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USTR Barshefsky's Press Remarks
Following Negotiations with China on the WTO

I'd like to start by introducing our team. Gene Sperling whom you all know heads the President's economic policy team, both domestic and international. Bill McCahill, our Charge d'affaires here in China who has done such an extraordinary job for us, truly extraordinary. Bob Cassidy who has been our lead negotiator, and I want to thank him most particularly for his work. Christina Lund, our chief service negotiator who has done an exemplary job. Catherine Field who has been our lawyer on this matter for 13 years at USTR.

She doesn't look it but she has been. Bob Novick my General Counsel who negotiated the protocol issues with the Chinese. Meg Lundsager of the Treasury Department who has taken care of banking securities and many, many other issues. Bernard Carreau of the Commerce Department who has taken care of a number of important issues including dumping. Theresa Howes, who with Ambassador Peter Scher in Washington negotiated with the Chinese on agricultural issues. Of course, Dan Glickman our agriculture Secretary and his fabulous team, and we did that together. Susan Shirk of the State Department, who is one of the Administration's China experts. Ken Lieberthal our other great China expert left yesterday. He is, as you know, with the National Security Council. I think I have covered the waterfront with respect to those people.

Let me just make a couple of general comments: I think this is a profoundly important agreement for a number of reasons. As a trade agreement it obviously protects American Commercial interests and enhances significantly America's commercial interests. The agreement itself is absolutely comprehensive. It covers all goods, all services, all of agriculture. It covers a variety of rules with respect to import surges, technology transfers, state trading enterprises, and high dumping, investing, subsidies and other issues.

Second, however, this is an agreement that is fully consistent with China's own policy of economic reform and economic development. And in that regard it will exert a positive effect on the very reforms China itself is trying to make, and of course on the very economic process at which China has been quite successful. This will open markets here. It will improve the efficiency of Chinese companies. It will make them ever more competitive. I think that is a critical point.

Third, this agreement will strengthen the Rule of Law in China. And I think actually, this is the most import aspect of this agreement. The WTO is a rules-based trading regime. It encompasses almost 140 nations. And the rules, the base rules on transparency, no discrimination, judicial review, administrative independence are absolutely critical to the functioning of the modern economy.

And the notion that China will become a member of this rules-based regime is of extraordinary long term importance, not only on the commercial side, but with respect to the development of a more full body and robust legal system within China.

And of course, it goes without saying that this agreement will help to strengthen China's relations with its neighbors, will help to further stabilize the economic situation in the region here, and of course will contribute to global prosperity. The ultimate aim of the global trading system. And last, as I said in my remarks at MOFTEC, this agreement is an anchoring agreement, and in that regard in particular it is of both profound and historical importance.

The United States and China have had a rather tumultuous relationship as you know -- ups and downs and lots of swings. But an agreement of this sort – with its breadth, with its scope, with it emphasis on Rule of Law, in its consistency with China's own internal reform process -- can help to anchor the relationship between the United States and China in a most a fundamental way. And from that anchor, I think other good things will emerge, and greater stability in the overall relationship between the two countries will likewise emerge. I am happy to take questions on the details of the agreement. I would only say that we are grateful to the government of China for having the forthrightness to enter into an agreement of this magnitude and comprehensiveness. Most particularly, most particularly, both Gene and I praise the President of the United States and the President of China who, beginning in 1993 when they met at the met at the first APEC meeting, began discussing the parameters of Chinese entry into what was then the GATT System and is now the WTO. President Clinton has been so intimately involved with this issue -- including the details, including the strategy, the concepts and issues. And that leadership, that knowledge, the brilliance that he has, and his relationship with President Jiang who pursued this agreement with equal vigor, is what made all of the difference in finally achieving it. And with that, I know Gene wants to make a couple of remarks, and then I think we will have a few minutes to take questions.

Gene Sperling: As Ambassador Barshefsky said this is bigger than a trade agreement; it's about the U.S.-China relationship. It's about the future of the global economy. It's about an increasing trend of countries that have been outside of the global, rule-based trading system coming within it and becoming part of a truly open, free flowing, international economy that we believe will lead to greater freedom and greater global prosperity. We truly praise the President and leadership in China, President Jiang and Premier Zhu for putting the long-term U.S.-China relationship above short-term political expediency. This will be difficult politically for everyone involved, but it is the right thing for the U.S. economy. It is the right thing for Chinese economic reform, and it's the right thing for the future of the global economy. I want to make clear that this has been one of the highest priorities of both the Presidents' national economic team and his national security team. I want to, in addition to the people who are here, all the people that Charlene mentioned, Malcolm Lee, from my staff, and I also wanted to really thank our national security advisors, Sandy Berger, who has made the relationship with China at the top of his priority list, and the rest of our economic and security team, including Secretary Daley, Secretary Summers, Secretary Albright, Leon Feurth, the Vice President's top international advisor, Jim Steinberg, Lyle Brainard, Ken Lieberthal, Karen Tramantano, and very much John Podesta, our Chief of Staff, who with Sandy and I had to coordinate very much the difficult, but important and positive meetings. We have an excellent strategic and substantive Chief of Staff who has helped enormously. The others in the State Department, Susan Shirk, and I am sure I've forgotten some.

Let me just make one more comment before opening up to questions. We know that now we will have to make the case in the United States that this is a strong and good agreement. It resolves many of the unresolved issues from the past in a positive way. We feel that it will be very strong for U.S. export-related jobs and for some of the most important export industries in the United States, as well as being a win for Chinese economic reform and Chinese consumers. However, we will throughout the Administration put out an all out effort to work with the Congressional leadership of both parties to pass permanent normal trading relations status through the Congress. We don't expect it to be easy but we expect that when people see this deal, see the agreement and understand the importance of this for the US-China relationship and the future of the global economy, they will understand that this is in our nation's interest. Thank you.

Q: It seems that we only have about seven minutes for questions. We are writing the lead stories from here but we haven't received any details and it's very hard to write from the press releases which are extremely vague. I'm wondering if there's some way that you can leave behind or give us tonight more details? My question now is if Ms. Barshefsky could describe what were the main points of negotiation during the last six days and some
details about how they were resolved?

BARSHEFSKY: Let me give you just some general detail on the overall agreement and then talk about the resolution of some of the unresolved issues from last Spring. These are just a few quick-hit facts.

With respect to overall tariffs. Overall tariff levels on average will decline to about seventeen percent. This is an extremely good figure. With respect to agriculture, tariffs will decline sharply to roughly fourteen and-a-half or fifteen percent. In that range, there will be very significant liberalization in the agriculture sector including, most importantly, with respect to the bulk commodities: corn, wheat, cotton, soy beans. What we view as the big-ticket items. China will also not provide export subsidies. This is very important in the fields of cotton, rice, and some other areas. There will be what's called a tariff rate quota system set up in agriculture. This is a sort of the WTO mode of doing things. This will significantly enhance market access across the board, not only for bulk commodities but all the specialty agricultural products.

On industrial goods, China will grant essentially full trading rights and distribution rights; the right to import and export directly without Chinese middlemen and to market through distribution, wholesale and retail, after sale service, repair, maintenance, transport -- the entire range of distribution related services.

With respect to non-tariff barriers, China will eliminate all quotas and all quantitative restrictions. Everything I'm talking about is generally done well within five years, except in a very few cases, and in many of these areas we complete the phase-outs in two to three years. So this is an extremely strong agreement.

With respect to services. We've covered the full range of services: banking, securities, telecom, as I said, distribution, the professions, tourism, travel, transport and so on and so forth. This is just an extremely comprehensive and a very, very strong agreement.

Let me talk a little bit about the resolution of some of the unresolved issues as well as a couple of changes in the agreement. We have tried to be sensitive to concerns that China had on issues that were very difficult for China last spring in particular, while at the same time maintaining the fundamental interests of the United States. I think we have achieved an overall strengthening of this agreement. I will say in that regard we've always taken the position, very consistently for almost seven years, that the only basis on which we could do an agreement would be a commercially sound one. We've never departed from that. This agreement will pass any such test that could possibly be applied.

Two of the most important unresolved issues from last Spring had to do with special rules on import surges and on the application of a particular anti-dumping methodology called the "non-market economy" methodology. Last spring, China took the view that there must be a very restrictive phase-out of these provisions. We certainly agreed with China at that time, that these provisions should not exist in perpetuity, but we believed that they did need to exist for a reasonable period of time. With respect to what was called the "special safeguard rule" which is an anti-import surge rule into the United States, that provision will exist for 12 years. With respect to the application of the "special anti-dumping" methodology, that provision will exist for 15 years. With respect to the anti-dumping ethodology, our laws and regulations do provide for the graduation of sectors or an economy as a whole, from these rules if it can demonstrate that it has become market-oriented. And as we've indicated to the Chinese of course, to the extent that they request review of individual sectors, or the economy as a whole, we will do that under the bounds of our law.

Additional issues outstanding last Spring included, for example, audio-visual issues, most especially motion pictures, and that issue has been resolved by the agreement by China to allow for the importation of motion pictures on a revenue-sharing basis. This is extremely important, not only to our industry but to the industry in Europe, Canada and elsewhere. This is quite unprecedented.

With respect to telecom, we also clarified distribution issues on audio-visual, which were unclarified last spring, and that is the right to form joint ventures for distribution for videos and sound recordings and that has now been secured.

With respect to a critical banking issue, and that was the issue of auto finance. China has now agreed to allow non-bank, and it's the non-bank hat's most critical. Foreign financial institutions can provide auto-financing from the date of accession.

What we've done here -- because the auto sector is very important, and we have learned from many mistakes in the way which autos have been handled in Japan, over the course of many decades -- is that we have put together a very substantial auto package. To do that we agreed with China to extend to 2006 rather than 2005, the phase-down of auto tariffs in China from 80-100 percent to 25 percent. In exchange for the longer phase-out, which was important to China, we have cut tariffs more rapidly in the earlier years than under our previous understanding, because now that we have auto-finance from the date of accession, we want to insure the maximum market access – which means lower tariffs up front, the auto finance from the date of accession, and of course, we have full distribution rights as well as trade rights in that sector. This is very, very important to the United States with respect to autos.

On the question of securities, our main goal had been to insure that the Treasury Department in particular would have a forum in which to consult with China on the development of its securities market, which, as you know, is very underdeveloped. While China typically turned to Hong Kong regulators for advice, and of course they are excellent regulators, we and particularly the Treasury Department, were very anxious to be able to participate in this kind of formulation of regulations and the development of capital markets generally in China, including with respect to market access in the future. You know from Larry Summers' trip here that a capital markets dialogue has now been established to cover the totality of banking issues as well as securities and regulatory issues.

With respect to telecommunications. There was some ambiguity as to coverage of the internet from last spring. This has now been fully covered. This is terribly important for the development of the Chinese economy as well as for basic access for foreign telecommunications suppliers. In addition, we have clarified further commitments on satellites and we're pleased that we now have full coverage for satellites in the context of telecommunications.

Last, textiles. China has agreed to the incorporation in full of our bilateral textiles agreement. This is a nine-year, pre-existing agreement. Textile quotas would expire in 2005, consistent with WTO rules, but there would be an additional four years after that of a special anti-surge safeguard mechanism to insure a more orderly transition to open trade in textiles with respect to China.

Last, with respect to telecom. Originally, our conception on telecom had been quite limited. Inward investment in telecom culminating in 51 percent four or five years down the road. The 51 percent issue was a very significant issue for China. What we have done instead is to allow for 49 percent investment by foreign telecom providers in China from date of accession. This is very significant and unprecedented. Moving to 50 percent in the second year after accession. And as you know under Chinese law, contractual management and operational participation is possible in a 50/50 situation. Here again, we tried to balance a particular sensitivity of China with the absolute commercial interests of the United States, leading to an overall strengthening of the commitments particularly in terms of earlier access at a much greater level than previous contemplated.

In all of these instances, we have, I think, affected very much a win/win for the United States and China. For example, on autos where a longer phase-in was important to China because somewhat greater earlier access became important to us, in getting auto finance, we balanced our interests, and China was able to secure longer phase-in and we were able to secure tariff cuts much more consistent with the auto financing package. We've done the same in telecom and in a few other areas. We are extremely pleased with the outcome, not just because it favors the United States, but because of the way we were able to balance the interests between the United States and China in a way that strengthened both of us with respect to the overall package. Basically, the rest of the package is as you know it to be. As I said, the test for us has always and consistently been a very strong commercial agreement consistent with China's export capability and its status as one of the world's largest economies and by any measure we have achieved that goal.

Q: I need two quick clarifications. Internet, did you specifically talk about ICP investment, whether internet content providers, whether they can invest in China?

BARSHEFSKY: Yes. Yes. Yes. No longer an issue. We have rights of investment. We clearly considered that internet access issues, considering what will be the dramatic growth not only of the internet worldwide but as you can imagine in China, to be one of the big economic issues for our country. So securing that and making the internet issues clear and secure were a top priority for us.

Q: And retail banking, U.S. or foreign participation and the percentages.

BARSHEFSKY: Yes, and let me give you, let me go through the banking if I can.. Hang on.. In addition to the auto finance commitments, which would cover of course, also non-bank institutions, for example Ford Credit. It also covers the banking institutions as well.

Let me just go through the general commitments. Foreign banks will be able to conduct local currency business with Chinese enterprises two years after accession. Foreign banks will be able to conduct local currency business with Chinese individuals five years from accession. Foreign banks will have the same rights as Chinese banks within the various geographic areas, in other words national treatment. This was absolutely critical. Both geographic and customer restrictions will be completely removed in five years.

Branching of course will be permitted. I think those are the major commitments, along with securing the auto finance. With respect to securities, where China has a very underdeveloped market, this is. The capital market dialogue was absolutely critical because of the under-developed and under-regulated nature of Chinese securities markets. What we have done in securities is to, at the present time, have minority, foreign-owned joint ventures able to engage in fund management on the same terms as Chinese firms. As the scope of business expands for Chinese firms, foreign joint ventures will enjoy the same expansion in the scope of business. Again, this national treatment issue is very, very important. Minority joint ventures will also be able to underwrite domestic securities issues and underwrite trade in foreign currency denominated securities, both debt and equity. That, coupled with the Summers' capital markets dialogue as necessary regulation as developed and expanded will go hand in hand within further expansion and market access both for Chinese securities firms as well as US securities firms.

Q: What's the minority stake?

BARSHEFSKY: For the fund management companies it will be initially 33percent going up to 49 percent in three years. For the securities companies that engage in underwriting it is 33 percent.

Q: (inaudible)

GENE SPERLING: We had two meetings with Premier Zhu Rongji. There was a meeting this morning with him that was very helpful in resolving the final issues. We met with him. He came to MOFTEC and Charlene and I met with him and that was certainly a pivotal meeting resolving the last few issues.

BARSHEFSKY: Thank you