her research, communicating through e-mail to her professors and staying in touch with her family and friends.

What are the implications at the national level? Lower phone rates mean that Americans use their telecom network, by minutes of use, three times more than the Japanese. Japanese Internet usage is well below American levels. Only a sixth of Japanese households, compared to half of America's are now linked to the Internet. And in 1998, only 35% of Japan's 38,000 schools enjoy access to the Internet versus 95% of American schools.

The Internet is the new nerve center of the global economy. Inhibiting its use through high connection fees condemns Japan to lag behind in the development of electronic commerce. With other countries, from Finland to Korea to Chile, moving aggressively to meet the challenges of the Information Age, no less is at stake than Japan's position at the forefront of the global economy. I've heard some observers claim that Japan can circumvent the high cost of fixed-line Internet access by using cell phones to connect to the Internet. Don't get me wrong; I-mode is a wonderful innovation. It is a great money-making business and provides a useful service to millions of Japanese teenagers. But to an extent, it is the "arm-candy" of Japan's telecom culture; or as one major Japanese CEO told me recently, it is "sugar, not protein." It is not designed to serve as a viable foundation for IT business networks.

Other wireless alternatives that are being developed are attractive partly because they bypass NTT's wireline network. But promoting the wireless sector while protecting the wireline sector will leave Japan's telecom network hobbled and distorted. What Japan needs is more competing networks, both wireline and wireless. High interconnection rates are dramatically reducing the incentives to build wireline networks. Users will be held hostage to NTT's inefficiencies, and Japan's transition to the information economy will be profoundly delayed.

A key means of promoting competition in the wireless market to provide lower priced, high-speed Internet access is through unbundling, particularly with a new technology called DSL. Korea recently announced its plans to install 3 million DSL lines this year, more than the rest of the world combined. Is there any reason why Japan should fall so far behind Korea in this area?

The rewards that Japan can reap from plugging into the Internet are vast. Procurement over the Net can empower individual firms to break free from the shackles of outdated and inefficient supply and distribution chains. That's why Matsushita's recent decision to source 2.2 trillion yen's worth of parts and supplies exclusively from the Net is so exciting – if the firm can pull it off. As Japanese society ages and the corporate return on assets hovers at barely two percent, these kinds of innovations will be crucial to the ability of Japanese firms to drive down costs, improve profit margins and returns to their shareholders, and restore growth to their employment base in order to compete in the new global economy. Goldman Sachs estimates that on-line procurement alone could push Japan's output up 5.8 percentage point over the next ten years. And McKinsey estimated that, over the same period, e-commerce could boost Japan's GDP by 13%.

U.S. TRADE POLICY

These are all potential benefits: they will not become reality unless Japanese make a leap from controlling outcomes to embracing competition. And Japan must make that decision itself, in its own interest.

These are intimidating, difficult decisions. They raise concerns about job tenure, 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. I understand that the group's membership now includes more than half the LDP's representatives in the Diet.

Just this week the Economic Magazine noted concern that Japan is wavering in its commitment to deregulation. "A year ago," it said, "the Posts and Telecommunications Ministry was threatening NTT with sharp cuts in the interconnection costs it levies on competitors who want to use its network. Thanks to pressure from the ruling LDP, the bureaucrats are now siding with NTT, which is naturally planning a gentler future for itself."

Japan's leadership must forcefully reject this corruption of economic progress. Persistence in the old ways, to cite another figure of the last millennial transition, threatens to transform Japan into a fading giant, reminiscent of the list of "things that have lost their power" in Shonagon Sei's Makuro no Sochi:

> "A large boat high and dry in a creek at ebb-tide; a large tree blown down in a gale, lying on it side with its roots in the air; the retreating figure of a sumo wrestler who has been defeated in a match."

That is not a future anyone should hope to see for the Japanese economy. Prime Minister Obuchi put it best on April 29, 1999, when he wrote in the New York Times that "we realize that unless we adopt a more flexible economy driven by the market, Japan is doomed to economic and technological decline." We were heartened that the Prime Minister told the Diet again last January that his government would "work with greater effort" to promote deregulation and structural reform.

The pro-deregulation case is easy to make. For example, Japan deregulated the cellular phone industry in 1993; since then, cell phone prices have plunged and cell phone use has grown remarkably, with private investment in mobile service likely to reach 1.5 trillion yen 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, initiatives from which both sides can see results that create new opportunities for economic growth and technological progress.

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 liberalization under its own "Big Bang." Here, Japan has allowed new products – liberalizing securities derivatives, promoting a more vigorous asset-backed securities market, and introducing securities wrap accounts. It has fostered competition, through liberalizing foreign exchange trading, eliminating fixed brokerage commissions, and allowing cross-entry among financial industry segments. It has also enhanced Japan's 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 also serve as 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."

Japan's future is immeasurably brighter because of the reforms adopted in the Enhanced Initiative's first two years. In telecommunications, we've agreed to cut the cost of telephone service by hundreds of millions of dollars and speed up introduction of new telecommunications services. In housing, Japan has agreed to adopt performance-based standards, reducing the cost and increasing the quality of housing for Japanese families. And in energy, the elimination of burdensome testing requirements and narrow, technical standards is creating lower barriers to entry for entrepreneurs, and greater competitiveness for existing companies.

I've crossed the Pacific this week – preceded by dozens of my colleagues in the Japanese and U.S. Governments in the last five months – to build on these accomplishments. Together with Japan, we hope to announce a detailed set of new deregulatory measures that Japan will undertake in a number of key sectors, as well as in cross-cutting areas like competition policy and distribution. If we succeed, the end result will be a much more competitive and robust Japanese economy. Let me give you an overview of what we hope to achieve in four key areas:

Telecommunications remains the heart of our efforts. It costs three times as much to make a phone call from Osaka to Tokyo as it does to make a comparable call in the United States – say from New York to Washington. In the Information Age, the cost of telecommunications is the key variable for operating a business, just as the price of oil was in the Machine Age. Paying three times as much to make a phone call to transmit voice or data is the equivalent of paying 10,000 Yen for a barrel of oil. No Japanese company can compete against American competitors (or European or Korean competitors, for that matter) with its hands thus tied behind its back. We have asked Japan to adopt a "Big Bang" in telecommunications, analogous to its financial Big Bang. This would fundamentally reorient Japan's telecommunications policies, rewriting regulatory policies and encouraging the rapid introduction of new services. An MPT official was quoted in the Financial Times this month saying that in Japan, "we recognize that the three main issues with regard to Internet use are cost, speed and security." If that's true, there's no reason we shouldn't be able to work out a deal this week.

You often hear USTR talk about market access, but what about access to quality, affordable housing for Japanese citizens? We think our deregulation talks can help there, too. The average first-time homebuyer in Japan is 39 years old, compared to 31 in the United States. Why? In the United States, the first time homebuyer can choose from an enormous range of what we call "starter" homes – that is, modest, previously owned houses priced within a young family's budget. Our housing appraisal system ensures that home prices are standardized, so that any pre-owned house has a comparable value; buyers know what features and conditions they can expect in any given price range. In Japan, the appraisal system doesn't consider any variable except a home's age. Even the most well-maintained houses lose their entire value in 27 years, so most aren't built to last much longer than that. Young families must wait until they can hoard enough money to buy a brand new, custom-made house. That's why we're urging Japan to change its appraisal procedures to encourage the development of a larger home resale market. That way, young Japanese families won't have to wait until middle age to enter the housing market.

In energy, the entire Japanese economy would benefit from the lower energy prices that would accrue from a more competitive energy market. Industrial users in Japan are hamstrung by exorbitant electricity costs, the highest among OECD countries. If Japan gets electricity deregulation right, these end-users will be permitted to buy power from a number of suppliers, not just a single monopolist. A similar introduction of competition in Europe in recent years prompted a sharp drop in prices. Introducing competition to the electricity sector can only improve the profitability and competitiveness of Japanese industrial firms. The ultimate effect: stronger economic growth and thousands of new jobs. It is interesting to note that in addition to American firms like Enron, Tokyo Gas and Osaka Gas and Mitsubishi and Marubeni are among several groups discussing plans to supply electricity to high volume users. I note that NTT is one of the companies that has also publicly announced its interest in breaking into the electricity market to take advantage of new competition rules. And yet, NTT is resisting this very principle in its own field.

In the medical field, the typical Japanese citizen visits a doctor 15 times a year, waiting an average of three hours for a visit that lasts an average of three minutes. Prescription drug consumption in Japan is double or triple that of the United States, and it takes two to three times longer to get a new drug or medical device approved. As the Japanese population ages, it will be important to increase this sector's efficiency. Wider availability of innovative medical devices and pharmaceuticals has the potential to improve patient outcomes and the overall quality of health care. We have therefore proposed concrete measures to expedite the regulatory and reimbursement process as well as to make it more transparent and predictable, so that innovative medical devices and pharmaceuticals are available more quickly. These proposals are based on the belief that market-led innovation is the best way for Japan to meet the critical challenge of ensuring high-quality health care for a rapidly aging population while containing overall health care costs.

And we make further recommendations in a broad range of sectors and cross-cutting policy areas, including distribution, competition policy and transparency, that can also serve to increase efficiency, boost competition, and lower prices throughout the Japanese market.

ENTREPRENEURIAL SOCIETY

The work of deregulation is 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 keiretsu groupings or the monopolists like NTT – the effects of deregulation can be profound.

That is why our deregulation initiative has come to dominate our bilateral trade agenda since the Denver Summit four years ago. Profound structural reform is Japan's only viable alternative. Continued fiscal stimulus is crucial – it will serve as the bridge financing for Japan's future -- but structural reform is the bridge to that future. Otherwise, Japan runs the risk of spiraling fiscal woes and public rejection of even larger deficits, as recently seen in Tokushima. Just spending money will yield nothing but deficits. Again, it is sugar, not protein. Tying it to structural reforms, however, gives it purpose and meaning.

At the most immediate level, deregulation means concrete and measurable benefits. Lower costs for communications, living space and energy. Therefore, more efficient companies and more return on investment. And thus, improved opportunities for economic growth and job creation.

But a second effect may be still more important. That is, Ministries may remain wary of and conservative toward deregulation, to say nothing of Diet members who are looking to protect 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.

Successful negotiations ultimately will help Japan create the non-discriminatory, transparent laws and regulations that facilitate 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 offer opportunities for people with ideas and new products to enter the market; to generate millions of high-paying jobs; to prevent inefficient and non-competitive entities like NTT from putting short-term interests ahead of the long-term welfare of the Japanese people; to give Japanese business and consumers 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 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 some root, and help 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 still in this new era, as it has been for the past half century, as the strongest guarantee of lasting peace in the Asian-Pacific region. I'll leave it there, and I thank you very much.

QUESTION AND ANSWER PERIOD

Q: Since you covered just about every aspect of the U.S. Japan bilateral relationship, I'm going to ask you about the WTO. In San Francisco, I think in very early March, you and, I guess someone from the Ministry of Foreign Affairs and others, held a meeting, and according to some press reports the two countries agreed to do something to lure developing nations back to the negotiating table, so that WTO talks can start in early July. Is it viable agenda and schedule and if this schedule is going to be met then what's gonna happen to the set-up of WTO talks? And my second question is also about WTO. Lately I think the San Francisco meeting is the first U.S.-Japan working level, lively meeting held in maybe more than a year, in the meanwhile, Japan and Europe, the European Union seem to have been holding ministerial and other meetings far more frequently. How do you make out those differences in the approach?

AMB. FISHER: Well, let me answer the deregulation question you just asked up front. By the way, I say that only half in jest because we do spend a good deal of time together, if you look at the person who is doing the Sherpa work for the G-8 and G-7 Summits it happens to be Nogami-san. And we exchange views on all subjects when we get together. And of course, we have made very clear, our President has made it very clear that we would like to launch a new round. We'd like to launch it before the Summit. He has issued that challenge to the Japanese Prime Minister. It takes 135 to tango in the WTO. And it takes leadership from certain countries to move forward on this plane. And Japan is one of the leaders. But this isn't a matter of rhetoric; this is a matter of leadership. What we found in Seattle were certain obstacles to even following through with the so-called built in or mandated agenda. One was agriculture, and the other was services. Those are the two main ones. We have now started that process. Although they don't have end dates yet declared. But we are moving down that road.

The other aspects of putting together a comprehensive package to launch a new round are certainly worthy of discussion and as you correctly have pointed out Ambassador Barshefsky and the ministers from the Foreign Ministry and so on have had some discussions to this end; and the President has communicated with the Prime Minister as to his interest to getting, in fact rather forcefully, getting a round launched. And we have some time between now and when the Summit takes place to see whether or not those ingredients can be put together. We all learned from Seattle. By the way you plan these meetings well in advance. What appeared to be a series of stars lined up in a beautiful constellation turned out to be a series of black holes. By the time we got to Seattle...nonetheless there's still our basic obstacles that one has to get over to move forward.

That have been kicked down the road by previous rounds or under the GATT. One of them is agriculture. And there we did not have a meeting of the minds to put it politely in Seattle. Either with the Europeans, or with the Japanese or with others. The service agenda is an important one for us because we employ a hundred million people in services in the United States. And then there is the issue of how we make the system more transparent and bring the so-called, formerly called third world countries, into the system so they feel that they have equity in the WTO aren't mystified by its processes. And each of us are collecting our thoughts. The Sherpas are discussing this matter and we'll see if they can come forward with a realistic ability to launch before the Summit.

Q: Two questions please. One, the American Chamber of Commerce in Japan is, as you know, has recently put out a report saying that only 53% of past trade agreements have been successful. So I'd like to know whether you accept that report card and whether you think you can better it or is this just the nature of the beast when dealing with Japan. My second question is broader.

You said on one level the Japanese bureaucrats essentially see the negotiation as a threat, a threat to political interests. And on the other hand you say that the Japanese government intellectually accepts the need for this. So which is it? Is the columnist right or wrong? And more broadly, it seems to me that your remarks today are a real intellectual challenge, an ideological challenge to Japan. Isn't though our policy that we don't meddle in the domestic affairs of other countries? And aren't you essentially proposing kind of a domestic meddling on a grand scale? And could you respond because I think, perhaps, people like Senator Helms in the United States listening to a speech like yours today given by a foreign leader might take issue with it. So I wonder how you'd answer that? Thank you.

AMB. FISHER: I think Senator Helms would take less issue if we were on our back than if we're on our feet. And secondly, I would make this point, this is not just the United States speaking. Europe has made the same proposals. The President of Sony has made the same proposals. The President of Fujitsu has made the same proposals. The head of the Keidanren has made the same proposals. I could walk you through the list. I'm talking about NTT and telecommunications. And I don't know a CEO in this country outside of – maybe, well, actually to be fair, I think the CEO and Chairman of NTT may be much more creative than people give them credit for. But I don't know a CEO of a major company in this country that isn't worried about Japan's future. That is the transformation to the information age. How could you not be worried? You haven't grown in ten years. It's not a matter of meddling. There is a tradition of discussion between the United States and Japan.

There is, of course, a buzzword for some influences at sometimes asked for or solicited or otherwise offered without being asked for – gai-atsu. But the point is, from our standpoint, there are selfish motives. If the housing market changes then we sell more wood into this market. If the telecommunications becomes competitive, then of course, our suppliers as well as our competing companies, as well will have access to this market. The point is, it's a win-win proposition. But it takes some of the negative juice or the negative angst steam out of the traditional trade dialog that we have. We're talking, as I said in my speech, about market access. And one way to achieve market access is to have structural reform. When I say that the government has accepted the concept intellectually, one thing is to be an ivory tower the other is to put it into practice. If you sit down with most vice ministers in this government you'll hear words like return on equity and so on. I'm not sure they know what that means. I do think though that there's a sincere desire to try to understand the fundamentals of globalism, and secondly the fundamentals of the information age. These are not bad people. They're good people trying to do the best for their country. Just as we hope we're good people trying to do the best for our country. But the difficulty of making a transformation from a highly successful period where over a very long time frame, after a totally devastating economy, in the manufacturing age, one could think of, not always successfully but allocating resources inputs and outputs. And do very, very well.

Again in the manufacturing sector, Japan, half the size of the United States, produces as much as we do. It's extremely impressive. We don't denigrate that success. But it requires a different mentality to live in the information age, a shift in paradigms. And accomplishing that shift is a very difficult thing to put into action. And, by the way, it's a bit of a frightening thing to put into action. We know from our experience only 12 years ago, having been written off as a loser, we were becoming a second rate power. That we were able to overcome this by deregulating and taking the hands of government off and let private women and private men put their brains to work to adjust our society and they did it well. We don't think there's anything uniquely cultural about America that restricts that in its application that can't be transferred within the cultural context of Japan. We see it happening elsewhere, begrudgingly in Germany, to a degree in France, aggressively and impressively in Korea. And therefore we think it can happen here in Japan.

Now, tell me what your first question was.

Q: Again, the ACCJ report.

AMB. FISHER: Well, first of all, I think those reports are very useful. I note the sense of pride that the agreements that we negotiated in this administration received higher grades than those of previous administrations. But I won't mention that. I think it's very important that we have people that monitor the enforcement of these agreements. And we're learning a lesson, frankly, here. I was given a commitment by my counterpart in Birmingham, actually in London, after the Birmingham Summit. And my president and the Japanese prime minister, the former prime minister, stood up and spoke about the fact that LRIC, this incremental costing technique, would be implemented, it says it in black and white, in the Year 2000. And now they're arguing against us. Well, should we phase it out over a four-year period? Two year period? And so on? Well, that's why it's important to follow up and make sure that we have a review of what was said and what is done. So, I don't mind the reports at all. I think it's a good thing. I'm happy that someone does it. And what we should seek to do is both governments is to live up to the commitments that we make to each other. So, (A) I'm proud of the fact that we got a fairly decent report card from this group, but (B) you make commitments with other people, you keep your word. And so for others to tell us when we're slipping, that's good.

Q: You said, Ambassador, that we all learned lessons from Seattle. But I wonder. The lesson to me that seemed to come out of Seattle, is if you push trade and investment liberalization too rapidly, you get a backlash, an inevitable backlash. Aren't you afraid that if you continue to, as it were, ram deregulation down people's throats that you will get a similar backlash. If de-regulation does have the merits that you claim it does, and I think there are some ifs to be thought about here, but I won't expand on it, it'll take too long. Wouldn't it be better to allow a little more time for people to see the benefits, to absorb this, to realize this for themselves, and then for them to want to go on, rather than to risk, as I say, pushing too hard and provoking a back-lash which could set the whole thing back far more...

AMB. FISHER: I'll answer your question but let me first tell you my favorite story from Seattle which you just reminded me of and I'm going to take advantage of having a room full of people. To show you how sometimes things change and sometimes they don't. The last night of the Seattle, there were four of us that met, Gene Sperling and I and two others managed to get a car to take us to the airport individually because the demonstrators were going to take over our hotel again and lock us back in our rooms and I just didn't want to experience that and I had a commitment to be with my wife Saturday morning in Washington. And so I got in a car and with a young bodyguard form the Seattle police force and we started to drive off and we were surrounded by demonstrators who were pounding on the car, throwing rocks, throwing eggs, I felt like David Rockefeller in Latin America just being besieged. And I turned to this young guard who was beginning to sweat bullets, literally take his sidearm out of his holster and I said, "Just hold on, this is 1969 Cambridge Massachusetts, any university in the United States, all over again." Now I knew I was in trouble when he said, "Sir, I wasn't born in 1969." And so, what I did, was I got out of the car myself, and a woman came up to me. I can see her face to this second, put her nose right in my face and screamed at me, veins bulging out of her neck, and said, and I quote, "This is 1999. Power to the people, you capitalist pig!" And I said, "What did you say?" And she screamed out again. So I grabbed her by the shoulders and I said, "Listen, in 1969, I was where you are and if you're not careful, you'll grow up to be just like me!"

Now, as far as deregulation is concerned, you have a point. The question is how much time do you have to think about it? We live in the information age. A generation is no longer 20 years. It's three years or four. So, the idea that one can take their time to adjust to the information age, I think is questionable. Imagine how far you can be left behind. Let me just give you some numbers. I'm glad that you asked this question, by the way. But if you look at, in our own case, the last four years. In telecommunications alone, there were 57 local competitors in 1995. Today there are 355 phone companies. There were .6 million miles of fiber installed in 1995 in the United States. We've had a 500% increase, now 3.1 million miles. The lines that were offered by competitors in our telephonic market have gone from one million to ten million in four years. And the amount of local employment that has been created has been over 70 thousand jobs. The numbers are rather impressive.

And things move ultra quickly. If you look at e-commerce, I don't have these numbers in front of me, it didn't exist four years ago. And today, we think this next year, it will approach a rather, almost phenomenal level. I forget what is the number, Barbara? A hundred billion. These are striking changes in the information age. So, yes there could be a backlash on deregulation. It's no unique to the United States to have deregulated. The British did it rather well under Margaret Thatcher and very impressively under Tony Blair. The Germans are working hard at undoing their cross-share holdings and creating tax systems that make it more attractive to adjust their market. The French are doing the same. And of course, those that were put under pressure by the Asian financial crisis are working to de-regulate their economies. And then we have this huge model of the last communist monolith in China. If it were so unattractive, why are they working so hard to join a group that basically enforces the system of deregulation and market competition? So this is not a uniquely American idea. The only reason I mentioned it, and perhaps you misunderstood me, is I will stand in front of you and tell you that it saved my country. It saved my country from second class status. Which great minds, although they went to Yale, like Paul Kennedy, were saying we were doomed. So, maybe it's the deficiency of a Yale education, I'm not sure.

But, none the less, it worked for us. We like to spread the gospel. We realize it has to be done within the cultural context of different societies and we're fully cognizant of the fact that if you don't make the shift, from machinery age to information age, you will be left behind and you may not ever be able to catch up. And by the way, you don't have 20 years to sit and ponder, you might have three or four at best.

And lastly, Hong Kong, Seoul, Singapore, Beijing, Shanghai, they're working very hard to out-compete Japan and in a cyber world, you can be separated by great geographic distances and be left behind.

Q: One of the places we've seen a backlash against deregulation and open markets is in the U.S. In recent times we've seen the opportunistic anti-dumping cases from U.S. steel makers, ironically in agriculture, with the tariffs against lamb imports from the Southern Hemisphere, New Zealand, and Australia, the continued 25% tariffs on these sort of trucks, I think they're called these sort of red-neck "ute" things, can you perhaps comment on whether this ideologically undermines your position as a champion of free-markets deregulation and on a practical level, whether its going to have any impact on continuing negotiations? This perception, if it's a perception, that the U.S. is backing away from open markets.

AMB. FISHER: That's a very thoughtful comment. Let's put it in perspective. If you take the sum of all of our countervailing duties, and our anti-dumping measures, they add up to 0.4% of our total imports. Let me repeat that. The dollar sum of all of our counter-veiling duties and our anti-dumping measures add up to 0.4 % of the 1.2 trillion dollars in imports that the United States sucks in, sucks in from all those economies that needed to export somewhere else. Now this is an area, as a free trader, as Ambassador Barshefsky is a free trader, that is not a pleasant area. Think about what you're talking about here. You're talking about agriculture sector, and the machinery sector is where you have, or the machinery age sector is where you have excess capacity. And I think we need to work at setting aside lamb for a minute, in the case of steel for example, we have to work to somehow rationalize that excess capacity through out the world in a cooperative manner. The President has put forward a program to do that. By the way, steel prices have lifted. The largest single export of the United States is Brazil, in terms of steel, and we are in the process of working with our trading partners to try to rationalize the system to the greatest degree possible. But you're right, there are specific sectors where we do have forces of concern, in some cases, forces of protectionism. But, although I know this is very difficult because I was involved in the lamb decision, in the case of Australia and the case of New Zealand, put it in perspective. These are painful as far as the specific sectors are concerned but in terms of our total economy we have an applied tariff rate of three percent. We are arguably the most open and accessible markets in the world. And the total sum of the countervailing duties and anti-dumping measures in dollar terms is 0.4 % of the imports that we import into the United States.

Any other questions? One more question.

Q: My question is about electricity because today is the first day of the opening of the market here. So the Japanese claim that it's already a big opening because it's 30 percent in one part of the market so what is your comment? Thank you.

AMB. FISHER: It's a good opening. It's something that we've worked on within the context of this enhanced initiative on de-regulation and as I said earlier. I don't know where I put what I said. But basically, this is important to drive down the cost of doing business for end-users like Toyota or Nissan, or whoever it may be. I'm looking at Gota-san [phon.] here to make sure that I get the right auto company, or any manufacturer. Electricity is an important input to a cost structure. And the purpose of de-regulating roughly a third of the electricity market here is to cheapen the cost of business so they can ramp up the return on assets, the return on equity, and hopefully create more jobs. The important thing is that U.S. companies and foreign companies

Tokyo Gas and others, including NTT, who don't have access to this. Now the issue is, it's one thing to say you're going to open and de-regulate. The question is how transparent the process

a reliable contract? And how long the contract is dated? And I think those particulars still need to be particularized, worked out and who ever asked me the question, monitored as we go through

Thank you very much.

(end transcript)

CHINA'S WTO ACCESSION; AMERICA'S CHOICE

Ambassador Richard Fisher
Deputy U.S. Trade Representative

The National Planning Association
Washington, D.C.

April 12, 2000

Thank you very much.

Let me thank the National Planning Association for inviting me to meet with you today. The NPA is in some ways a unique organization, because – with a history stretching back to the New Deal – you bring a perspective and a long-term view which is often missing from our policy debates. And this is especially important for the topic I will take up today: China's accession to the WTO and permanent Normal Trade Relations.

TRUMAN'S CHALLENGE

In fact, the challenge Harry Truman laid before the National Planning Association when he spoke here in February of 1949, remains of great relevance as we begin the debate on PNTR. He said then:

> "We are in a different position now than we have ever been in our history, because we have become actually the international leaders in the welfare of the world as a whole... The job ahead of the United States of America, [is] to meet the responsibilities which we did not assume in 1918. We have it now again given to us. We must assume it. We must carry it out; and we are going to do just that..."

These are words of confidence and conviction, spoken from personal experience in Depression and war. And they were carried out in practice. Rather than embracing isolationism and repeating the mistakes of the past, between 1945 and 1949 Truman's Administration carried out a task of extraordinary historical importance, developing the policies and institutions that have ever since helped us to keep the peace and build a prosperous world:

- Collective security, reflected by the United Nations, NATO and our alliances with the Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the one hand, and the foundation of our modern trade policies in the General Agreement on Trade and Tariffs, or GATT, on the other.

As we meet today, we still benefit from their work. To look more directly at the trade policies, the work Truman and his colleagues began with the foundation of the GATT system has fostered what amounts to a fifty-year economic boom. Since then, the world economy has grown six-fold; per capita income tripled; and hundreds of millions of families worldwide have escaped from poverty. America, as the world's largest importer and exporter, benefits perhaps most of all from this work; but life improved throughout in the world: since the 1950s, world life expectancy has grown by twenty years; infant mortality dropped by two-thirds; and the threat of famine has been significantly reduced.

THE POLICY AGENDA

This is the foundation on which our modern trade policies have built; and the Clinton Administration's policies are no exception.

Since 1993, we have gone on to negotiate nearly 300 separate trade agreements, which have substantially opened world markets and helped our exports reach 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. And this in turn has helped our country build an economic record unlike any in our 225 years of history.

Our economy has been transformed. Trade is not the sole cause of this success, but it is a vital component. 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. Surely, Harry Truman would consider this a validation of his vision.

CHINA WTO ACCESSION

Throughout this past half-century, however, the world's largest nation has been one of the critical missing elements in the network of open markets that have been brought under the rule of law and been part of the growth in shared prosperity. I speak, of course, of China.

If we think back again to 1949, we recall that this was the year when, with the Communist revolution, China shut the doors it had once tentatively opened to the world.

Among its new leaders' first steps were to expel foreign businesses from China (including, incidentally, my father and mother), and to bar direct economic contact between Chinese private citizens and the outside world. Within China, the destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and, of course, suppression of any right to object to these policies, led to three decades were some of the worst in China's very long history. China's isolation had international effects as well, as Asia's largest nation had little stake in prosperity and stability – and in fact, saw advantage in warfare and revolution – beyond its borders.

China today remains a repressive and authoritarian country. The union members protesting today against China's accession to the WTO are raising real and very important issues. The State Department's Human Rights Report documents a lamentable record of restrictions on freedom of speech and religion, suppression of labor rights and punishment of those who attempt to assert their rights in these areas. This is why we have sanctioned China as a "country of particular concern" under the International Religious Freedom Act, and why we will soon present a resolution raising concerns about China's human rights record to the UN Human Rights Commission.

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

This has had substantial and beneficial consequences: with respect to property rights, with farmers able to farm their own land, entrepreneurs able to start businesses, and families able to pass on their property to their children; openness to information, with Chinese citizens able to listen to foreign radio and TV and more recently to access foreign web-sites; and some aspects of freedom of association, as Chinese meet and exchange ideas with foreigners, as well as people from Hong Kong and Taiwan.

Internationally, trade policy has supported our security interests, by integrating China into the Pacific and world economies. This has strengthened China's stake in regional peace and stability, helping reformers to move away from the revolutionary foreign policy of the 1950s and 1960s. The consequences are of fundamental importance: while we have some very significant differences with China, we also recognize that China plays an important part in areas as various as the maintenance of peace in Korea, APEC, and the U.N. Security Council.

American trade initiatives in China over 30 years – the lifting of the trade embargo in 1972; our Commercial Agreement and grant of Normal Trade Relations in 1979; textile agreements in the 1980s; and the more recent agreements on market access, intellectual property, textiles and agriculture – have played an important part in all of this.

Within China, trade policy has helped to support economic reform and the rule of law – in some cases, given the rudimentary state of Chinese law in 1980, to build it from the ground up – meanwhile advancing American interests. To choose a case in point, our work on intellectual property rights since the early 1990s, has helped us to nearly eliminate manufacturing and export of pirate CDs and CD-ROMs. But it means more than this: to develop an intellectual property policy is to draft and publish laws; to train lawyers and officials; to improve and ensure access to judicial procedures; ultimately, to create due process of law where it did not exist before. The same is true, more recently, with our work with the Chinese Ministry of Agriculture to develop modern sanitary and phytosanitary procedures for trade in wheat, citrus, poultry and meats.

The WTO accession will be the most significant step in this process for at least twenty years. China has made a comprehensive set of commitments: opening its markets to our farm products, manufactured goods and services; strengthening our guarantees of fair trade; in summary, opening new opportunities and abolishing policies that drain jobs and investment across the board. In trade policy terms alone, this is an opportunity of vast consequence. It will open the markets of the world's largest nation in a way unprecedented since the 1940s, creating new opportunities for American farmers and businesses as it strengthens our guarantees of fair trade.

The significance of these commitments goes well beyond trade policy per se, to alter policies dating to the earliest years of the communist era:

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

These are remarkable victories for reformers in China. They give China's people more access to information. They weaken the ability of hardliners to isolate China's public from outside influences and ideas. And that is why some of the leading advocates of democracy and human rights in Hong Kong and China – Bao Tong, jailed for seven years after Tiananmen Square; Ren Wanding, a founder of China's modern human rights movement; Martin Lee, the leader of Hong Kong's Democratic Party – see this agreement as China's most important step toward reform in twenty years.

At the same time, internationally the WTO accession will deepen and speed the process of integration that has helped China become a more responsible member of the Pacific community. Importantly, it will facilitate the entry of Taiwan into the WTO. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China. And the opening of both economies, while we have no guarantees, may ultimately play some part in easing the tensions in the Strait. It should be no surprise, therefore, that Taiwan's new leadership supports both China's WTO membership and normalized trade between China and the United States.

PERMANENT NORMAL TRADE RELATIONS

We have very substantial disagreements with China, and on some very profound issues. No trade agreement will ever solve all of them. But the WTO accession will help with many; and it will give us an opportunity to influence China's long-term development for the better. This brings me to permanent Normal Trade Relations and the debate we expect to take place on Capitol Hill the week of May 22.

China will be a WTO member soon. There is no question of that. It will have the same market access it enjoys today in the United States; there is no question of that, either. The only question, ironically, is whether we will receive the full benefits of the very agreement we negotiated.

By contrast to China's historic set of commitments, we do very little in this deal. As China enters the WTO, we make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our fair trade laws. Our sole obligation is to make China's current tariff levels permanent through PNTR.

In terms of our China policy, this is no real change. NTR is simply the tariff status we give virtually all our trading partners. We have given it to China since the Carter Administration; every Administration and every Congress since has reviewed it and found it, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full benefits of one another's markets. Were Congress to refuse to grant permanent NTR, we thus risk losing broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement. Our Asian, Latin American, Canadian and European competitors will reap these benefits; but Americans would be left behind.

CONCLUSION

In trade terms, therefore, to reject PNTR would simply be to damage ourselves: the direct victims would largely be American working people, farmers and entrepreneurs. And in the deeper sense, if we retreat at this most critical moment, the cost would go well beyond our trade interests.

Ultimately, by bringing China into the trading system; by supporting reform; by helping to strengthen the Chinese stake in a peaceful, growing and stable Asia; we are taking up the responsibilities President Truman spoke of in 1949.

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

Such a statement would threaten our work on all the specific issues in our China policy agenda today – from non-proliferation and arms control, to reducing tensions in Korea and South Asia. It would complicate for the foreseeable future our existing Pacific alliances, as all of our Asian friends and allies would view rejection of PNTR as a turn away from the open, confident vision we have held for the Pacific over the years; and an unnecessary rejection of stable and constructive relations with their largest neighbor. Over the long term, and perhaps most important, China – seeing no economic reason for our decision – would become more likely to read hostile intent into our every move. This, in turn, would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great consequence for every Pacific nation and for ourselves.

Through the WTO accession China will, not wholly but more completely than ever before, join the world of open markets, rule of law, and personal freedom. This is a development whose significance we cannot overstate. To turn away from this opportunity would be to lessen the chance that China will choose the right path in the years ahead; and to step back from a role of responsibility and leadership through which we have built a more prosperous, fair, and peaceful world. That is something we must not do.

These are the stakes as Congress prepares to vote. This is why the Administration is committed to permanent Normal Trade Relations status for China on the basis of this historic agreement. This is why it is so important that we succeed.

Thank you very much.

Prepared Remarks of
Ambassador Richard Fisher

Inter-American Dialogue Forum on U.S.-Brazil Trade Relations

April 18, 2000

Thank you very much. I am pleased to be here again at the Inter-American Dialogue. Let me thank Peter Hakim very much for inviting me to speak today; it is also my great pleasure to

This is an especially interesting time to be speaking and thinking about Brazil and our

Saturday; as we look ahead to the new millennium and the third century of our nation; and as we

than perhaps at any time in the past.

Today I will be concentrating on the practical hemispheric trade agenda for the coming

- Associacao de Livre Comercio das Americas, with the first phrases of the actual

  year end;

  We are developing and implementing practical business-facilitation measures to ease trade

  measures;

  We are, in the U.S., working toward a more rapid opening of our own market, with the

  for the nations of Central America and the Caribbean.

These policy steps are matched by an equally rapid growth of personal and commercial

Last February, as a central stop on my first South American visit of this year, Secretary Bill Daley and I had a very productive meeting with President Cardoso and several ministers, including Ministers Alcides Tapias and Luiz Felipe Lampreia. We discussed the full range of trade and investment issues of importance to Brazil and the U.S., including the FTAA/ALCA, our shared goal of opening a new Round of talks at the World Trade Organization, and bilateral issues such as intellectual property, steel and electronic commerce.

The U.S. business group that accompanied us on that trip was a real-life reflection of the growing commercial agenda these talks represent.

It included nineteen companies: some large and well-known firms in telecommunications, energy and pharmaceuticals; but equally important, some smaller companies like MCM Enterprise, whose 20 employees want to sell devices that monitor hydroelectric generators, and The Fluency Group – with six full-time workers – that sells a test to examine English proficiency.

Our trade statistics are equally interesting. In January alone, we bought $1 billion worth of goods from Brazil: $119 million in iron and steel products, over $35 million worth of auto parts, 7 million pairs of shoes; five aircraft; 20 million kilos of coffee and 18,000 kilos of ginger; 21,000 carats worth of emeralds and 210,000 cellular phones. And by the way, local supermarkets in Washington now carry the Brazilian soft drink guarana (gua-ra-NA) on their shelves.

Last year the U.S. was Brazil's most important and best performing export market, with Brazilian exports to the United States growing by well over $1 billion, as exports to Europe declined 7 percent and exports to Mercosur fell 24 percent. Brazil was our 12th largest market in the world in 1999, buying more from us than China and closing in on France. We are all, of course, aware of Ambassador Barbosa's concern about our persistent trade surplus with Brazil – and I imagine he is somewhat relieved to see that it receded so significantly (i.e., by $3 billion) in 1999.

Each of these statistics means something for an individual: a job; a higher farm income; a higher standard of living for someone somewhere in our two countries. Taken together, they mean sources of growth, development and security for nations. To take the most salient example, Brazil's rising exports to the United States were a critical element, together with a successful reform program, in recovery from the financial crisis.

TOWARDS THE FTAA/ALCA

We can be very proud of the progress we have made. But we can also do much better. And that brings me to the talks on the Free Trade Area of the Americas.

The FTAA/ALCA is an extraordinarily ambitious, complicated initiative. It brings together 34 democratic nations – from continental giants like the U.S. and Brazil, to some of the smallest countries in the world; from technological leaders to least developed nations. 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, we will create a single trade zone including nearly a billion people and much of the world – from Recife to Hawaii and from the Arctic Ocean to Tierra del Fuego. It will deepen trade relationships that already absorb more than half of all the goods exported from Brazil and roughly 46% of goods exported from the United States. It will strengthen our ability to achieve shared goals in the broader trading system, notably with respect to liberalization of agricultural trade. And ultimately, it will create a lasting, prosperous, peaceful and democratic hemispheric community.

PROGRESS THUS FAR

This work is well underway.

Precisely two years ago, at the Summit of the Americas in Santiago, the hemispheric leaders directed us to begin formal negotiations toward the FTAA/ALCA. Since then:

- We have reviewed each area the agreement will cover – market access; agriculture; services; intellectual property; government procurement; investment; competition policy; subsidies, anti-dumping and countervailing duties; and dispute settlement.

- We have taken formal advice from civil society in the hemisphere through the ALCA's Committee on Civil Society – the first such committee in any major international trade negotiations – which solicited ideas and input from throughout the hemisphere, and received ideas 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. Just last week the Committee issued a new invitation for public comment on the upcoming phase of our work.

- We have drafted outlines of each chapter, sketching out the commitments expected of each of us.

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

That marks a fundamental decision: the moment at which we stepped off the bank and began to cross the river, a river which for too long has proven uncrossable. The countries of this hemisphere have discussed the free trade zone concept on innumerable occasions in the past. Any student of the Western Hemisphere's history, can recite the free trade proposals of Simon Bolivar, James G. Blaine and Benito Juarez. When I met with President Cardoso in February, he told me that even before Brazil's independence, Thomas Jefferson discussed the concept with the Brazilian/Portugese priest, Father Serra.

As we are all aware, none of these earlier initiatives got past the point of discussion. At the Summit of the Americas, we took the concept from daydream to vision. Now it has moved from vision to reality, as for the first time in two hundred years and more, have actually embarked on a course toward completion, rowing together in a common cause.

NEXT STEPS: NEGOTIATING AGENDA

Where to from here? Fundamentally, this year's work will cover two major areas.

The first of these, of course, will be the drafting of the text for each FTAA chapter. As in all negotiations, the most difficult issues will come at the end. But by the end of the year as I said earlier, we expect to draft what we call 'bracketed' texts covering the full scope of the agreement, and to settle some of the less controversial specific issues.

Each of the Negotiating Groups has begun its work. Almost all the participating countries have taken leadership roles in one or more of the Groups. Especially significant in the next year, I think, will be Brazil's work as Chair of the Agricultural Negotiating Group.

This group is of fundamental importance for both our countries, first of all within the hemisphere. Our experience with the North American Free Trade Agreement is evidence of the potential of trade agreements to create opportunities for farmers in both developed and developing countries – as our agricultural exports to Mexico have grown by nearly $2 billion since NAFTA went into effect, and their agricultural exports to us have grown too – from $3.1 billion in 1993 to $5.6 billion in 1999 (an 80% increase).

But it will have equally important implications for our wider trade interests, especially given the WTO's decision to open agricultural negotiations in February. A hemispheric consensus on agriculture will thus help us achieve goals worldwide – eliminating agricultural export subsidies, reducing tariffs, ensuring the proper treatment of biotechnology and so forth. It will put pressure on that WTO members who have opposed agricultural trade reform, notably in Europe, as farmers in the U.S., Canada, Brazil, Argentina and elsewhere in our hemisphere gain competitive advantages.

NEXT STEPS: BUSINESS FACILITATION

Second, in parallel with the negotiations on the FTAA/ALCA text, we are implementing practical business facilitation measures that bring immediate benefit.

These are real-world initiatives, meant to ease commerce and trade for the people who are growing and selling everything from ginger to shoes to airplanes to computers. We have already agreed upon and begun to implement measures to ensure, for example, that visa and customs requirements are posted on the web. We are also implementing streamlined customs procedures for express shipments and commercial samples. And all the countries of the hemisphere have agreed to implement codes of conduct for customs officials.

Now we are looking toward the next step and some more technically challenging ideas. These will include a number of proposals in the high-tech field: adopting measures to ensure the effective protection of privacy in electronic commerce and to recognize electronic records and signatures; eliminating redundant testing and certification requirements; and making better use of the Internet in government procurement.

CBI

At the same time, our Administration is working closely with Congress toward completion of an enhanced Caribbean Basin Initiative. This is not, of course, directly linked with the FTAA/ALCA talks, but it will help our Caribbean neighbors prepare their economies for the FTAA/ALCA, and when completed will offer a valuable source of confidence in the direction of hemispheric trade. Significant work remains ahead before the CBI bill is completed, but it is a very high priority of ours and of various members of Congress in both houses and on both sides of the aisle, and we view the Congressional agreement last week on its textile provisions as a very promising sign.

THE RESULT

This, then, is the agenda for the year ahead: we are laying the foundation for the hemispheric agreement; we are taking practical short-term steps at the same time; and we are working with each of our partners to smooth the way.

Let me now look a few years further ahead to the completion of the work. When we get up from the table and shake hands after it is done:

First, we will have created growth and job opportunities throughout the hemisphere. As trade barriers fall, we will see wider horizons and better prospects emerge for Brazilian farmers and aircraft manufacturers; Chilean engineering firms and aquiculture; Argentine and Canadian ranchers; Americans as well. The improved access to markets (and accompanying expansion of employment opportunities) is especially important to Latin American countries in which the demographic bulge is concentrated in the working age population, as compared to previous decades when the bulge was concentrated in the under-15 age bracket. Moreover, the fact of the world's largest free trade area will be a powerful stimulus for investment in all our economies. We already have seen the positive effects of sub-regional trade liberalization on investment in Brasil, Chile and Mexico, and incidentally, the U.S. (Where Germans have invested more in foreign direct investment in the past three years than in all of Europe).

Second, we will improve our living standards. Families will benefit from a wider availability of goods and services, with better quality and lower prices. The combined effects of trade liberalization and the expansion of the Internet already are giving consumers in the less developed countries the same choices in products and price that previously were available only to North American consumers (or to those from Latin America who could afford a plane ticket to Miami). But I don't mean simply that they will be able to buy imports: domestic firms will become more efficient as they more easily import capital and informatics goods, and employ the higher technologies that become available when intellectual property protection improves. And government will be more economical in providing services (and spending tax money) through adherence to international standards of open and fair procurement practices. Even local monopolies and other anti-competitive practices will diminish as we advance negotiations in competition policy.

Third, we will spur technological progress. By opening services markets, we will encourage competition, transparency, and impartial regulation of financial systems, telecommunications, insurance and other industries basic to a modern economy. By strengthening protection of intellectual property, we will help creative industries, computer software and other technologically progressive sectors grow in each FTAA country. For great agricultural countries such as Brasil and the U.S., we will develop a predictable and science-based environment for tapping the enormous potential of biotechnology. And by encouraging electronic commerce, we will give the poorest and most remote regions in each country new access to world markets – from Andean handicrafts to organic coffee from the Guatemalan highlands.

Fourth, we will strengthen the position of the Americas as we look out upon the world. The FTAA negotiations on agriculture, as I have noted, are an especially compelling example. But the same applies to the newer aspects of trade negotiations. To the extent that we agree on common approaches to services, government procurement, competition policy, and pursuing our trade liberalization in a manner that is supportive of practicable environmental protection, our hemisphere will be more influential in shaping the global consensus on these subjects.

And finally, we will strengthen the values of openness, accountability, and democracy which themselves make the FTAA/ALCA possible. Clear, consensus rules for trade, combined with improved means of resolving trade disputes, will generate more respect for equality and fair play, both for individuals and for countries. This will strengthen the rule of law, which is an essential ingredient in fostering democracy and social justice.

CONCLUSION

Our negotiators are at the table in Miami today for a simple reason: the Americas enjoy the strongest consensus of values in history: peaceful politics and democratic government; on human rights and the rule of law; on open markets and shared prosperity.

Brazil and the United States – as the largest economies in the western hemisphere; as its continental nations; as its technological leaders; as the two governments co-chairing the final year of FTAA/ALCA negotiations – have a unique responsibility to see the work through to completion.

We have much work before us: some of it will be contentious, all of it will be complex. But it is of the most profound importance.

Every one of us should feel immensely privileged to take our part in it.

NAFTA'S INTEGRATION OF TRADE & ENVIRONMENT: A U.S. PERSPECTIVE ON THE RELEVANCE TO THE FTAA

Remarks of Ambassador Richard Fisher
Deputy United States Trade Representative

Conference on Environment in the FTAA Process
Washington, DC
April 26, 2000

Thank you Dan (Esty) for the introduction and for inviting me here this evening. I am glad to have this opportunity to discuss the success of the North American Free Trade Agreement, the NAFTA, as well as the North America Agreement on Environmental Cooperation, the NAAEC (which unfortunately lacks a snappy acronym, so normally we just call it the environmental side agreement).

Dan invited me to answer a series of questions – what is our overall assessment of the NAFTA, what is our view of the balance NAFTA struck between trade and the environment, what could have been done better, and what lessons have been learned for the FTAA process? I will take a stab at answering all those questions this evening. At a minimum, my hope is to stimulate your thinking, even at the risk of raising more questions than answers.

THE ADMINISTRATION'S ENVIRONMENTAL COMMITMENT

First, let me place our environmental objectives in proper context. The Administration believes very deeply that a strong economy and a clean environment go hand in hand.

Our economy is strong. These past seven years, we have certainly proven that greater trade leads to greater economic prosperity: our economy is booming, with nearly 21 million new jobs. The opening of world markets has helped spark a 56% expansion of American goods and services exports since 1992, to a record total of $960.3 billion last year. Together with – and inseparable from – domestic policies including fiscal discipline, deregulation, and investment in education and job training, as well as private sector adjustment to the new economic paradigm of the Information Age, the opening of world markets has contributed to a remarkable record. We have seen $2.1 trillion in real economic growth, during the longest economic expansion in American history; a $400 billion expansion in our manufacturing industry; real wages for non-supervisory workers up 6.5%; and broadly shared benefits, with poverty rates at the lowest levels since 1979, and unemployment touching 4% in January, with record lows for women, African-Americans and Hispanics.

Can one say that international trade contributed to this record? Absolutely. 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 NAFTA is obviously not the sole source of our current prosperity. But it has contributed to this economic boom by creating fairer and more open markets for Americans. During NAFTA's first six years, U.S. goods exports to our NAFTA partners, combined, increased by $111 billion, or 78 percent, to more than $253 billion. Today, Canada is our largest trading partner (in terms of two-way trade flows), and the success of the NAFTA has been a significant factor in stimulating Mexico to become our second-largest trading partner, surpassing Japan. The easiest way to summarize the weight of these two countries on the "sell side" of our trade equation is this: a quarter of everything the U.S. sells abroad goes to Canada and almost 15% goes south to Mexico; NAFTA accounts for 40% of U.S. exports.

Of course, the question is: do higher volumes of trade help or hinder environmental improvement? It is noteworthy that our air and water are cleaner and healthier than they have been in decades. The White House two weeks ago released a report from the Council on Environmental Quality highlighting dozens of Administration initiatives over the past seven years to improve public health, restore endangered wildlife, promote "green" business, protect oceans and coasts, strengthen environmental enforcement, and combat global warming. Results include improved air and water quality, accelerated toxic cleanups, dramatic reductions in toxic releases, and increased protections for millions of acres across America. Since 1993, the report shows, the number of Americans breathing clean air has grown by 44 million, the number receiving clean drinking water has grown by nearly 34 million, the pace of Superfund cleanups has more than tripled, environmental technology exports have more than doubled, and spending on key environmental priorities has risen dramatically.

Success stories from around the country show how the Administration's initiatives are helping citizens and communities improve their drinking water, preserve open space, restore native salmon, conserve energy, redevelop brownfields, protect children from lead poisoning, and reduce other toxic threats.

The U.S. government also is working to promote sustainable development overseas. Environmental issues form a cornerstone of United States foreign policy. Investments on behalf of the environment, at home and abroad, bring significant payoffs to our national economy, health, domestic environment, and quality of life. In pursuing this mandate, the United States has developed a strong record of international engagement on environmental issues, and not just within the NAFTA. The United States and Canada forged the International Joint Commission to resolve disputes over waters from the Gulf of Maine to the Gulf of Alaska. More recently, we have worked through our International Boundary Waters Commission with Mexico to fight pollution and provide for the fair allocation and the use of the waters we share.

The President and Vice President have outlined a strategy to ensure that U.S. efforts to expand trade and promote development reflect a strong commitment to achieving environmental protection worldwide. Last year, the President signed an Executive Order requiring careful assessment and written review of the potential environmental impacts of major trade agreements so that environmental considerations can guide the development of U.S. positions in trade negotiations. The President also issued a White House Policy Declaration on Environment and Trade, outlining a set of principles to guide U.S. negotiators and to ensure that our work is supportive of sustainable development, including environmental protection at home and abroad.

THE NAFTA EXPERIENCE

In many respects, NAFTA was a bold experiment. It was the first major trade negotiation where environmental issues played a central role, both in terms of challenges and opportunities, throughout the negotiations. Concern about the possible environmental impacts of the agreement, particularly in the border areas, led to thinking outside the box. How can governments deal with potential problems and, more significantly, make a trade agreement a vehicle for positive change in environmental protection? In the NAFTA, trade negotiators worked with our environmental agencies to an unprecedented degree. For the first time, we conducted an environmental review of a trade agreement while it was being negotiated, and used its conclusions to create a better agreement. I would also be remiss if I neglected to talk about the influential role that NGOs and other interested stakeholders played in the negotiations. Though members of environmental and other NGOs may hold differing views on the results of the negotiations, their participation absolutely made a difference.

Because of these efforts, the NAFTA, without a doubt, has helped us improve the environment, the quality of life in North America, and advance our basic values – clean air, clean water, public health and protection for our natural heritage; safety, dignity and elementary rights for working people; a common commitment to the rule of law and more accountable governance. NAFTA has enabled us to improve our working relationship with Mexico and Canada in all of these areas, as a result of the institutions created as well as its legal text.

NAFTA Text

A significant, and often overlooked result of the NAFTA environmental negotiations is the main text of the NAFTA itself. In several sections, the NAFTA incorporates strong principles relating to environmental protection. For example, NAFTA Article 712 explicitly recognizes the right of Parties to adopt, maintain or apply sanitary or phytosanitary measures for the protection of human, animal or plant life or health, including measures more stringent than an international standard. NAFTA Article 904 recognizes similar rights for standards-related measures. NAFTA Article 1114 recognizes that the Parties should not waive or derogate domestic health, safety or environmental measures to encourage investments in their territories, and provides a right to request consultations should a Party consider another Party to have offered such encouragement. And so on...

The NAFTA Side Agreements

When the Administration turned its attention to negotiating the NAFTA side agreements, we sought to achieve a delicate balance. On the one hand, we wanted to put in place mechanisms that would help us restore and protect the environment. At the same time, we were mindful that the United States would have to live with anything that we asked Canada and Mexico to accept. The supplemental agreements struck that balance. They provide needed additional assurance that our NAFTA partners will enforce their environmental laws, by committing the countries to strengthen their own administrative and judicial procedures. They also create a mechanism through which one country can challenge a pattern of non-enforcement by another country. However, U.S. sovereignty is fully protected, since no supranational body was set up that could usurp the right of each country to set its own laws, or could replace federal, state, tribal or local authorities in the enforcement of our laws.

And so, we established the Commission on Environmental Cooperation (CEC). I know Janine Ferretti, the CEC's Executive Director, is scheduled to speak to you tomorrow afternoon, so I will simply mention some highlights. Thanks to the CEC, we have reached agreement with our neighbors on conservation of North American birds and created a North American Pollutant Release Inventory. The CEC has also helped us devise regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury, and most recently released a proposed plan to reduce exposure to the persistent organic pollutant lindane. Cooperative work is also underway on monitoring and environmental enforcement. Our Environmental Protection Agency has trained hundreds of Mexican environmental officials in the past six years, and Mexico has substantially increased its budget resources and inspections related to environmental law compliance since the NAFTA passed.

We also established two other NAFTA-related institutions to assist in the development of projects in border towns to reduce water pollution and improve health along the U.S.-Mexico border. The Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) are working with more than 100 communities throughout the Mexico-U.S. border region to address their environmental infrastructure needs. Both institutions have allocated millions of dollars to aid in the development of over a hundred environmental infrastructure projects related to water, sewage, and municipal waste in communities on both sides of the U.S.-Mexico border, benefitting almost 6.5 million border residents. These projects will represent a total investment of $668 million in our environment. To choose just one example to illustrate what these projects represent, close to my home state, Juarez broke ground recently for its first waste-water treatment plant. That is going to mean better health and cleaner water for a million people in Juarez, another million in El Paso, and for towns and villages all along the upper Rio Grande.

The NAFTA implementation work program is also helping our countries reduce the costs of environmental protection. The United States and Canada, for example, have established protocols for the coordinated review of certain new pesticides, such as those that are designed to be safer replacements for older, more risky pesticides. By sharing data review responsibilities, joint reviews lower regulatory costs, expedite registration of safer pest-control tools, increase the efficiency of the registration process, and provide more equal access to pest management tools by farmers across North America.

In environmental improvement, as with the reduction of barriers to trade in goods and services, NAFTA is incomplete – it remains a work in progress. Yet, as the *Dallas Morning News* pointed out in its editorial on January 4, 1999, NAFTA is "the 'greenest' commercial pact ever, and the U.S. Canadian and Mexican environments are better off with it than without." NAFTA has represented a significant step forward in the environmental aspects of trade. In each area we have challenges that are not yet addressed, but the NAFTA and its side agreements put us in a better position to deal with them.

LESSONS LEARNED FOR THE FTAA/ALCA

Dan also requested I spend some time dealing with the lessons that the NAFTA might provide for the FTAA process. In that vein, I am reminded of the novelist Douglas Adams, author of the *Hitchhikers Guide to the Galaxy*, who once commented:

> "Human beings, who are almost unique in having the ability to learn from the experience of others, are also remarkable for their apparent disinclination to do so."

In the FTAA, we are trying to fall into Adams' former category, rather than the latter. The FTAA is an extraordinarily ambitious, complicated initiative. It brings together 34 democratic nations – from continental giants like the U.S. and Brazil, to some of the smallest countries in the world; from technological leaders to least developed nations.. 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 potential rewards are commensurately great.

By 2005, we aim to create a single trade zone including nearly 700 million people and much of the world – from Recife to Hawaii and from the Arctic Ocean to Tierra del Fuego. It will deepen trade relationships that already absorb more than half of all the goods exported from Brazil and roughly 46% of goods exported from the United States. It will strengthen our ability to achieve shared goals in the broader trading system. And ultimately, it will create a lasting, prosperous, peaceful and democratic hemispheric community, one that is better positioned and more inclined to address our common environmental responsibilities.

PROGRESS THUS FAR

This work is well underway. Precisely two years ago, at the Summit of the Americas in Santiago, the hemispheric leaders directed us to begin formal negotiations toward the

FTAA/ALCA. Since then:

- We have drafted outlines of each area the agreement will cover;

- We have requested and received formal advice from civil society throughout the hemisphere through the ALCA's Committee on Civil Society, and just two weeks ago we issued a new invitation for public comment on the upcoming phase of our work;

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

That marks a fundamental decision, the moment at which we stepped off the bank and began to cross the river. The countries of this hemisphere have discussed the free trade zone concept on innumerable occasions in the past. Any student of the Western Hemisphere's history, can recite the free trade proposals of Simon Bolivar, James G. Blaine and Benito Juarez. When I met with President Cardoso in February, he told me that even before Brazil's independence, Thomas Jefferson discussed the concept with the Brazilian/Portugese priest, Father Serra.

As we are all aware, none of these earlier initiatives got past the point of discussion. At the Summit of the Americas in Miami in 1994, our leaders took the concept from day-dream to vision. Now it has moved from vision to reality, as for the first time in two hundred years and more, we are sitting down together to get the job done.

TRADE & ENVIRONMENT IN THE FTAA

What are the lessons that we have learned from NAFTA that will aid us in our work on the FTAA? First and foremost, we have learned the importance of taking the environmental implications of the negotiations into account from start to finish. This means not only that we should "do no harm" but also that we should take advantage of positive opportunities to move forward. Environmental reviews are clearly a key component in this effort, and our NAFTA experience provided inspiration for the President's new Executive Order requiring environmental reviews of trade agreements that may have significant environmental effects. In fact, we have already begun to lay the groundwork for an environmental review of the FTAA. An interagency group is developing recommendations on the appropriate methodology for quantitative analysis of the potential environmental effects of free trade. Let me add that a quantitative analysis of the impact of tariff elimination is only one aspect of our environmental review. We will also have to engage in non-quantitative analysis and look at regulatory and legal impacts. Of course, the environmental review is just one tool that we are using to take environmental issues fully into account during the course of the negotiations. We are committed to taking environmental considerations into account throughout the negotiations, and this meeting is a valuable contribution to this process.

We have also brought to the FTAA negotiations the lessons we have learned about the need to work closely with non-governmental organizations and other interested parties. At the international level, this is reflected in our leadership in creating the Committee on Civil Society and the strong efforts that we have made to give the Committee a meaningful role in the negotiating process. At the national level, we have started by soliciting public comment to help shape our negotiating objectives. We have sought the input of the Trade and Environment Policy Advisory Committee (which Dan co-chairs), and we are committed to maintaining a dialogue with all elements of civil society through various means throughout the negotiations. The lessons of NAFTA are reflected in the deep involvement of our environmental agencies in our negotiations.

Another lesson that we have learned from the NAFTA is that each negotiation is different. For instance, our handling of the environmental aspects in the NAFTA was strongly shaped by the common borders we share with our NAFTA partners, as well as certain other factors unique to those countries. This is not to suggest that we can ignore environmental issues in the FTAA just because we do not share common borders with most of the countries in the Western Hemisphere. Rather, my point is we need to think about environmental issues in terms of the specific context of each negotiation. Likewise, we have learned that it is much easier to make progress in improving the environment when the economies involved are on the right economic path, and thus improving productivity and raising standards of living.

We have also learned that our trading partners must be made full partners in our vision for handling the environmental aspects of trade. Much is made about the economic might of the United States, with the sub-text being that we should be able to get whatever we want. It's not that easy. And even if we do get what we want in an agreement, positive results depend on the degree to which our trading partners see environmental protection as being squarely in their own national interest. This remains a significant challenge within the FTAA. And so we need the help of environmentalists in the United States to build stronger constituencies for environmental protection in our hemisphere.

CONCLUSION

Let me end by noting the NAFTA is a dynamic agreement; like the FTAA, it is a work in progress. NAFTA will not be completely implemented until 2008. We are learning from our experience, using it to improve the agreement as it goes into force. But through the cooperative framework we have built through the NAFTA, we have solved or undertaken the challenge of resolving many environmental problems. Taken as a whole, we can be very pleased with the record of NAFTA six years after its passage.

Back in 1994, we predicted that this agreement would mean growth; better and more jobs; rising standards of living; and a higher quality of life. Today, we in the United States can say that the agreement is keeping these promises. We have more jobs, higher wages, and a stronger economy than we did six years ago. Our governments are working more closely and accomplishing more than ever before on environmental protection, workplace safety, and all the other issues that affect the daily lives of our citizens. And – most important of all – our prospects are better than ever before of passing on to our children, stronger than ever, the invaluable legacy of peace, cooperation and progress on the North American continent that we have inherited from past generations.

The United States is providing the leadership to promote global peace and prosperity. We must also lead in safeguarding the global environment on which that prosperity and peace ultimately depend, whether it is in the FTAA or any other international negotiation. Almost a hundred years ago, as our nation was laying its plans for a new century, Theodore Roosevelt remarked:

> "Modern life is both complex and intense, and the tremendous changes wrought by the extraordinary industrial development of the last half century are felt in every fiber of our social and political being. ... The conditions for our marvelous material well-being, which have developed to a very high degree our energy, self-reliance, and individual initiative, have also brought the care and anxiety inseparable from the accumulation of great wealth in industrial centers."

Modern life is still, today, complex and intense, and we still face the enviable problem of having to resolve the stresses placed on our environment resulting from the extraordinary industrial and technological developments of the last half-century. I am optimistic that this conference will assist us in identifying the best options available for us to do so.

Thank you very much.

AUTO PARTS TRADE POLICY IN ASIA

Ambassador Richard Fisher
Deputy U.S. Trade Representative

Motor & Equipment Manufacturers Association: Automotive President's Council
Washington, D.C.

May 3, 2000

Thank you very much for inviting me to speak with you today. We are approaching some very important decision points in our Asian trade policy, with respect to both autos and auto parts, and I welcome this opportunity to share ideas with you.

Open and fair trade in motor vehicles and automotive parts are significant parts of U.S. trade. These sectors make up $250 billion worth of US bilateral trade with the world, including $50 billion in U.S. exports of parts. And they are central issues in particular in our trade relations with Asia.

ASIAN AUTO AND PARTS MARKET

The central problem can be described in a few words and statistics:

– The world makes about 60 million motor vehicles a year, and Asia makes about 20 million of them.

– But while the Asians sell us 2.2 million cars a year, and provide more than 30% of our automotive parts imports, last year they imported from us only 80,000 autos and 8% or so of American automotive parts exports.

You have a number of nations in which imports of US auto parts are restricted; plants running production facilities that do not appear to import parts freely; and broader restrictions on vehicle imports which also affects American parts producers.

Asian governments have seen autos as a prestige or "strategic" industry, and done their best over many years through protection, subsidies, local content and similar policies to keep our goods out. The region's two largest economies, Japan and China, have been substantially closed, as is Korea, the second largest producer of autos; the medium economies in ASEAN are dominated by the Japanese industry – whose overseas plants, like its factories at home, have historically bought Japanese parts.

But today's statistics are also indicators of untapped opportunity. This is especially true as the Southeast Asian and Chinese economies have grown, creating a large potential consumer market in the Philippines, Thailand, Malaysia, Singapore and coastal China which will purchase larger numbers of cars in the future.

Autos and auto parts are thus a central part of our trade initiatives in Asia. Our principal goals have been market-opening and deregulation in Japan; the opening of the Chinese and Korean markets; and development of a general regional framework for open trade through APEC and its recently initiated APEC Auto Dialogue.

This afternoon I would like to offer you an overview of these initiatives, with particular attention to the next steps in Japan, as the 1995 agreement expires; and China's WTO accession, together with the Congressional vote on permanent Normal Trade Relations later this month.

JAPAN

First, access to the Japanese market for auto parts has been a central trade priority in our US-Japan negotiations since the very beginning, with the Framework Agreement in 1993.

Negotiations in the two years after that agreement led to the 1995 U.S.-Japan Automotive Agreement, which sought to address the key market access concerns of the auto parts industry, including increases in purchases of foreign auto parts by Japanese firms and deregulation of the aftermarket. Results in the first few years of this agreement were quite good:

- Exports of U.S. auto parts to Japan rose 20 percent in 1996 and 13 percent in 1997, well above the increase in overall auto parts.

- At the same time, investment by the Japanese automakers in new production facilities in the United States displaced imports from Japan, resulting in thousands of jobs for U.S. workers and substantial increases in purchases of U.S. parts by these transplants.

- Japan introduced new categories of service garages creating new opportunities for foreign auto parts suppliers by allowing independent garages, which are more inclined to use foreign parts, to undertake repairs previously limited to dealers. It also revised the regulations regarding certification of mechanics who could work in these garages to further encourage the development of these new garages.

- And Japan implemented the deregulatory measures including removal of shock absorbers, struts, trailer hitches, and power steering from the critical parts list, dramatically increasing sales of these products in Japan.

Unfortunately, this progress seems to have stalled, as you all well know. U.S. auto parts exports to Japan fell nearly 12 percent last year over 1998 levels. Meanwhile, purchases of U.S. auto parts by Japanese transplants in the United States have slowed while Japan's exports of auto parts to the United States are increasing. The economic slowdown in Japan, which caused a drop in auto production to a 20-year low, certainly is an important factor underlying this decline. But other factors also are at play, including the Japanese Government's unwillingness to further deregulate the auto parts aftermarket.

We have thus worked closely with MEMA and the Auto Parts Advisory Council to develop proposals to address this issue. Japan has responded positively to some of our ideas. This is also true of the Japanese transplants in the United States, which issued new business plans last fall, reiterating their commitment to the U.S. market.

That said, we are only a few miles down the road in a marathon. With the Automotive Agreement set to expire at the end of this year, we are reviewing its lessons carefully and considering our next steps. We have been analyzing what structural and economic changes have taken place over the last five years and what these changes suggest we should be seeking in a new agreement. As many of you know, we also have been consulting closely with industry and other interested parties over the past several months to get a better understanding of the positions of key players on this issue. We received detailed recommendations from the Auto Parts Advisory Council in early April, which we are still reviewing. A substantial effort was put into preparing these recommendations, which we sincerely appreciate.

As the Administration works to develop a position on this issue, we will to continue to consult closely with you.

CHINA

Second, and our top immediate trade priority for the coming year, is the WTO accession for China and permanent Normal Trade Relations.

At present, the Chinese market is largely closed. Last year, we exported to China a total of 419 cars, of which 130 were used. This figure is far less than a single average U.S. auto dealership sells in a year; it is actually fewer than the 688 motorized golf-carts we sold to China. And since the implementation of "strategic industry" policies in China, our exports of parts have dropped by nearly half, from the peak at nearly $900 million in 1997 to $450 million last year.

On the other hand, China is one of the remarkable opportunities for exports. It is of course the world's largest country, with a population of 1.3 billion; and for the last decade was the world's fastest-growing major economy. Consumers in many of the coastal cities are now becoming wealthy enough to purchase family cars, and in a more open market we could thus export parts both directly to Chinese auto plants, and indirectly through greater exports of U.S. vehicles to China.

Our WTO accession agreement includes commitments addressing all the major Chinese barriers to autos and auto parts: reduction of formal trade barriers, elimination of abusive investment policies, and other measures that together will dramatically change the environment for autos and auto parts in China. The result will be to open the Chinese market to direct exports of U.S. auto parts; to encourage exports of U.S. autos from home, with consequent benefit for U.S. parts producers; and to give us some additional tools in case of import problems as the Chinese industry develops.

An outline of the specifics is as follows:

- First, barriers at the border. Our agreement will cut Chinese tariffs on auto parts from an average of 23% to 10% by 2005. Together with this are reductions on auto tariffs from 80-100% today to 25% in 2006. China will be prohibited from applying value-added taxes in a discriminatory fashion; and the current virtually prohibitive quota will be expanded to $6 billion worth of autos on accession and will be eliminated entirely within five years.

- Second, internal barriers. Here we have a comprehensive set of commitments on distribution, trading rights and related issues. We ensure that firms and dealerships in China can import autos directly from the United States, auto plants can buy American parts, and Americans can move their products freely within China to the areas of greatest demand. And at the same time, we open up services essential to auto sales: China will let auto firms provide financing, advertise their cars, and provide repair and maintenance.

- Third, we abolish certain industrial policies intended to draw auto investment, jobs and technology to China. Here, China will abandon requirements that firms set up factories in China in order to sell in China, local purchase requirements that deter Chinese and U.S. factories from importing U.S. parts, and abolish forced technology transfer as a condition of investment.

- Fourth, we strengthen the security of auto production and jobs in the U.S. with the commitments on market-disrupting import surges and anti-dumping rules.

- And finally, of course, we have enforcement mechanisms for all these separate, overlapping commitments – through the WTO's dispute settlement mechanism as well as our own laws.

To make them effective, however, Congress must approve PNTR in the weeks ahead: otherwise, we will lose some of our negotiating gains completely, or simply surrender them and let the Japanese, Europeans and Koreans take advantage of them at our expense.

Finally, China's entry will facilitate Taiwan's entry into the WTO, as the newly elected Taiwanese leadership has stressed in its support for China's WTO accession and normalized trade relations with the U.S. This will have substantial trade benefits, as Taiwan is already a larger export market for us than China in most products.

KOREA

Korea is another Asian market that offers both tremendous opportunities and ongoing challenges. In 1998, we negotiated an MOU and side letter aimed at increasing market access for foreign vehicles, including through the restructuring of the Korean motor vehicle sector. This agreement focused on vehicles, rather than parts. The 1998 agreement went beyond the MOU we negotiated with the Koreans in 1995, for example, by covering sport utility vehicles and minivans, as well as passenger vehicles.

Korea has taken steps to implement provisions in the 1998 MOU. For example, it has bound in the WTO its 80 percent applied tariff rate at 8 percent; (2) lowered some motor-vehicle-related taxes and eliminated others; (3) streamlined its standards and certification procedures and started work toward a manufacturer-driven certification system; and (4) established a new and improved financing mechanism for motor vehicle purchases in Korea.

That said, we continue to have serious concerns about low foreign market share and ongoing anti-import activity in Korea. We therefore included Korea's motor vehicle policies in the Super 301 report released on Monday of this week, and continue our close coordination with U.S. companies to make this agreement work for them.

APEC AUTO DIALOGUE

Finally, over the longer term we are working towards a broadly more integrated and open Asia-Pacific automotive market.

As I noted earlier, in many Asian countries the auto industry is developing as a matter of national pride rather than market factors. In particular, the Southeast Asian nations have attempted to develop industries on their own, rather than developing a more rational division of labor. But as electronic commerce makes it easier for plans in different countries to operate in sync with one another, as the financial crisis pointed up the danger of relying solely on smaller national markets for auto production, and as Japan's auto industry has been forced by circumstance to develop alliances and closer relationships with U.S. and European firms, we have a long-term opportunity to facilitate both sustainable growth in the Asian industry, and also to make it more open to American suppliers.

Our long-term goal, therefore, is to reform the regional industrial structure so that decisions on investment and purchases rest on market forces rather than political prestige. A central element in this is the APEC Auto Dialogue, which joins industry and government representatives from nearly all the Pacific economies with a significant auto industry, as well as other regional economies – the U.S., Canada, Australia, Japan, Korea, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. It has met regularly, including two full sessions in the last year in Manila and Indonesia. It is discussing a broad range of trade, investment and environmental issues ranging from harmonization of industrial standards and customs policies; to intellectual property rights in the auto sector; traffic policies; investment issues; and trade liberalization in tariff and non-tariff areas.

CONCLUSION

Ultimately, the goal is a more open, integrated and rational Asia-Pacific automotive industry.

This will of course be a long-term process. We have substantial obstacles to address, in each major Asian producing and in the general fragmentation of the Asian auto industry as a whole.

But the coming months offer great promise. In China's accession, we have an historic opportunity to promote reform and economic opening – unmatched since the Second World War – in the world's largest nation. We have built a foundation for reform in Japan. And we have the seeds of change planted across the Pacific region. I look forward to working with you to make the most of this remarkable opportunity.

Thank you very much, and now let me hear from you.

REMARKS TO THE U.S.-SPAIN COUNCIL

Valencia, Spain

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Deputy U.S. Trade Representative

Señor Vicepresidente, Ministra , Embajadores, Señor Garrigues, querido amigo senador Dodd y miembros del Consejo Estados Unidos - España, muchas gracias por haberme invitado a participar en el VI Foro del Consejo. España me encanta. Después de haber ganado en 1994 las elecciones primarias del Partido Demócrata, en busca del asiento del estado de Tejas en el Senado de los Estados Unidos, y tras una campaña arduamente disputada, vine a España con mi familia para huir de la prensa, recuperar el equilibrio y prepararme para las elecciones generales. Alquilé un microbús y con mi mujer y cuatro hijos recorrí el país, yendo de Bilbao a Barcelona y despues a Sevilla, pasando por Madrid y visitando bastantes pueblos pequeños del norte y del sur, procurando dejar de lado, por dos semanas y media, los rigores de la campaña, recuperar las energías y mejorar mi español (aunque lo que hablamos en Tejas es "Mexicano," y no el espanol propio). Tal vez lo pasé demasiado bien porque cuando regresé a Tejas ... ¡perdí las elecciones! Naturalmente el recuerdo de esos días soleados y tranquilos en España perdura en mi memoria como lo más agradable de aquella temporada electoral del 94. Me encanta estar aquí de nuevo, especialmente porque se trata del final de un período de servicio publico y no del comienzo de una campaña política.

Recientemente, visité Los Pinos, la casa oficial del presidente Zedillo en México. Le quedan doce días de mandato; en vista de ello, sus oficiales, en lugar de saludarse por la mañana con el "buenos días" acostumbrado, se dicen alegremente, "menos días". Ahora que la elección del presidente de los Estados Unidos se ha celebrado (aunque no terminado), nosotros, los del gobierno del Presidente Clinton, sin duda seguiremos los usos de nuestros colegas del sur. Solo nos quedan dos meses mas. Esto es algo agridulce, porque hemos tenido grandes éxitos en materia económica y de comercio exterior. Por eso esta mañana puedo hablar con franqueza, y reflexionar acerca de dónde nos encontramos y a dónde nos dirigimos.

El diario _The Financial Times_ comienza un artículo reciente sobre España con estas palabras: "Son pocos los países que se han metido en el nuevo milenio con tanto optimismo como España".

Tal vez recuerden el viejo proverbio de que el optimista es el que anuncia que vivimos en el mejor de los mundos posibles y el pesimista es el que teme que precisamente eso sea lo cierto. Pues bien, me siento muy optimista acerca de España. Pero ahora pasaré a hablarles en inglés, para explicarles por qué considero que lo que ocurre en España es importante para Europa y para el porvenir de las relaciones entre España y los Estados Unidos. Dónde están nuestros intereses comunes y cómo podemos prepararnos juntos para las situaciones que, ahora mismo que nos reunimos en Valencia, se están imaginando los pesimistas y asi protegernos de ellas.

THE SPANISH SHOWCASE

The economic statistics on Spain paint a picture of a country that is an exemplar of progress. Spain has grown at an impressive clip through the last decade, and should record growth exceeding 4% again this year, making for a fifth straight year that Spain has outpaced the rest of the European Union. Inflation, at around 4% is up from 1999, but, discounted for the recent runup in oil prices, is certainly manageable. Interest rates have risen slightly but remain low. Investor confidence in Spain is high. Like us, you run a current account deficit but export growth is stout, running at a 12% growth rate, assisted by demand within Europe and, outside of the EC, by the price advantage afforded by a weak Euro. The government is on a glide path towards a balanced budget next year, and there are no major visible imbalances in Spain's public finances.

Politically, of course, favorable economic statistics are only meaningful if they translate into jobs. Here the progress is palpable. Unemployment, which was hovering around 23% just four years ago, is headed towards 11%, according to most forecasts for next year. By the government's own admission, the task of job creation is incomplete. But here is the bottom line: employment growth during the past four years in Spain was 3 ½ times faster than in the rest of Europe.

The key to these substantial accomplishments has been deregulation and an aggressive push for liberalization. This is where our own experience in the United States may provide Madrid with confidence that this route, as difficult as it may sometimes be, is the path worth traveling.

It was not terribly long ago that many were writing the economic obituary of the United States. In 1990, thoughtful analysts were turning pessimism about America into best selling books like Paul Kennedy's of Yale University's *Rise and Fall of the Great Powers* and Ezra Vogel of Harvard's *Japan is Number One*. Only a decade ago, analysts described by a long forgotten Vice President of the United States as the "nattering nabobs of negativism" converged on a common theme: the U.S. was in an irreversible decline. *U.S. News and World Report* wrote in its November 16, 1992 issue that "victory over Saddam Hussein... masked temporarily America's declining economic power." And one month before that article, *Le Monde* kicked off the first of a 12-part series on America's eclipse, with the following sentence: "The United States won the war against the 'evil empire,' but is losing the battle against the forces of decline."

You all know the fate of these then-unanimous woeful forecasts: they were dead wrong. Instead of declining, we surged forward on every economic front. We grew like topsy. We balanced our budget and began the process of paying off our considerable national debt. Productivity, which limped along at 1.4% a year from 1973 to 1995, accelerated to 2.5% in the second half of the 1990's and to 4.8% in the year ending in the third quarter of this year, as business and workers learned to harness technology to ramp up efficiency. Twenty-two million jobs were created by the private sector while the government cut back its size and intrusion into the affairs of the economy. Interest rates came down. The stock market rallied. Income surged and with it, so did the financial accumulation of our citizenry: in 1990, Americans had $207 billion in retirement mutual fund assets. By the end of last year, that amount had swelled ten-fold to $2.7 trillion (according to the Investment Company Institute).

I mention this not to brag, but to stress some essential points, which I believe the current Government of Spain understands implicitly.

First, in the words of one of our most distinguished modern political leaders, the late Paul Tsongas: " you can't be pro-jobs and anti-business." No se puede estar, a la vez, en favor del empleo y en contra de los negocios.

Second, you can't be pro-business and subscribe to the thesis that government bureaucrats are better at allocating resources than the private sector; you can't be pro-jobs and believe in *dirigiste* policies of heavy-handed social regulation and government intervention made by self-appointed elites. You have to actively and transparently deregulate the domestic economy in order to adjust and grow, create jobs and boost incomes.

Third, you can't be pro-jobs and against trade liberalization. The only way to toughen your economic muscles at home is to engage in healthy global competition.

My guess is that President Aznar and Vice-President Rato would say this more forcefully than I: La clave del éxito en la economía globalizada está en la reglamentación que facilita la competencia en lugar de frustrarla, en combinacion con la liberalización del comercio internacional.

SPAIN, EUROPE AND THE U.S.

In this sense, your government in Spain is at the cutting edge of economic management in Europe. At home, you have been actively privatizing most strategic sectors. You have passed the Law in Defense of Competition which will work to prevent corporate concentration and, importantly, enhance transparency.

We applaud these efforts and we note that they are having an impact on others. Again, I quote *The Financial Times*, shortly after the Lisbon Summit: "when European leaders proclaimed a 'sea change' in economic policy at the end of their two day summit in March, Jose Maria Aznar and Tony Blair can be forgiven for looking smug...Spain has been a key supporter of liberalization and Mr. Aznar and Mr. Blair have formed a driving force relationship on economic reform..."

Let me suggest that the U.S. and Spain should work to develop a similar, mutually supportive working relationship on the world stage, just as Spain and Britain have done in Europe.

To be sure, the bilateral trade flows between our two countries are not dramatic. The U.S. accounts for less than 5% of Spanish exports and barely 5% of Spanish imports. Under 1% of our exports go to Spain; less than 1% of our imports come from Spain.

This is not to say that we do not benefit from trading with each other. In a typical month your exports to the United States of $10 million worth of computers and computer equipment help put Americans on-line. You keep American cars on the road with $12 million a month in sales of auto parts. And you raise our quality of life and the quality of our cooking with 450,000 liters of monthly sales of sherry, together with 160,000 kilos of cork and 2.2 million kilos of olive oil. We, in turn, help develop Spain's information industry with monthly sales of $20 million in telecommunications equipment. We supply Spain's hospitals with $15 million per month in pharmaceuticals and $4.4 million in x-ray equipment and $12.5 million in electro-surgical devices. And month in, month out, we work hard to expand Spanish waist lines by selling you 2 million kilos of almonds, 240,000 kilos of fresh lobster, and 150,000 kilos of popcorn. All told, you sell us $7.2 billion in goods and services a year and we sell you $9.9 billion. As the representative of a country that runs an annual trade deficit of $265 billion in goods and services, I can't tell you how nice it is to be in one of the few countries with whom we run a trade surplus!

We can expand further this trade between our two countries and we will. But I have in mind a much more profound working relationship: working together to keep the world on the path of deregulation and ever-growing trade liberalization.

The United States is a huge economy. This year we will broach output of $10 trillion in gross domestic production, making us 2 ½ times larger than the second largest economy, Japan. But herein lies a perfect case study of doing right versus doing wrong. Japan is nowhere near Number One. Indeed, it has not grown for nearly a decade. And, according to the World Economic Forum, it now ranks 21st in economic competitiveness and, according to *The Economist*, is in the second tier of nations in e-commerce readiness. We, like Spain, engineer growth through deregulation and constant restructuring. Japan engineers inertia by embracing a command and control mentality advocated by politicians and bureaucrats living in the past, unwilling to take the risks or contemplate the rewards of the kind of deregulatory and pro-competition policy that you in Spain and we in the U.S. have aggressively pursued.

We began this arduous and sometimes painful process of deregulating our economy during the Administrations of Gerald Ford and Jimmy Carter, and with each successive President have further pushed the envelope of liberating our private sector to make needed adjustments to the new economy.

It took guts and a great deal of forbearance of years of headlines announcing huge layoffs and corporate restructuring, before the returns of this massive initiative kicked in. But kick in it did, in spades. Today, it is a source of pride in our Administration that the weight of the public sector in our economy is the lowest it has been in over 50 years.

Deregulation has played a critical role in America's economic renaissance. So has trade. And to a degree much greater than most people realize.

Here are the numbers. The last time we had unemployment this low in the United States was in January of 1970. At the time, defense spending was 7.9% of GDP. Trade, measured by adding imports plus exports of goods and services, was 10.8% of GDP (The Dow Jones Industrial average, incidentally, was trading at 744). Today, thirty years later, we are back to 3.9% unemployment (and the Dow is at 10,500). But here is the punch line: defense spending as a percentage of GDP is now 3% and trade in goods and services as a percentage of GDP is now 25%. This is as it should be. In 1970 we were fighting a hot war in Vietnam and a Cold War with the Soviet Union. Today we are at peace, though militarily vigilant. Then, we created jobs by preparing for war. Today, we are creating jobs through the peaceable interchange of goods and services with our trading partners. Indeed, while our economy has grown from $1 trillion in size in 1970 to almost $10 trillion, trade has grown at a faster clip still.

Let me come back to the statistic I cited earlier: external trade in goods and services is 25% of our GDP. This is a powerful figure. It is greater than Japan at 19%, and slightly more than external trade as a percentage of the EU 15's collective GDP. The United States is more internationally exposed than any other major nation or economic block. The United States is very much dependent on trade for its economic vitality. The United States depends on trade for job creation.

On the buy side, we use $1.2 trillion in imports to lower the cost of living for our people and increase choice and purchasing power for consumers. Thus, the Clinton Administration completed the Uruguay Round initiated by the Reagan Administration and finalized the NAFTA, started by the Bush Administration. The effect of the Uruguay Round was to drop the average weighted tariff on U.S. imports from 5.8% to 2.8% by 1999. Relative to U.S. imports of $716 billion from countries other than Canada and Mexico, this represents a **tax cut** of $21.4 billion in 1999 alone for U.S. consumers and businesses. When you add Canada and Mexico to the mix, with NAFTA we added another **tax cut** at the border, which equates to some $8.6 billion in savings for consumers and businesses on the $310 billion in goods and services we currently import from Canada and Mexico. These are significant numbers.

On the sell side, U.S. exports outside of NAFTA have grown by 41% since the conclusion of the Uruguay round. The magic number, however, is within NAFTA. Over the same time frame, exports to Canada have grown by 61% and to Mexico by 131%. We now sell more to Canada than we do to the entire EU15 and, if the rate of growth of the last six years is extrapolated forward for Mexico, we will sell more to Mexico than we do to the EU15 by 2004.

On both the buy and sell side, then, we know that reducing tariffs and trade barriers fuels economic growth, incomes, and the welfare of our people. And we also know from the recent Presidential election in Mexico that it simultaneously underwrites democracy and the political stability of our trading partners.

The United States has a vested interest in continued trade liberalization worldwide. No matter who is President of the United States or who controls the Congress, we have no choice but to push the envelope of liberalization and continue to grow our markets, in order to create employment and improve the welfare of our consumers and businesses.

So far, so good. Like Spain, we are happy campers. Through deregulation and prudent fiscal and monetary policy at home, and through "deregulation at the border" with trade liberalization, we, like Spain, have created the best economy in generations.

That is the good news. I said in my introduction, however, that pessimists lurk in the wings. I am a hedge fund manager by training. It is important to prepare for and hedge against possible adverse scenarios.

One such scenario gaining currency lately is what I refer to as the "Perfect Storm" scenario. You may recall the book and movie of the same name that documents the rare and devastating storm that took place of the coast of the northeast United States when three weather fronts descended on the Grand Banks simultaneously. The Perfect Storm Scenario envisions several bad economic fronts converging at the same point in time.

First, there is the slowing of the U.S. economy, which is indeed occurring. This has obvious adverse potential for those who feed our voracious appetite for imports, especially Canada and Mexico, but also all of Asia and Europe, too.

Second, there is the rise of oil prices and its devastating effect on the LDC's, further depressing demand

and threatening reform.

Third, there is the turmoil in the global equity markets - this year most major market indexes are weak and volatile.

Fourth, there is the turmoil that is afflicting the segment of the credit and fixed income markets that have been used to finance many of the larger deals that have propelled the global equity markets and new technologies and applications.

Finally, there is a gnawing uncertainty created by gridlock in some major countries, Japan being the obvious one. And some in the marketplace might be puzzled by the difficult political terrain that whomever gains the presidency in the United States will encounter in the next Congress. I shall defer to Senator Dodd to enlighten you on that subject.

There does appear to be an unusual number of potentially malignant developments converging on us simultaneously, threatening our current prosperity.

So, what should we do? How do we proceed from here? How can Spain and the U.S. work together to thwart the "Perfect Storm" and hedge against reversal of our collective good fortune?

The answer is to keep pushing the envelope, to make sure we do not undermine the confidence of the markets in our determination to continue structural reforms.

A natural place to start would be in Latin America. Here is a continent where, with the ideological battles of the Cold War behind us, democracy has taken root and commerce has begun to flourish. To be sure, there are some rough spots presently: Venezuela, Colombia, Ecuador, Peru come most immediately to mind. But in Mexico and in Brazil, and in Argentina and Uruguay, despite the current slowdown and financial predicament within Mercosur, there is no turning back the rule of democratic law. It is important that we create the conditions for democracy to consolidate and prosper.

The best guarantor of democracy is economic growth. You underwrite it with investment. Spain is now the largest investor at the margin in Latin America; last year alone, Spanish investors placed $12 billion there - a 24 fold increase from the level of a decade ago. You have significant investment in the Southern part of our hemisphere in the financial sector, energy and electric power generation, and in telecommunications.

And you direct $5.1 billion in exports to South American and another $1.2 billion to Mexico.

For our part, we too have significant investments in Latin America, aggregating to $190 billion south of Mexico. This is but a pittance compared to the potential of the region. And so we are at work as we speak on a grand project in Latin America - the negotiation of an Area de Libre Comercio de Las Americas (the ALCA) - which is designed to knit the entire hemisphere together into a free trade zone similar to that we have with the NAFTA.

This concept, long ago contemplated by hemispheric leaders like Simon Bolivar, Benito Juarez and the U.S. Secretary of State at the turn of the last century James Blaine, was re-introduced at the Summit of the Americas in Miami in 1994, took root in the new soil of democracy and globalization of the New Economy, and commenced at the Second Summit of the Americas in Santiago, Chile in April of 1998. There have been nine negotiating groups at work on the basic areas that form the spine of an agreement - market access, agriculture, services, investment, intellectual property, government procurement, competition policy, anti-dumping and subsidies, and dispute settlement. This Spring, the trade ministers of the 34 democratically elected governments of our hemisphere will met in Argentina to pull together the first (heavily bracketed) draft of the agreement. Shortly thereafter, the Heads of state of the hemisphere will meet for the Third Summit of the Americas in Quebec. At that point the rubber hits the road - we begin the intensive negotiations to complete the process by 2003 at the earliest or, at worst, by 2005.

To be sure, countries outside of the hemisphere, such as Spain and the EU, will not have preferential access to these markets. And Cuba, Spain's fourth largest export market in Latin America, will not be included in the mix. So why should you care about, let alone encourage, or perhaps provide technical assistance for the ALCA?

One reason is because where the basic procedures and disciplines of the ALCA are implemented - in improving the rule of law, clarifying procedures which govern investment, intellectual property and services, rationalizing customs procedures, and otherwise improving the atmosphere for economic progress in the Americas - you and all other investors and traders in the region will also be beneficiaries. And too, you will be able to glean from our deliberations in the Americas lessons on how we might all move forward on a larger scale in issue areas that have bollixed the launching of a new global trade round - agriculture, investment, and anti-dumping and subsidies come to mind - as well as possible modalities for finding an appropriate role in trade talks for forward engagement on issues like the environment and transparency and workers rights.

This does not mean that we should stand still on launching a new global round - a notion that was reiterated just this week by the 21 APEC leaders meeting in Brunei. Listen carefully to the caution urged in Brunei by Thailand's Supachai Panichpakdi, the next head of the World Trade Organization: do not let the perfect become the enemy of the good. We must stress the practicable and the doable. It would be a very significant advance for us at this critical juncture in time to tackle liberalization of agriculture and services and take a new whack at cutting industrial tariffs.

Why insist on more at this fragile time? In Seattle, we were told officially that unless we put a new anti-dumping regime on the table, the EU would never proceed with agriculture. We had to have a "comprehensive round" or nothing at all. Yet privately, I doubt that the EU has a driving desire to change its own anti-dumping practices. Neither does the U.S. Congress. Nor do a number of the larger countries in Latin America which are finding that they need trade remedy laws such as anti-dumping as they open their economies to competition from lower-cost producers in Asia, most notably potentially China as it works its way into the global economic mainstream.

So why hold up the system for something that has no chance for success in the foreseeable future? Why not take an incremental approach, get on with what can be done, learn from what can be accomplished on the stickier issues within the ALCA, and in the various bilateral free trade agreements being negotiated around the globe, and go from there?

Maybe some hard-headed Spanish common sense can be brought to bear in the Eurocracy on this matter. Which brings be back to our respective roles as reformers.

The U.S. is the biggest boy on the block. This places a special burden on us to do right: to continue to be a force for economic progress by continuing domestic reforms and pressing for continued trade liberalization through the ALCA and the WTO and the other clubs we belong to. As I have argued today, we have every reason to do so.

Spain does too. But you can do something we cannot. You are a member of the club of Europe. You must continue being the exemplar of reform in Europe. And you must continue doing what *The Financial Times* reported at the end of the Lisbon Summit: you must continue agitating from within. I urge you not to be shy. The reality is that within the EC, even within the Big Five, France has a very loud voice and significant bureaucratic sway. There is no reason, however, why Spain and your President, Vice-President, and, I might add, your very capable Vice-President of the European Commission, Loyola de Palacio del Valle-Lersundi, should punch below their weight class. Spain is a continental European power that works. Use this leverage to insist on reform elsewhere in Europe, and to get Europe to be practical in plotting its strategy for a new global trade initiative.

There is a tremendous need at this tender moment to maintain the world's confidence. There is a tremendous need at this tender moment to press forward with reform of economies and the global trading system. Failure to do so threatens the very prosperity that we have labored so hard to put in place in both our countries and in the world at large.

In his last message to Congress in the Spring of 1945, Franklin Roosevelt called for negotiations which led to the first GATT agreement with the following words: "The point in history at which we stand is full of promise and danger. The world will either move toward unity and widely shared prosperity, or it will move apart."

Let us, Spain and the United States, move the world toward unity and widely shared prosperity. Thank you.