

ROUNDTABLE WITH ROBERT B. ZOELLICK
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MARRIOTT HOTEL, DEAD SEA
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ZOELLICK: All of you were at my speech or read it, and then I'll be very brief. What I would like I guess highlight for you from my perspective is some of you may have seen from other things I've said and done, I believe trade is a critical component of development and it is not sufficient in itself but if combined properly it can become a catalyst for reforms. I also believe that what we can offer in terms of trade and enhanced economic relationships, is a fundamentally enabling framework, and it's a framework that has to be seized by others including the private sector.

I just was at a luncheon that King Abdullah had for(interrupted) a private sector council that was part of this forum, but one of the reason that I thought this forum would be a particularly interesting place to be as you get a mixture of the private and public sector and some interaction in the process. Well the last point I'll make is that this clearly is something that is going to be accomplished step by step, it's going to have to be customized for special circumstances and this is a region of vast differences, but as I said to the private business sector executives I have sensed a change, I sensed a change that there are some countries have been, the leadership have been quite courageous in the reforms that they were undertaking and their success is very important for us as a country but also for the region as a whole and so what the approach we tried to outline is different steps that are oriented towards different stages of reform for some, getting them into the World Trade Organization, for some then building on it with a trade and investment framework agreement.

REPORTER (New York Times): Commissioner Lamy mentioned that Europe has a higher historical trade relationship with this region, and is also a larger trading partner. Don't the trading patterns suggest Europe is still the most important trade partner?

ZOELLICK: Well, you also heard him answer the question, and this is where Commissioner Lamy I think work very well together, the focus is really less on trade patterns and more on allowing trade to help with development reforms and creating jobs. And if you also listen to Commissioner Lamy you could see that the European Union has taken a different approach to these trade agreements than the United States has, but I'm not saying one is better than the other, they're just different. The European Union actually has some thirty free trades and special customs union agreements around the world, if you examine them however, you'll find that they tend to be, let's see what's the right way to say this, they tend to be partial in market opening, and their way in which the European Union can start opening their markets but they'll often have restrictions on agricultural products and they won't try to get into the services sector and for heaven's sake they won't go into the intellectual property sector.

Now some of you are probably more familiar with the complexities of trade negotiations than others, but the approach that the United States has chosen is to make very comprehensive agreements, so that we have fewer, although we're trying to add to that number quickly, but it means that the good markets so the manufactured and consumer goods are at the end of the transition period totally open, no tariffs no quota. Same for agriculture, and that's definitely not what the European policy is, but also very aggressive in terms of opening services markets, investment accords, with very high quality standards for investors, intellectual property rights and in our most recent agreements with Chile and Singapore and that's what we're applying with Morocco and others, even covering the field of digital property so this would be a particular for those of you in the communications sector, and you're going to be establishing for example property rights when you download software, media or other types of devices because that's the way a networked world is going to work. Because of that, it means that for example you heard Commissioner Lamy talk about trade agreements with some countries that are not even members of the WTO. Well you're not going to really have a very complex market-opening agreement if a country isn't even a member of the WTO yet, so his focus as you could see was how do we try to integrate the region together, frankly in a low common denominator approach. Our focus has been let's try to highlight the models of success, set a high standard, and try to use that as a catalyst in the region so that others will start to go to the Jordanians, the Bahrainis, the Moroccans and saying, "this seems to be working for you, what do we have to do to make this work?" and then they will hear both from us and they'll also hear from others in the region. And then over time to try to connect those together.

Now, in saying that it doesn't mean we don't believe in a basic set of rules for trade that's why we're very committed to the WTO in bringing some of these somebody's country here to the WTO, but what I would suggest and in summation of that is that we can help them employ these agreements with the countries that really want to drive reform. Take Jordan, even before we completed the free trade agreement Jordan started to upgrade it's intellectual property rights quite significantly, so that's one of the reasons you're getting business software development here and that's why corporations like Microsoft are investing in the company I mentioned. That's one of the reasons the pharmaceutical industry is growing here. So by setting higher standards frankly what we've found is our agreements become a form of good housekeeping seal of approval internationally, and they become seen by the international business community as a quality product.

There is another major Arab country that I'll leave unnamed, that is very – their reformist ministers and not all their ministers are reformist - very eager to do a free trade agreement with us, but they already have a free trade agreement with Europe, and I said well, you know, what's your particular interest in this, and he said well, the European agreement is riddled with so many exceptions and holes and so on and so forth, it didn't help me drive reform. And so this is where, for us, if you consider the markets in these countries, they're not going to be necessarily significant in terms of US exports and imports. They can be significant in trying to help reformers within these countries to drive a reform process and build constituencies within the country as well as foreign investors that have an outward orientation. And so again, as Pascal said, they've got a different geographic

position, they've got a different posture, and frankly you know in contrast to what some of you may feel about US-European relations, Lamy and I are always trying to work together on this, and you got the message from his point, that if at the end of the day we can give this region more choices, it's not a choice of the United States or Europe, both - and by the way it won't be long before they're going to be competing with China and India here as well - and so help them strengthen themselves because I think both Lamy and I feel it's a global economy. You can create regional integration around it, but they're gonna have to compete in a global economy and we've got to help them with that.

REPORTER (Financial Times): Sir, any political elements to these agreements and human rights criteria [inaudible] are there any criteria, can Syria for example or others of concern to you join?

ZOELLICK: Why don't we start with the most basic one. On the trade promotion authority that was passed by the Congress as part of the Trade Act, we actually have requirements for environment and labor and our good European friends who often talk about them do not actually put them in agreements. And so our agreements that we negotiated with Jordan, that we're negotiating with Morocco, and with others, actually have a requirement that countries enforce their labor and environmental laws and this is where our companion process is held. We then work with the countries as they actually strengthen them. So I forget at which meeting it was, but you might have heard Minister Saif from Bahrain talk about strengthening their labor laws, he knows that's part of the process, just as in the case of Chile they overhauled the Pinochet-era labor laws and they're doing it right now in Central America. Now we're sensitive on how we do that, because for many developing countries there's a sensitivity that this would become a new form of protectionism and we're adamant against that, and at the same time, we have members in our Congress who don't want other people telling us what to do with our labor laws, so the compromise that was struck by the Congress was to enforce your own laws and then in a parallel process we try to have people strengthen their laws.

Now more generally in my speech, you could see I also had a qualifier in terms of some of the countries in terms of bringing them to the WTO and we are not supporting for example Iran's admission to the WTO at present. So there's a political dimension to that. Now, Commissioner Lamy also said they are not moving forward with their own trade agreement on that. And I think the way that I would address the political points in the free trade agreement context is that through the discussions we have with countries, we make it quite clear that at the end of the day we need to bring an agreement back to the Congress, and that means that people will look at the overall relationship, and obviously you know it's been our belief that openness and trade and economics is related to openness in political liberty as well. Now we don't have a set requirement, but we certainly have found that countries that move in the direction of a comprehensive reform as we have, move towards openness more generally in society.

Let me give you one area whether they intersect. I mentioned transparency. Well, now this can mean lots of things to different people. In the trade agreements we now negotiate, in the regulatory area - and this is very important in the services field - the

countries agreed to the types of principles that we've incorporated in the Administrative Procedure Act, and you want to change your regulation you have to put out a notice, you have to take comments, you have to respond to the comments and so it adds to a political openness and transparency of your economic decision making.

REPORTER (The Economist): Where does Iraq standing in your MEFTA vision?

ZOELLICK: I was asked this question or at least a variation of it the press conference I had with Colin. The decision for Iraq ultimately have to be made by the Iraqi people and a new sovereign government of Iraq. It would certainly our hope that Iraq could be one of the engines of a new openness and economic growth and vitality in the region.

My own assessment is you have to walk before you can run, and at this point, the first step is making sure one establishes security, it's hard to have a climate for economic growth without security. Simultaneously the second aspect has been to work on humanitarian aid as necessary. I think we probably found that the quickness of the campaign probably meant there were less direct humanitarian problems than some had surmised. Third, get the oil sanctions lifted and start to get their oil flowing so as to provide a revenue source. Fourth, we're going to have to deal with the debt problem whether through forgiveness or rescheduling because that's a big overhang. Fifth, they're clearly needs to be a reconstruction effort in the traditional term of reconstruction, building things, and the United States or I guess the coalition as the whole has devoted some 100 million dollars this year for the various reconstruction efforts which obviously will also have an employment effect in the country.

Now, going beyond that, there will also be the need to develop commercial codes and legal regimes, we and other countries will be supportive of that. I believe the World Bank is trying to help with its programs. And that I hope will create the foundation for the steps on the trade side. So what would be the next steps on the trade side? I mentioned the Generalized System of Preferences. We would like to qualify Iraq for that Generalized System of Preferences just as Commissioner Lamy said they want to do for Europe, get them an open access for some 3500 products. And then I think the next step will be to get Iraq into the WTO, but those steps obviously have to wait the decisions of the sovereign Iraq Government, because we want to be sensitive here, we have a balance, we want to try to create an opportunity, but whether it would be Iraq or in the other countries in region, the choices have to be made by the people of these countries themselves.

REPORTER (Arabian Business): Two questions. At what the stage we need to consider the Palestinians merging Palestinians there with the Palestinian territories for this thing here.

ZOELLICK: That's very interesting, that came up at the breakfast we had this morning, and your question certainly suggests this is not generally known. Under an agreement that was struck in 1995, the Palestinian territories are covered under the Israeli Free Trade Agreement, so they now have a free trade agreement with the United States. And

actually the Minister from the Palestinian Authority said he said, I've got no complaint on the trade side, you guys have done everything for us, in terms of trying to open things up, now they have problem in terms of moving goods. And one of the ideas we discussed at that meeting is as the Palestinian state develops, I think we should look at the prospect of having them being observer to the WTO, and then I think they'll need to be some practical steps as you try to develop two states living next to each other in peace, to help products move. So this is where my role is a little different than that of foreign ministries, we have to get very down to earth and practical. So what's produced in the Palestinian territories? Vegetables, flowers, you got to get that product to market, and so that's going to require trying to work out some secure access points, actually my office is primarily a negotiating office, we're quite small, but my people have tried to look at some of the issues.

You know for certain investment you might be able to buy a type of machine at certain transit points that would help assure that you get, loosely speaking, X-ray vision of what's coming through the product, and maybe for a modest investment as a point in the process it would be confidence building area that would help more produce come through. So those are some of the ideas that we'll work with the State Department at, but I personally believe very firmly that in that region most of all you've got to get people some sense of opportunity and hope and that they look towards building things as opposed to destroying things.

And the good news is, as I forget which session I mentioned this at, I have one of our colleagues at USTR who was an international journalist and was at a conference in Gaza couple of years ago, and she was struck by the commercial entrepreneurialism of the people there. She said they have very little to sell, but boy out at every place someone was out trying to make the bazaar happen, so that's the sort of thing that I hope in the context of the road map moving forward that we can play our role in trying to stimulate it. As I said from my office's formal responsibilities we're already there, and what I also said actually to the Ministers from the Palestinian authority was I said, as you move toward an independent state, if you're interested, you know we'd like to try to make sure you maintain your free trade status as you go forward.

REPORTER (The Washington Post): Now, just to be clear on this, that would be a separate free trade agreement with Palestinian state once it existed?

ZOELLICK: We'd have have to talk with Congress about that, but you know I mean frankly I would like to try to achieve the result and right now again, they are covered under the US-Israel free trade agreement dating back to '85, and so we'd have to work with Congress to see how that moves forward, but that would be the object that I would like to achieve.

REPORTER (Arabian Business): My other question. Being based on the Gulf, there is some more concern about the boycott of US goods, a decline in US trade between Saudi Arabia and the US, is that all of any worry to you?

ZOELLICK: If you're a WTO member you can't participate in boycotts. Now, Saudi Arabia is not a WTO member. Obviously we're opposed to the boycott we think it's bad foreign policy and we think it's bad economic policy. But so this came up in the context of some of other countries in the Gulf that are not applying the boycott and as for Saudi Arabia, frankly I think the Kingdom has had an ambivalent view about joining the WTO, until recently. I think the Crown Prince has actually generated greater interest as you may know, he's shifted around some of his ministers. Even before that shift I had a meeting in Washington where I found a very different tone about these issues, just to give you a sense of how this works in practical terms, we offered through AID money to put a expert in our embassy to help them with some of the technical details of application. This is a person who had actually played a similar role with Lebanon, and various is ministries kind of squelched the thing at that time, but now I think they're developing a greater interest, and just last week, one of my colleagues reported to me they met with Saudi officials in Geneva and seemed to have a greater degree of interest, so perhaps this process can push that along.

REPORTER (The Washington Post): Can I ask you the state of US discussions with Syria about trade and economic issues. You know the mystery of whether the President of Syria seeks economic reform or does not, if he does at what pace, you know is one of the interesting questions in this region, and I'm interested what's the nature of your dialogue with Syria right now.

ZOELLICK: None. And I have the same question you do. In other words, I have different – from my ties in the private business world before I came into the government I know a number of people from the region including Syrians who left the various times and I keep trying to find out what you found out but at this point nothing is going forward.

REPORTER (Financial Times): In Egypt, you've got some harsh words with

ZOELLICK: We had realistic words.

REPORTER: ...CONTINUING. Are there discussions going on - when they signed an association agreement with the EU there was a hope of performance and reform with the government...they've been waiting for that and that clearly hasn't happened. Do you think US pressure will move them forward?

ZOELLICK: No, I don't US pressure will move them forward, it's got to come from within. I got this question when I was in Egypt yesterday and someone was saying, gee there's a lot of opposition to a free trade agreement within Egypt and what you have do you say for it? And I have to say that's up for the Egyptians to answer, I'm not pushing a free trade agreement on them. And that's part of the lessons of this, and this is where some of the political mindset has to kind of readjust on the economic side.

We have an economy that represents 25 to 30% of the world's GDP depending on exchange rates. I have an extremely long line of countries interested in doing free trade

agreements, and at the same time I'm trying to keep the global negotiations on track and for the 34 countries of the Free Trade Area of the America. So I focus on those who are trying to help themselves, and I'm not the demandeur in this situation, I'm trying to be helpful for others.

Now in the case of Egypt, I think Minister Boutros Ghali has struggled to try to move the reform process forward, and we've tried to work closely with him on that process, and as I mentioned in my remarks, they made some important progress. They've made some progress in intellectual property rights, they made some progress in basic telecommunications – signing on to the WTO's basic telecommunication accord - I think they're going to move ahead to the Information Technology Agreement as well. And the United States has a rather hefty aid program with Egypt, and working with Liz Cheney in the State Department, we're trying to connect our aid to some of those issues.

Now I mentioned the customs program, and you may know we have an AID program trying to help them do customs reforms and the reason I stressed that point was because I'm trying also to send a signal, which is that there are some countries in the world that had an old think and that feel that political relationships are going to give them what they want economically. And they won't. They've got to make the reform and I brought in, I had a number of meetings with my Egyptian counterparts, sometimes with Egyptian and US business people trying to say here are some problems you've got to solve if you're going to make this work.

US soft drink companies have been subject to a tax that frankly would make it more efficient for them to move their operations out of Egypt and export into Egypt, because the internal tax is higher – the combination of internal taxes - than the tariff. I tried to bring this to the attention of the Egyptian authorities and these are some of the biggest investors and employers I might add, but the system has a rather difficult time adjusting, and so I know Egypt is a very important country in the Arab world. It certainly sees itself as the heart of the Arab world, sometimes it gets frustrated when it sees other countries move ahead of it, but that will be Egypt challenge.

Now, the other part of it is that I also tried to emphasize to my Egyptian colleagues... having been in the State Department as well, trade jobs are a particularly fine balance. I probably travel around the world more than anybody else even more than Colin, but I also probably spend more hours with the US Congress than anybody else, because it's an intensely domestic issue and at the same time intensely international. I believe in open markets, but we all have political challenges and so when I'm working with a colleague I need to know their word is good. Because I'm taking risks, I'm trying to put together coalitions, and you are you can see this with some of the countries I tried to encourage here. If a country is trying to do the right things and their in adverse circumstances I'll go the extra mile I can, do whatever I can to help them, because I have great admiration for people trying to do that. And, take the Moroccans in the case of the agriculture sector, we'll have to work this out with them in the free trade agreement to try to help that transition because I know it's sensitive to them politically but at the same time we're looking to open the market. But you know, in the world of trade negotiations and if you

listen to the Commissioner Lamy you've got the same sense, it's a little bit more nuts and bolts, rubber hits the road, and someone's got to deliver on their commitments.

There is time for one more question

REPORTER (The New York Times): This came from the President after the Iraq war, when you approached the area on the trade economic front. If what we're seeing happening in the occupied territories and in Israel itself continues with the violence there and the diplomacy grinds to a halt, as it has so often in the past, do you move away, how do you keep going?

ZOELLICK: Well I think that has to be dependent on each country. So for example you know we completed the free trade agreement [with Jordan] and got it through the Congress you know before these events. Frankly we looked at Morocco as a possibility as a Free Trade Agreement and we're doing that negotiation, although one of the reasons that I wanted to help the Moroccans was that I thought it would send a good signal to have another Arab Muslim country have a free trade agreement. We'll move ahead with Bahrain regardless. I think probably the greatest effect of that would be to the risk premiums in the region, and perhaps the political strength of countries to move forward with reforms.

So to adjust your opening statement a little, what I mentioned in the press conference I did with Colin was this as it look like the Gulf War was approaching actually we sat down and thought about what we could have in the aftermath of a conflict that would show that the United States interest is first to establish a security environment but then to build on it the possibilities of open opportunity and prosperity. And so in reality this and some of the other things associated with it were things that we were developing with the context ...and so we were trying... we thought that it would be a very important message and that's how it has been received here.

And so the bottom line answer is I'm committed, we'll do the best we can and then it really depends on the countries in the region. Let me give you an example, you know Egypt would be a great country to move forward with but that's got to depend on political decisions in Egypt, how much of those are linked to this process you can make a guess. Tunisia, Tunisia has done reasonably well in economic reforms, if they can keep moving forward that will be a good candidate. This may ...pardon?

Reporter (The Economist): Will this also lead to political reforms?

Zoellick: I think the two will tend to move together in some fashion, my own sense of, but you on that one, I want encourage them to start to move in the right direction at the same time, economically and politically.

Interruption --Without political reforms you won't proceed?

ZOELLICK: I don't want to prejudge the situation today, I want to open doors of opportunity not close them. But I wanted to talk about the Gulf because I think what we've started with Bahrain could catch on with some of the other Gulf countries, well that may move on its own separate pace. So obviously I think the real potential would be an environment in which people in this region, you know have achieved a peaceful relationship including with Israel and they're all working together to build prosperity but you know we're committed to this course one way or the other.

REPORTER (Arabian Business): Do you think that's going to be some kind of trickle down effect (THIS IS THE LAST QUESTION) there's going to be an economic revival or a rebound in the region that somehow this is going to affect the pace of reform, economic, political or whatever? ...

ZOELLICK: I think they're all linked together. I mean take the, you know, we would be started with these Qualifying Industrial Zones in Jordan I think in 1999, according to the Jordanians those have created some 30,000 jobs, 70% of which women. That's got to be good for a country trying to move towards economic reform, but equally important, we now are starting diversify you know, pharmaceutical, precious stones, the bromine plant that I just visited, business software, and I think these become a virtuous circle. For a reforming king and government, they show you can create jobs, you can create growth, you can create opportunity, each of these open the country to the world more, so it's starts to have more contact with people from around the world. And frankly people start focusing on building for the future as opposed to hating because of the past, so those are all elements.

But I'm not a determinist. I'm not a Marxist in a view that economics totally determines politics, but I do believe that the two can work together and that certainly has been the history much of the of the world, is the two do become interconnected. I know I've got to go – but one other thing is this: in part because of the nature of my job, I'm not only getting around to the rest of the world, but I getting around to the rest of the world in real time, sometimes I'm one day in Thailand another day in Brazil and part of the message that I try to bring to some of these countries is it's a global economy and they're going to face global competition. And take China, I mean they are a very serious people, in terms of economic development and growth, they're going to have their problems ahead of them. But that will have ripple effects that already see in the region, so you know in the past ten years you can almost see that the foreign direct investments statistics have flipped from the percentage from ASEAN to China to China to ASEAN, for the people in ASEAN are also a serious people and they're adjusting to that course.

So part of what other countries in the developing world, whether it be Africa, the Middle East or others, the message is we want them to be part of that, we want to create an opportunity, but they have to step through the door themselves. And it's not just a question of whether the world's unfair, or whether they like globalization or not, it's here. And what we're trying to do is to get a combination where we will customize for local circumstances and that's where the idea of the TIFA agreements is to help understand the economy and work toward a free trade agreement, but it's not that they're supposed to

just become spokes in a wheel with the United States. That will help them compete globally, I mean look at the case of Mexico. Mexico was not even a member of the GATT, which is the precursor of the WTO, until 1986. They did a free trade agreement with the United States and Canada, it join the GATT in 86, free agreement with the United States and Canada, and it didn't stop there, it's now an international trading player. And frankly this even had the effect on Canada, Canada became much more competitive globally. If you start to develop the type of trade the relationship that we seek in terms of rules and standards and frankly if you can compete with the United States, you start to become a global player, so part of what the message I bring here and also to sub-Saharan Africa as well is we want to give them a leg up, we're trying to do special things in terms of preference arrangements and try to do additional help, but ultimately they need to recognize that the opportunities, they're going to have to seize them because otherwise some of these other countries either China, South East Asia, Latin America they're going to keep coming.

Thank you.