AMBASSADOR CHARLENE BARSHEFSKY
SPEECHES AND TESTIMONY
1993

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June 8, 1993

STATEMENT OF

AMBASSADOR CHARLENE BARSHEFSKY

DEPUTY UNITED STATES TRADE REPRESENTATIVE

ON TRADE POLICY TOWARD CHINA

BEFORE THE

HOUSE WAYS AND MEANS

SUBCOMMITTEE ON TRADE

This Administration has clear goals that it wishes to achieve on trade with China. First and foremost, we intend to pursue market opening initiatives for U.S. goods and services. U.S. business should have access to the Chinese market comparable to that available to China and our trading partners in the United States. Second, as a result of greater comparability in market access, we would expect more rapid growth in our exports to China, greater than with the growth of U.S. imports from China in recent years. Finally, and perhaps most important, we must work to ensure to the maximum extent possible that China accepts the rule of law as it applies to trade -- that is, that China's trade and economic policies are consonant with international norms.

China's Market Potential

China is now the fastest growing major economy in the world. In 1992, its economy grew at an official rate of 12.8 percent, with growth in the booming cities along the east coast at even higher rates.

Over the past decade, China's global trade has grown on average by more than 11 percent annually -- twice the rate of world trade growth -- increasing from less than $40 billion in 1980 to $165 billion in 1992. While changes in accounting methods have reduced the ostensible size of China's foreign reserves, they are still formidable. In trade terms, China is no longer a poor nation.

The growth of our bilateral trade relationship with China over the past decade and a half has been dramatic. Our two-way trade has grown from $2.3 billion in 1979 to more than $33 billion in 1992. The United States is now China's largest export market, with more than 30 percent of China's exports going to the United States. Americans imported more than $25 billion of Chinese goods in 1992.

Our trade relationship, however, is badly out of balance. The bilateral trade deficit stood at $18.2 billion in 1992, up 43 percent over 1991. The deficit reached $4.2 billion in the first three months of 1993 -- up 23 percent over the same period last year. In light of the lack of comparability of market access between our two countries, we cannot abide China's huge and growing trade surplus with the United States, now second only to that of Japan.

China's planners import proportionately more from the European Community and Japan than from the United States. According to former trade minister and current Vice Premier Li Lanqing, in 1992 China's imports from the European Community and

Japan grew at a rate approximately double that of imports from the United States. Not only is our deficit with China unacceptable, but our trade pattern vis-a-vis our foreign competitors is disturbing and must be reversed.

China needs the products and services that U.S. companies are the best in the world at providing. In addition to supplying China with wheat, fertilizer, and wood -- products that we have long sold to China -- the mix of products that we now export is dominated by the high-technology sectors in which we excel. Thus, the United States exported $273 million in wheat and $629 million in fertilizer in 1992, but over $2 billion in aircraft and parts and over $1 billion in computers and power generation equipment, along with substantial sales of electrical machinery, telecommunications equipment, and scientific and control instruments.

In addition, U.S. investment in China -- which in many respects augurs an increase in trade -- reached record levels last year, totalling over $1.5 billion, with total pledged investment above $6 billion. More than 550 companies now have offices in China.

Opportunities for enormous expansion of U.S. exports -- and thus for creation of high-wage export jobs -- are plentiful, provided that market access barriers are reduced and eliminated. China estimates that it will require more than $350 billion in imports over the course of its Eighth Five Year Plan, which will be completed in 1995. For its part, the U.S.-China Business

Council estimates that the market for power generation equipment in China over the next 25 years is $40 to $100 billion, for aircraft and aerospace over $40 billion over the next 20 years, for telecommunications about $30 billion over the next five years, and for auto parts, $29 billion over the next three years.

In short, the boom in China's economy, support for change within China's leadership, and the enormous potential of China's market for U.S. companies provide the United States with a rare opportunity to press for open and fair markets in China. If we wait, we may find that our industries are placed at a permanent disadvantage relative to those of our trading partners.

MFN FOR CHINA

The President's decision on Most Favored Nation (MFN) trade status for China firmly expresses the Administration's resolve that China must take essential steps toward improving its human rights policy and complying with the prison labor Agreement. The Administration is committed to elimination of human rights abuses in China.

At the same time, the President's decision recognizes the accelerating importance of China's market to the United States, and, more broadly, the importance that the success of China's effort to modernize holds for our domestic and global interests. The Executive Order of May 28 thus stipulates that the President will renew China's MFN status on the basis of explicit human rights criteria, and will use all legal tools to resolve issues of weapons proliferation and trade. With respect to the latter, the President committed his Administration to "pursue resolutely" all legislative and executive actions available to ensure that China follows fair and nondiscriminatory trade practices.

POLICY ON TRADE WITH CHINA

China maintains one of the most protectionist trade regimes in the world. It has put in place multiple, overlapping non-tariff barriers to imports and maintains prohibitively high tariffs. While China's export regime has undergone a remarkable transformation over the past decade, turning China into one of the world's most formidable export engines, China's import regime remains the creature of central planners and state bureaucrats. And China's market for services remains closed to all but a few companies that are allowed in only on an "experimental" basis.

Strong, pent-up demand in China for advanced and other products on the one hand, and China's restrictive import regime on the other, has led to the creation of a large and growing grey market for goods. That grey market, access to which is often determined by illicit business practices, remains largely off-limits to U.S. companies. For many sectors, the grey market for goods is substantially larger than the officially-sanctioned market.

China's rapid growth has thus spawned a "wild west" mentality on trade that often has little respect for rules or international norms. Growing corruption have made that situation worse. A fundamental tenet of our trade policy toward China, therefore, is the establishment of a solid framework that makes the rule of law a basis for China's conduct of trade. A second and equally important tenet is that U.S. companies must have access to China's markets comparable to that afforded China's exports to the United States. If Chinese business has the ability to trade and invest freely in the United States, then U.S. business should have the same rights in China. That, after all, is the "equality and mutual benefit" that girds our bilateral trade Agreement.

Trade Agreements. The trade agreements that we have signed with China represent important steps toward creation of a solid framework for the U.S.-China trade relationship. The intellectual property rights Memorandum of Understanding (MOU), signed in January 1992, commits China to the establishment of a world-class legal structure for the protection of intellectual property. The market access MOU, signed on October 10, 1992, is based on GATT rules and disciplines. It commits China to make sweeping changes in its import administration over a five year period. We intend to negotiate further agreements that broaden and strengthen the market access framework reflected in the initial agreement. Let me take each of these agreements in turn:

Intellectual Property Rights. Protecting intellectual property is vitally important if U.S. industries are to maintain their comparative advantage in the high-technology sectors they dominate. At the same time, Chinese leaders have recognized the importance of protecting intellectual property. Deng Xiaoping, in the spring of 1992, made that point succinctly when, in a statement that was published in the People's Daily, he declared that China should "abide by international rules on intellectual property."

In the IPR Agreement, China made bold commitments to bring its hitherto poor intellectual property rights regime to world class standards. For example:

- On copyrights, China has joined the Berne Convention on Copyrights and the Geneva Phonogram Convention, issued regulations implementing the Berne Convention in China, and promised to protect existing copyrighted works.
- China has raised the level of protection for computer software. China now protects computer software as a literary work as defined by the Berne Convention.
- On patents, China has taken significant steps to redress weaknesses in its patent regime, including amendment of its patent law to extend protection beyond processes to agricultural chemical and pharmaceutical products.

While we have made a good start, many problems remain. Piracy of copyrighted works and patented products is still endemic in China and the Chinese government has done little to bring it under control much less eliminate it. China does not have an effective IPR enforcement agency and Chinese law offers no criminal penalties for offenders. Clearly, on enforcement, China lags well behind most countries in the region.

The International Intellectual Property Alliance notes that piracy in China of software, books, audio records, and music and motion pictures remains serious. They estimate that, in 1992 alone, U.S. industries lost upwards of $415 million to copyright piracy alone last year. In addition to market barriers, the absence of effective IPR protection is the greatest hindrance to access to China's market by the recording, motion picture, computer software, and other industries.

We have informed officials of China's trade ministry -- the Ministry of Foreign Trade and Economic Cooperation -- that we expect China to enforce strictly IPR laws and regulations. We intend to hold consultations on enforcement of intellectual property rights, with the aim of reaching agreement on a strict enforcement regime.

<u>Market Access Agreement</u>. China's commitments here are sweeping. But the Chinese government has not lived up to some important obligations under the Agreement. China has missed some important deadlines. It has not opened its markets to key U.S. exports as substantially as promised in the Agreement. We are now holding discussions with China to ensure full implementation of the Agreement. If China does not fulfill its commitments, we will act decisively.

The market access MOU, signed on October 10, 1992, commits China to wide-ranging liberalization of its import regime. That commitment, made at the highest levels of the Chinese government, if completely fulfilled, contemplates unprecedented access for U.S. companies to China's market in virtually all of our key export sectors.

Under the Agreement, onerous import licensing requirements and administrative barriers such as "controls," "restrictions," and quotas will be phased out for computers, telecommunications equipment, heavy machinery and electronics products, instant cameras and instant print film, agricultural goods, wood products, steel, and many other goods. China has already reduced some prohibitively high tariffs, effective December 31, 1992; further significant tariff reductions are to be implemented by year-end 1993.

Equally important, the Chinese government has acknowledged that it has for many years used restricted "internal" or neibu trade regulations or secret directives to make commercial decisions. In the Agreement, China has promised to make its trade regime transparent by publishing all trade laws, rules, and regulations, and by issuing rules that forbid enforcement of non-published regulations. China will also make its obscure but extremely important import approval process open and transparent.

China has also agreed that it will not use standards and certification requirements as barriers to trade, particularly in agriculture. It has promised to base sanitary and phytosanitary standards on sound science -- the principles of which will be negotiated with the United States -- which should clear the way for U.S. exports of fruit, vegetables and other agricultural products. For wood products, China confirmed that domestic regulations banning the use of wood in domestic construction and other projects does not apply to imported wood -- thus opening up a potential $1 billion market to U.S. firms.

With these and other commitments, China has pledged to open its doors to U.S. exports over the next five years. We will take all necessary steps to ensure that China fulfills its obligations under this Agreement and opens these markets.

<u>Accession to the GATT</u>. The United States is committed to "staunchly support" China's accession to the GATT and to work constructively with China and other GATT contracting parties to achieve an "acceptable protocol" of accession. Under the condition that China's protocol of accession must be a strict and detailed one that further opens its markets and commits it to significant reform of its trade regime, the Administration regards China's eventual accession to the GATT as an important step toward further opening China's markets and holding China to international norms.

In the past year, U.S. negotiators have participated in four meetings of the Working Party for China in Geneva in concert with many other nations. They have also held a round of bilateral discussions with the Chinese in Beijing. While the Chinese have expressed interest in reaching agreement on an acceptable protocol, to date there has not been significant progress in that direction. China cannot enter the GATT on its own terms but must subscribe to GATT norms -- something China has not yet been willing to do.

<u>Textile Transshipments</u>. Textile transshipments, estimated by the U.S. Customs Service to be $2 billion annually, violate China's bilateral textiles Agreement and are a major threat to the integrity of the international regime governing textile trade.

The Administration is committed to combatting Chinese textile transshipments. In the last several months, China has adopted several measures, some at our insistence, to stem transshipments. They have proven ineffective. Unfortunately, no noticeable reduction in transshipments has occurred.

The Administration insists that China eliminate illegal textile transshipments. The ultimate responsibility lies with the Chinese government. For our part, the U.S. Customs Service will continue to monitor transshipments. If China is unable or unwilling to accept its obligations to trade fairly in this important sector, substantial alterations in the manner in which this trade is conducted will be made by the United States.

SERVICES

U.S. companies that have entered China's market are severely limited in their ability to expand and to provide the full range of products and services available to Chinese customers. In most instances, U.S. companies cannot offer after-sales service, do not have direct access to sales and distribution networks, cannot own or manage their own retail outlets, cannot operate leasing companies or holding companies in China, and are otherwise restricted in their access to a vast array of business and local customers. If U.S. industries are going to establish a long term and successful presence in China's markets, they will need to be able to draw on a highly articulated services sector.

The market access Agreement sets the stage for the opening of China's potentially extensive market for services. We have asked the Chinese formally to begin negotiations on services that would lead to an Agreement opening China's market to U.S. companies. We are now awaiting a positive response.

Complementary Issues

If our market opening initiatives are to be fully effective, other complementary efforts to expand U.S. exports to China will be required. Expanded trade promotion activities in China are one necessary component. Through active trade promotion activities sponsored by the Department of Commerce we can take better advantage of the market opening measures that we have achieved.

Similarly, the Administration must review the effect of export controls on our high-technology exports. Generally speaking, controls are the strictest in areas where the United States is most competitive. The rapidity with which technological advance occurs often means that our export control policy lags woefully behind commercial reality, draining the U.S. of substantial export opportunities.

We sometimes require export licenses on products that the Chinese are now producing themselves -- and that our competitors in Asia are exporting freely into China. It is not surprising that many companies have told us that export controls are among the most important barriers to expanding trade with China. Export opportunities will be achieved not only in negotiations with the Chinese, but also in a review of those barriers to U.S. exports imposed by our own country. The Administration will consider steps to ensure that the export control system continues to maintain the integrity of our national security and foreign policy, yet functions in a fashion that does not unnecessarily encumber our commercial goals.

Conclusion

We have an historic opportunity to expand our trade relations with China and to help create hundreds of thousands of high wage jobs here in the United States through increased exports. We have a great stake, not only from a global, strategic perspective, but also from a domestic perspective, in opening China's markets and ensuring that China plays by the rules. We will make every effort to see that this happens.

REMARKS BY
DEPUTY U.S. TRADE REPRESENTATIVE
CHARLENE BARSHEFSKY
BEFORE THE ANNUAL MEETING OF THE
U.S.-KOREA BUSINESS COUNCIL
June 15, 1993

It is a pleasure to be with you today. I know that the Business Council has been an active and constructive advisor to the U.S. and Korean governments in our joint efforts to expand commercial ties. The Office of the USTR is very interested in maintaining a close working relationship with key private sector organizations such as this one.

Our discussions this morning have particular significance for me: One week from today, I leave for Seoul on my first trip as Deputy USTR for the annual U.S.-Korea Economic Sub-cabinet Consultations.

These will be the first senior-level consultations between officials from the two new Administrations, and they will be followed about two weeks later by President Clinton's meeting with President Kim Young-Sam in Seoul.

These two meetings give our new governments a unique -- and early -- opportunity for face-to-face, in-depth discussions on what I believe to be our shared objective: expanding the current scope of our economic relations by ensuring that impediments to trade and investment are reduced.

I see many common themes in the economic policies of the Clinton and Kim Young-Sam Administrations. Foremost among these is a recognition of the close link between domestic economic growth and the international economy. For the Clinton Administration, trade policy is part of a coordinated and integrated national strategy to revitalize the U.S. economy and renew this country's economic strength. Similarly, for the Kim Administration, continuation of Korea's remarkable economic achievements is inextricably linked to Korea's ability to attract desirable foreign capital and technology and to make Korea a more hospitable environment for business, both domestic and foreign. Both of our domestic economies will depend on the openness of the other's economy and on the competitiveness of our companies at home.

I'd like to discuss with you this morning the Clinton Administration's vision of the U.S. role in the global economy and the important part that Korea can play.

Government of Korea to ensure that as deregulation proceeds, U.S. business opportunities are enhanced.

In addition, the new Korean Administration appears committed to the protection of intellectual property rights. This is an area of vital interest to the United States and one to which the Korean Administration has responded positively.

The Administration has impressed the United States and our private sector with the determination with which it has developed a plan of action to reduce piracy and counterfeiting. We believe that Korea recognizes the link between protection of intellectual property rights and the ability to attract advanced technology. I know that the Business Council has been active on this issue.

The Presidents' Economic Initiative is another area in which U.S. and Korean objectives have meshed -- using a generic, broad-based approach to avoid the many "doing business" problems our companies face. The recommendations are completed, and we can be proud of the achievements of the ad hoc working groups. However, the recommendations have not yet been fully incorporated into the day-to-day operations of government officials. President Kim's drive to deregulate the Korean economy must more fully reflect the thinking behind the PEI -- that the rules and procedures affecting imports and foreign investment must be fair, transparent to all, publicly announced, and non-discriminatory.

Our Economic Sub-Cabinet discussions in Seoul next week will lay the groundwork for President Clinton's meeting with President Kim. We believe that an important contribution to Korea's economic objectives would be clear signals that Korea welcomes foreign investment and is willing to take on the challenge of an increasingly open economy. These signals could take the form of concrete steps by the Korean Government to clear the bilateral agenda of issues that have been with us far too long, as well as the development of a forward-looking initiative to smooth the way for increased trade and investment cooperation in the future.

I am optimistic about our trade and investment relations with Korea. I see a complementarity in our economic agendas. Our hope and expectation is that Korea's trade and investment policies will better reflect its new stature in the world trading system.

Thank you.

STRENGTHENING U.S. COMPETITIVENESS
THROUGH INTERNATIONAL INVESTMENT

By Ambassador Charlene Barshefsky

Speech To The United States Council for International Business

July 20, 1993

The United States has championed the cause of liberal, transparent foreign investment regimes. Our activism has been based on the fact that foreign and domestic investment promote trade, stimulate economic growth, create jobs, and foster competition and consumer welfare. As the world's largest source and recipient of foreign investment, the U.S. has a critical stake in investment climates both here and abroad.

The link between investment flows and trade in goods and services is well known and is reflected in a number of Administration initiatives -- the Bilateral Investment Treaty (BIT) program, the CFTA and the NAFTA, our bilateral work with Japan and other countries, and the Uruguay Round talks on services and on trade-related investment measures (TRIMS).

U.S. investment policy starts from the principle of national treatment with limited sectoral exceptions. Those exceptions should be related to national security, e.g. in transportation and communications. This principle protects foreigners from general "screening" of their investments in the U.S. In addition, the U.S. provides freedom from performance requirements -- no mandatory local content, export or technology transfer requirements. The United States allows free transfers of investment-related funds and maintains standards for expropriation that meet or exceed international norms. Finally, as a member of the International Centre for Settlement of Investment Disputes (ICSID), foreign investors are provided access to international arbitration to resolve disputes. All U.S. Bilateral Investment Treaties (BITs) and the NAFTA provide for international arbitration at the investor's choice.

U.S. policy is to maintain these standards, based on the tenet that foreign investment in the United States should be accorded fair, equitable and non-discriminatory treatment. But as President Clinton has said, we will insist that our investors be equally welcome in other countries. Thus, we expect that U.S. investment abroad should also receive fair, equitable and non-discriminatory treatment. With this goal in mind, we are encouraging our negotiating partners to accept three basic investment concepts as integral to their investment regimes.

First, American property overseas should be afforded fair and equitable treatment, meeting those standards required by international law. Property should only be taken in accordance with due process of law, for a public purpose and in a non-discriminatory manner. In such a case, the investor should be provided prompt, adequate and effective compensation. An American investor in a foreign country should be accorded full protection and security -- and not be hindered by arbitrary or discriminatory measures.

Second, American investors should have full access to foreign markets. Clearly, prohibitions on, and discrimination against, U.S. investment impedes competitive U.S. companies in their global operations. Similarly, once a U.S. company is operating in a foreign country, restrictions on free transfers are a handicap in maximizing competitiveness. Foreign royalties, for example, may be critical to a smaller company trying to exploit world-class technology on a world-wide basis. Even large U.S. multinationals cannot indefinitely justify to their domestic shareholders profits blocked abroad.

Finally, foreign restrictions on investment must not result in agreements with private investors that damage overall U.S. competitiveness. The argument for free flows of investment and trade stems from the welfare gains arising from a more efficient and competitive supply of goods and services. Through general performance requirements, and through screening "according to the national welfare," countries distort such flows. By forcing local purchases by investors, for example, many have traditionally kept U.S. suppliers from the benefits of additional sales, greater economies of scale, and exposure to new markets. Even when the investor itself is able to accommodate such demands, these local content, export performance and technology transfer requirements appropriate U.S. jobs and know-how. We were successful in eliminating such measures in Mexico, through the Investment Chapter of the NAFTA, and we expect to achieve like results with other negotiating partners.

With these three goals in mind, what tools is the United States currently working with in the negotiating arena?

First, is the U.S. Bilateral Investment Treaty (BIT) Program. The U.S. BIT is stringent. It prohibits investment screening and performance requirements, and assures balanced commitments on national treatment (by requiring such exceptions from national treatment to be described and bound). We have concluded twenty-four agreements and have another nineteen under negotiation.

Second, the NAFTA -- the investment chapter goes even further than the BIT, greatly liberalizing our trading partners' investment regimes.

Third, among the OECD countries, the U.S. currently relies on the Capital Movements Code to bind the right of establishment. A feasibility study of a comprehensive, binding multilateral investment agreement, known as the "Wider Investment Instrument," is now underway. While the United States fully supports the study, any new instrument must incorporate the principles of our BIT on right of entry, post-establishment protections (including performance requirements) and dispute settlement.

With respect to others' regional arrangements, the United Stateswill remain vigilant to ensure that integration efforts among our trading partners not be completed in a way that disadvantages our companies -- for example, through investment liberalization implemented on a non-MFN basis.

Fourth, with respect to the Uruguay Round TRIMs negotiations, we expect that baseline standards on local content and trade balancing requirements will be established. This agreement will benefit the U.S. economy by automatically prohibiting these practices.

Fifth are bilateral efforts. With respect to Japan, on July 10, 1993, President Clinton and Prime Minister Miyazawa agreed to establish the U.S. - Japan Framework for a New Economic Partnership. Foreign direct investment issues will be addressed under the Framework. Investment issues with several other trading partners are also being treated in bilateral fora.

We believe we are making progress in opening up the world to more equitable treatment of foreign investment, but to be effective, our efforts must be based on an in-depth understanding of existing investment obstacles. We encourage private firms to share with us their evaluation of the investment policy improvements that are most urgently needed. We are especially interested in the specifics of restricted sectors, performance requirements, investment screening procedures, repatriation and currency transfer limitations, patent and other intellectual property limitations, local credit market restrictions and other such discriminatory policies. We want to put our resources where they will have the biggest impact for the U.S. economy and U.S. investors. Working together we can help to shape the investment policies of our trading partners.

Report on the United States-Japan Framework for a New Economic Partnership
Testimony to the Senate Finance Committee
Subcommittee on International Trade
Ambassador Charlene Barshefsky
July 22, 1993

I welcome the opportunity to appear before the subcommittee today to report on the United States-Japan Framework for a New Economic Partnership. Agreement on the Framework on July 10 in Tokyo, completed a week of extraordinary achievement for the President and for the global community, through the G-7 process and separate bilateral efforts.

The Framework represents an integral element of this Administration's economic policy, which begins by building competitiveness at home through policies aimed at deficit reduction, new investment in education and training and infrastructure. But success in the domestic sphere needs to be complemented by efforts to expand trade and create new markets and opportunities for American products overseas. The Framework and its follow on negotiations will promote these goals.

Along with completion of the Uruguay Round and the NAFTA, a major trade policy goal of this Administration has been real progress in addressing Japan's economic imbalances. Many factors contribute to our bilateral trade deficit with Japan. Our budget deficits, low savings rates, and historic emphasis on military, rather than civilian R&D, have in the past undermined our competitiveness with Japan. We have great admiration for what Japan has accomplished: the quality and determination of its work force, the excellence of its education system, and the products that are produced there.

But even allowing for these factors, in case after case, U.S. products and services which are highly competitive in other foreign markets meet little success in Japan. Many of our trading partners have suffered the same experience.

The U.S. and Japan are the world's two major trading nations, accounting for more than 40 per cent of world GNP. We have the potential and the responsibility to drive world growth and maintain a dynamic world trading system. However, without a fundamental change in the nature of Japan's economic interaction with its trading partners, we face further erosion of the base of support for maintaining free trade and an open and strong multilateral trading system.

At their meeting in Washington in April, President Clinton and Prime Minister Miyazawa took steps to address the economic asymmetry that has had a corrosive effect on the relationship.

impede market access for foreign goods and services, including financial services, insurance, competition policy, transparent procedures and distribution.

-- Other major sectors, through which we will focus on barriers to the U.S. automotive industry with the objective of achieving expanded sales opportunities of foreign parts by Japanese firms as well as removing problems affecting market access and encouraging imports.

-- Economic harmonization, where we will address issues affecting foreign direct investment, intellectual property rights, technology access and buyer-supplier relationships.

-- Implementation of all prior arrangements and measures, including those commitments made in the Structural Impediments Initiative (SII).

As noted, we will use objective criteria as benchmarks to measure progress as negotiations on each of these "baskets" move forward. These will be goals or standards against which progress towards achieving full market access will be assessed; pulling together various comparative indicators as relevant in each area. What we will be seeking in each sector are data points that will be gathered and then jointly monitored. We will utilize quantitative information where appropriate on such factors as relevant market trends, market share statistics in Japan, or comparisons between the public and private sector. We will also employ qualitative indicators where helpful, such as the nature of the business links between Japanese manufacturers and their suppliers in the United States, or changes in the business or regulatory environment favoring foreign firms. There will most likely be several such data points in each sector; no single benchmark will determine the success or failure of a sectoral agreement.

Equally important, the Framework reflects our preferences for the timing of follow up negotiations to address these "baskets" by incorporating a review by the President and Prime Minister twice yearly. These reviews will provide strong momentum for the Japanese to conclude agreements on our top priority issues; significant market access problems in government procurement, the insurance market, and automotive industries and other areas to be determined, by the first Heads of Government meeting in 1994, or within six months. Agreements on measures in the remaining areas will be sought by the second such meeting in July 1994.

In addition, both government have committed to hold Subcabinet meetings prior to the Heads of Government meetings.

This Framework firmly places the economic pillar of the U.S. - Japan bilateral relationship at center stage for the first time;

recognizing that addressing our economic imbalances requires urgent attention. The Heads of Government consultations incorporated into the agreement will serve to keep it there. It is a sophisticated approach that recognizes the interrelationship between macroeconomic, structural and sectoral polices. By integrating this broad range of policy objectives, it helps ensure that we do not pursue one set of objectives at the expense of another.

At the same time, this agreement meets the Administration's goal of trade expansion. It is in no way a "managed trade" or protectionist approach to our economic imbalances with Japan. On the contrary, by seeking to unlock Japan's government procurement and other restrictive policies and regulations, we seek to make the Japanese market more amenable to market discipline than it is now. The focus is on areas where the Japanese Government has either a direct or indirect role in the dynamic of a particular sector or structural problem; sectors where the Japanese Government is in fact managing inbound trade, and where our companies are poised to compete. This specifically includes the automotive sector, where we perceive the role of Japanese Government guidance to be significant.

The Framework represents a basis for future negotiations. It is far from a complete solution to the trade problems that have hampered our relationship with Japan. It is a firm beginning to a larger process, and successfully establishes the direction in which we wish to proceed in order to place this crucial economic relationship on a satisfactory and equitable footing. Hard bargaining on important issues remains, including the enforcement of agreements already in effect. We intend to make tangible progress, and recognize it will not be easy. We are committed to the utmost efforts to obtaining measurable results under this Framework, but if the consultations and negotiations under the Framework do not make the requisite progress, we will not hesitate to use other approaches, including those that Congress has provided in the trade law. These prerogatives have been fully safeguarded in the agreement. However, our strongest tool in building on the solid foundation offered by the Framework is in the continuing commitment of this Administration, at the highest levels, and the Congress, to seeking real, measurable improvements in our economic relationship with Japan.

September 10, 1993

Statement of Ambassador Charlene Barshefsky

Deputy United States Trade Representative

Office of the United States Trade Representative

Bilateral Investment Treaties

The Office of the United States Trade Representative is pleased to submit written testimony with respect to the eight bilateral investment treaties (BITs) submitted for the Senate's approval. We are gratified that these treaties are moving toward ratification, as the BIT program is an important component of U.S. trade and overall economic policy. We hope that these treaties, with Argentina, Armenia, Bulgaria, Ecuador, Kazakhstan, the Kyrgyz Republic, Moldova and Romania, can be brought quickly into force.

Following letters in 1977 from Senators Claiborne Pell and Frank Church, this program was initiated in the late 1970's and the first negotiations were held in 1980. The first prototype text was completed in 1982 -- the same year that the first agreements were signed. Finally, the first treaties were brought into force in 1989.

Over this period, we have worked closely with representatives of the private sector, particularly through the Investment Policy Advisory Committee to the United States Trade Representative and the interested Industry Sectoral Advisory Committees to the Secretary of Commerce and to the USTR and also through the Advisory Committee on International Investment. The treaties incorporate the advice on policy received from these and many other private sector groups. The investment policy issues involved have been the responsibility of USTR's interagency committee -- with the negotiation of each of the submitted BITs co-chaired by USTR and State, actively supported by Commerce and Treasury.

Since this program was initiated, the role of international investment in the global economy has steadily strengthened. Foreign direct investment in the international economy is growing rapidly; from 1980 to 1990, real foreign direct investment grew 11% annually -- versus 4% annually for trade and 3% for GDP. Foreign direct investment has become a vital form of economic activity, channelling financial and human resources throughout the world.

The U.S. plays a key role in this process since it is the world's leading <u>home</u> and <u>host</u> country for international investment. The stock of foreign direct investment in the U.S. nearly quintupled in the 1980's to $420 billion in 1992. Similarly, US direct investment abroad stood at $487 billion at year-end 1992, growing at an average of 9% annually since 1982.

Looking at the role of U.S. investment abroad, exports are now a key source of employment and growth in America. Every billion dollars of U.S. exports meant nearly 19,000 domestic jobs in 1990 -- we now have over seven million export-related jobs in America. In fact, one in every six manufacturing jobs in America is related to exports. The average wage for these export-related jobs is 17%

higher than the U.S. national average. Since 1987 growth in exports has generated more than half our GDP growth.

Investment is providing a key motor for this export growth. While trade and foreign investment were traditionally seen as alternative means of penetrating foreign markets, they are now understood to be integral elements of a firm's strategy for maximizing global production efficiencies. Growth in exports by U.S. parent firms to their affiliates has recently averaged 10% per year -- coming to constitute $115 billion, 27% of all U.S. exports, in 1991.

Based on the fact that foreign and domestic investment promote trade, stimulate economic growth, create jobs, and foster competition and consumer welfare, the United States has championed the cause of liberal, transparent foreign investment regimes. As the most important source and recipient of foreign investment, the U.S. has a critical stake in investment climates both here and abroad.

U.S. investment policy starts from the principle of national treatment with limited sectoral exceptions. Those exceptions generally derive from national security, e.g. in transportation and communications. This principle protects foreigners from general "screening" of their investments in the U.S. In addition, the U.S. provides freedom from performance requirements -- no mandatory local content, export or technology transfer requirements. The United States allows free transfers of investment-related funds and maintains standards for expropriation that meet or exceed international norms. Finally, foreign investors are provided access to international arbitration to resolve investor-state disputes. All U.S. Bilateral Investment Treaties (BITs) provide for international arbitration at the investor's choice.

The President stated in his speech to the American University that "We welcome foreign investment in our businesses, knowing that with it [comes] new ideas as well as capital...But as we welcome that investment, we insist that our investors should be equally welcome in other countries." This insistence is embodied in three concepts reflected in the prototype BIT.

First, American property overseas should be afforded fair and equitable treatment, including those standards required by international law. Property should only be taken in accordance with due process of law, for a public purpose and in a non-discriminatory manner. In such a case, the investor should be provided prompt, adequate and effective compensation. An American investor in a foreign country should be accorded full protection and security -- and not be hindered by arbitrary or discriminatory measures.

Second, American investors should have full access to foreign markets. Clearly, prohibitions on, and discrimination against, U.S. investment impedes competitive U.S. companies in their global operations. Similarly, once a U.S. company is operating in a foreign country, restrictions on free transfers are a handicap in maximizing competitiveness. Foreign royalties, for example, may be critical to a smaller company trying to exploit world-class technology on a world-wide basis. Even large U.S. multinationals cannot indefinitely justify to their domestic shareholders profits blocked abroad.

Finally, foreign restrictions on investment must not result in agreements with private investors that damage overall U.S. competitiveness. The argument for free flows of investment and trade stems from the welfare gains arising from a more efficient and competitive supply of goods and services. Through general performance requirements, and through screening "according to the national welfare," countries distort such flows. By forcing local purchases by investors, for example, many countries have traditionally kept U.S. suppliers from the benefits of additional sales, greater economies of scale, and exposure to new markets. Even when the investor is able to accommodate such demands, these local content, export performance and technology transfer requirements appropriate U.S. jobs and know-how. We were successful in eliminating such measures in Mexico, through the Investment Chapter of the NAFTA, and we expect to achieve like results with other negotiating partners.

President Clinton stated in his transmittal of the recent BIT treaties that they will establish an agreed-upon basis for the protection and encouragement of investment. The BIT Program is thus a successful and important element of our international investment agenda. But we have several other efforts underway with respect to this investment agenda. The investment chapter of the NAFTA goes even further in some respects than the BIT, greatly liberalizing our trading partners' investment regimes. Among the industrialized countries, the U.S. currently relies on the Capital Movements Code of the OECD to bind the right of establishment. The United States also supports the OECD's conducting of a feasibility study for a comprehensive, binding multilateral investment agreement, known as the "Wider Investment Instrument"; any new instrument will have to incorporate the principles of our BIT on right of entry, post-establishment protections (including performance requirements) and dispute settlement. With respect to others' regional arrangements, we are working to ensure that integration efforts are not completed in a way that disadvantages U.S. interests -- for example, through investment liberalization implemented on a non-MFN basis. With respect to the Uruguay Round TRIMs negotiations, we expect that baseline standards on local content and trade balancing requirements will be established; such an agreement will benefit the U.S. economy by automatically prohibiting these practices. Finally we are addressing investment issues with several trading partners, including Japan, in bilateral fora.

The tenets reflected in these negotiations follow Congressional actions in drafting U.S. trade laws. Section 301 of the Trade Act of 1974 has been amended to clarify that its coverage extends to foreign investment practices -- such as restrictions on equity ownership, transfers, or local content -- related to trade in goods and services. Legislation renewing the Generalized System of Preferences (GSP) also contains provisions reflecting such concerns, particularly with respect to expropriation and to equity ownership. Section 307 of the Trade and Tariff Act of 1984 established specific authority for the USTR to deal with export performance requirements, including retaliation, if necessary.

In conclusion, it should be emphasized that the BIT program is still in its early stages; more than a dozen other treaties are under negotiation and many more countries have expressed interest. Such agreements, with their high standards of protection and treatment, lend credibility to our efforts in every fora to achieve these high standards, assist countries in their domestic reforms and in achieving market-led growth, and promote U.S. exports and jobs. We would ask that the Senate give its advice and consent to ratification of these treaties as soon as possible.

Ambassador Charlene Barshefsky
Deputy United States Trade Representative

Before the
Midwest U.S.-Japan Association
and the
Japan-Midwest U.S. Association

September 13, 1993

Governor Engler, Messrs. Hooker and DeVos, Mr. Henderson, Mr. Schornack, and Dr. Ishikawa and distinguished participants, I am honored and delighted to be here today with you. This session of the Midwest U.S. Japan Association comes at a critical time in our bilateral relationship. We are in a transition phase. A new government in Japan follows four decades of LDP rule. A still relatively new government in the United States follows a dozen years of Republican administrations. Ambassador Mike Mansfield's dictum that "The US-Japan relationship is the most important bilateral relationship in the world, bar none", still stands, although the priorities in that relationship have changed.

Today, I would like briefly to discuss U.S. trade policy priorities and then focus on the specifics of our Framework trade initiative with Japan.

The central goals of U.S. trade policy are to open markets, boost the global economy, strengthen the international trading system, and create jobs. Trade is the engine of growth in this country, accounting for half of our economic growth and most of the new jobs created.

The U.S. is prepared to continue to shoulder its responsibilities for the growth of world trade and the strengthening of international trade rules. But we expect from all of our trading partners nothing less than mutuality of obligation and comparability of action.

Completing the Uruguay Round is the single most important step we can take to open markets to manufactured goods, agricultural products and services. It is politically difficult to open markets at a time when the world economy is not expanding. But President Clinton believes that now is precisely the time when we should be expanding trade to create new job opportunities. We made significant progress at the G-7 Economic Summit in July in Tokyo, and all nations' trade delegations are hard at work in Geneva. We aim to conclude the Uruguay Round by December 15.

Regional opportunities to expand trade are also being pursued. As globalization of industry proceeds more rapidly in some countries, there is much to be gained from entering more liberal trade arrangements.

The dynamic growth in the Americas and the Pacific Rim make these especially attractive areas for expanded trade. We are well positioned to tap into the dynamism of the Americas, of which the NAFTA is an absolutely critical part. And are pursuing closer trade relations with other countries in the hemisphere.

We are using our chairmanship this year of the Asia-Pacific Economic Cooperation forum, APEC, to advance the building of institutions for expanded trade among countries of the Pacific. APEC is a fledgling organization -- developed in recognition of the increasing economic integration and dynamism among both sides of the Pacific. APEC's goals are to facilitate trade and investment and economic cooperation throughout its 15 member economies. Viewing the Asia-Pacific region as one of the most promising and the fastest growing economic region in the world, the Clinton Administration hopes to see the United States play a role in making APEC a pre-eminent regional organization capable of serving as the Asia-Pacific's common voice in shaping the international economy of the next century.

Let me now turn to Japan. Many factors contribute to our bilateral trade deficit with Japan. Our budget deficits, low savings rates, and historic emphasis on military, rather than civilian R&D, have in the past undermined our competitiveness with Japan. We have great admiration for what Japan has accomplished: the quality and determination of its work force, the excellence of its education system, and the products that are produced there.

But even allowing for these factors, in case after case, U.S. products and services which are highly competitive in other foreign markets meet little success in Japan. Many of our trading partners have suffered the same experience.

Japan presents two problems for the world economy -- a market penetration problem and a current account imbalance problem. Japan imports <u>few</u> of the types of goods it exports, in sharp contrast to the practice of major industrialized nations. It also imports <u>a</u> disproportionately small share of manufactured goods. In 1991, for example, manufactured goods imported by the U.S. accounted for 6.9 percent of GDP, 7.4 percent of the rest of the G-7, excluding

Japan, but only 3.1 percent for Japan. In addition, Japan has the lowest level of foreign direct investment among OECD countries. This, in itself, is a serious impediment to trade. 38.5 percent of the global stock of inward direct investment is in Europe, 28.6 percent is in the U.S., but only 0.7 percent is in Japan.

The U.S. and Japan are the world's two largest trading nations, accounting for more than 40 percent of global GNP. We have the potential and the responsibility to drive world growth and maintain a vibrant international trading system. However, without a fundamental change in the nature of Japan's economic interaction with its trading partners, we face further erosion of the base of support for maintaining free trade, both here and abroad, and we face further erosion of an open and strong multilateral trading system.

At their meeting in Washington in April, President Clinton and then-Prime Minister Miyazawa discussed the three pillars of the U.S./Japan relationship -- security, economic, and global. Our security relationship is strong and has been the anchor of Pacific stability for two generations. It remains fundamental to both of our interests. Similarly, we share great potential to cooperate globally on a broad range of critical transnational issues.

However, the economic pillar of the relationship urgently needs attention. The two leaders thus took steps to address an economic asymmetry that has had a seriously corrosive effect on the bilateral relationship. At the center of the economic relationship was to be a new Framework for trade on macroeconomic, sectoral and structural issues, that would allow us to make substantial

<u>measurable</u> progress toward market access. The Framework we sought would enable us to begin negotiating on key issues under tight time frames, and would establish objective indicators for assessing progress made in each area. We started from a strong position in the negotiations, because this Administration's constant emphasis on the economy has led to real efforts to attack the budget deficits and the very domestic weaknesses that Japan often cites as the main reasons for the trade imbalance between our nations. Moreover, we are pursuing this strategy at a time when our companies are increasing their international competitiveness and will be fully able to benefit from a more open Japanese market.

The Framework we agreed upon meets all of our negotiating goals. It establishes, for the first time, a <u>results-oriented</u> trade policy. It includes macroeconomic dialogues through, for example, the G-7 process and our central banks. It includes negotiations on structural and sectoral issues that impede access to the Japanese market. It mandates that <u>tangible progress</u> toward market access be achieved, and that objective indicators, both quantitative and qualitative, will be used to evaluate progress on each sectoral and structural area under the Framework. It establishes time deadlines for negotiations in individual sectors, and incorporates a review process capped by meetings of the heads of state. The gains achieved under agreements negotiated would be available on a most-favored-nation basis to Japan's other trading partners, as well as to the U.S.

The Framework commits Japan to pursue a "highly significant" decrease in its current account surplus and increases in its global imports, and it commits the U.S. to a significant reduction in our budget deficits. It also envisions cooperative efforts by the two countries to enhance foreign direct investment, access to technology, intellectual property rights, and the environment.

The Framework fully incorporates in its five "baskets" our priorities for addressing sectoral and structural barriers encountered by foreign firms seeking to sell into the Japanese market. These are:

- ♣ Japanese Government procurement, which will include discussions aimed at significantly expanding procurements of competitive foreign goods and services, especially computers, supercomputers, satellites, medical technology and telecommunications.
- ♣ Japanese regulatory reform, which will address Japan's laws, regulations and guidance that impede market access for foreign goods and services, including financial services, insurance, competitive policy, transparent procedures and distribution.
- ♣ Other major sectors, where we will first focus on barriers to the U.S. automotive industry. Our objective is to expand sales of foreign auto parts to Japanese firms both here and in Japan, as well as the removal of barriers to imports of foreign vehicles into Japan.
- ♣ Economic harmonization, where we will address issues affecting foreign direct investment, intellectual property rights, technology access and buyer-supplier relationships.

* <u>Implementation of all prior arrangements and measures</u>, including those commitments made in the Structural Impediments Initiative (SII).

As stipulated in the Framework, we will use objective criteria, both qualitative and quantitative, to measure progress toward market access in each of these baskets. Quantitative criteria can include such factors as relevant market trends, market share statistics, data on volume and value of imports, or comparisons between the public and private sector procurement in Japan and in third country markets. We will also utilize qualitative indicators, where appropriate, such as the nature of the business links between Japanese manufacturers and their suppliers in the United States, or changes in the business or regulatory environment favoring foreign firms.

Equally important, the Framework incorporates a review by the President and Prime Minister twice yearly. These reviews will provide strong momentum to conclude agreements on our top priority issues -- government procurement, insurance, and the automotive sector -- by the first Heads of Government meeting in 1994, or within six months, and agreements in the remaining areas by the second such meeting in July, 1994.

This Framework firmly places the economic pillar of the U.S.-Japan bilateral relationship at center stage for the first time. The Heads of Government consultations incorporated into the agreement will serve to keep it there. It is, we believe, a sophisticated approach that recognizes the interrelationship between macroeconomic, structural and sectoral policies. It is also an approach which focuses on areas where the Japanese Government has either a substantial direct or indirect role in the dynamic of a particular sector or structural problem. This specifically includes the automotive sector, where we perceive the role of Japanese Government guidance to be significant.

In recent remarks, Prime Minister Hosokawa, MITI Minister Kumagai, and other Japanese leaders have zeroed in on the need to deregulate and let market mechanisms work. We enthusiastically welcome these statements and believe that the objectives underlying the Framework are in complete accord with the Hosokawa Government's views.

By itself, the Framework constitutes no market access. It is a firm <u>beginning</u> to a larger process, and establishes the direction in which we will proceed in order to place this crucial economic relationship on a satisfactory and equitable footing. Hard bargaining on important issues remains, including the enforcement of agreements already in effect. We intend to make tangible progress, and recognize it will not be easy. We are committed to obtaining measurable results under this Framework, but if consultations and negotiations under the Framework do not make the requisite progress, we will not hesitate to use other approaches, including those that Congress has provided in the trade laws. These prerogatives have been fully safeguarded in the agreement. However, a vital took in building on the solid foundation offered by the Framework is in the continuing commitment of this Administration, at the highest levels, to seek real, measurable improvements in our economic relationship with Japan.

Let me conclude by pointing out that success in resolving our bilateral trade problems can only happen through the hard work of everyone in this room. Governments can influence the environment for doing business in Japan, but, at the end of the day, it is up to you in this room -- American and Japanese business representatives -- to work together to create opportunities and to take advantage of new opportunities. We intend to work closely with you over the coming year.

Testimony

Status of the U.S. - Japan Economic Framework
Testimony to the House Committee on Foreign Affairs
Subcommittees on Asia and the Pacific and Economic Policy and Trade
Ambassador Charlene Barshefsky
October 5, 1993

I appreciate the opportunity to appear before the subcommittees today to discuss the status of negotiations under the U.S. - Japan Economic Framework, and our trade relations with Japan in general. The timing of this hearing is particularly appropriate in that we have just initiated the first set of negotiations under the Framework. I anticipate intense bilateral discussions through the remainder of this year leading up to a meeting between the President and Prime Minister Hosokawa in early 1994 to complete the first set of agreements.

As called for under the Framework, we are committed to reaching agreement in the areas of government procurement, autos and auto parts, and insurance by early 1994, and agreement in all other designated areas by July.

Over the past several weeks, our negotiators kicked off the five baskets under the Framework -- government procurement, other major sectors, (initially autos and auto parts), regulatory reform and competitiveness, economic harmonization, and implementation of existing arrangements and measures. In these first meetings, we delineated our position, particularly on the high priority areas noted above.

It is still too early to report to you on progress. Over the next several weeks, we will present the Japanese Government with specific proposals in many areas.

Let me briefly review the Framework under which we are working. I have already listed the five baskets. Unlike the past when U.S. negotiators focussed on either structural or sectoral issues, we are approaching each problem area at the intersection of structural and sectoral concerns. This negotiation is results-oriented -- process and procedural change is not enough unless it leads to concrete change in the marketplace. We will be using objective indicators, both quantitative and qualitative, to measure these results, as the Framework specifies, tangible progress towards market access and sales must be made. As I have already outlined, we have a firm timetable for reaching agreements over the coming year. Once these agreements are in place, we will begin immediately to assess their impact. Finally, the Framework includes macroeconomic commitments. Over time, we expect Japan's current account surplus to decline and to see imports of manufactured goods become more in line with the level in most other OECD countries. Japan is committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods leading to a highly significant decrease in its current account surplus over the medium term.

We have a broad, complex, and intertwined bilateral relationship with Japan. The health of this relationship has a huge impact on global prosperity and security. Today, our ability to trade with Japan and to resolve the economic asymmetries that exist have assumed an unprecedented importance in the maintenance and growth of the relationship. Continued barriers in access to the Japanese market for competitive U.S. and foreign goods and services stymie American and global economic recovery and growth. As President Clinton has pointed out, such practices hurt both the Japanese people and the global economy.

We are cognizant of the fact that there is a new government in Japan. We believe that implementation of the Framework Agreement, on the timetable laid out within the Agreement, is fully compatible with the goals of the Hosokawa Administration. We have noted and welcome repeated statements by members of the Hosokawa cabinet that lend support to the need for real change in Japan. In particular, we welcome the Prime Ministers commitment to redouble his efforts under the Framework. We look forward to working with the Hosokawa Government to produce the tangible results we need. Implementation of the Framework would, I believe, assist the new Government in achieving the changes they seek.

Let me turn to two specific "baskets" under the Framework -- government procurement and compliance. The government procurement "basket" warrants special attention, for it symbolizes in many respects the causes of our frustration with past efforts to address barriers to the Japanese market. We look to Japan's compliance with the principles laid down under the Framework, to address this area, at last, in a definitive manner.

Since the late 1970's, U.S. - Japan bilateral trade relations have been plagued with serious and continuing disputes concerning Japanese Government procurement practices. This has resulted in the negotiation of numerous bilateral agreements on government procurement between the United States and Japan, agreements that, although negotiated bilaterally, applied to all countries in their efforts to sell to the Japanese Government. I count eleven such sectoral government procurement agreements, including:

-- five covering Nippon Telephone and Telegraph (NTT) procurement practices (an original agreement in 1980, that has been renewed four times)

-- two supercomputer agreements (1987, 1990)

-- two construction agreements (1988, 1991)

-- a satellite agreement (1990)

-- a computer agreement (1992).

In each case, the Japanese Government committed to introduce new procedures that would provide greater transparency and non-discrimination in Japan's government procurement regime. Typically, as particular problems were addressed in a specific agreement, others subsequently arose in the given sector. Despite the removal of many procedural obstacles, with the exception of the communications satellite area, we have not seen significantly increased access to the Japanese Government market for foreign goods and services which the agreements had anticipated.

The numbers speak for themselves:

--In computers, where U.S. firms are highly competitive internationally, foreign computer manufacturers, at the time of the 1992 agreement, supplied less than one percent of the central Japanese Government mainframe market, despite having 41 percent of the private market in Japan. We do not yet have data to ascertain whether this disparity has been reduced.

--In supercomputers, where U.S. firms are undisputed world leaders, U.S. firms have never won a head-to-head competition with Japanese firms for a government procurement, despite regular wins against Japanese machines in the EC market, and a significant showing in the Japanese private sector market. Although American supercomputers have 84 percent of the installed base in the government supercomputer market in Europe, they represent barely ten percent in Japan.

--The Japanese public construction market has remained shut against foreign penetration, even though U.S. firms have captured over 45 percent of the international construction and design market compared to just 7.2 percent for Japanese firms.

--Finally, despite our long series of telecommunications agreements spanning nearly a decade and a half and the clear global strength of U.S. firms in this area, foreign penetration of the Japanese telecommunications procurement market remains minimal. The U.S. share of NTT's total procurement has never exceeded seven percent. Government agencies buy little from foreigners. Overall, the average foreign share of the private and public telecommunications market in the industrialized world other than Japan is 25 percent. Yet the foreign share of the same market in Japan is only five percent. The lack of U.S.

penetration into the radio telecommunications market is a matter of especially grave concern.

Our expectations for the achievement of tangible results under the government procurement basket of the Framework are captured in the Framework agreement. In the sectors cited in this basket -- telecommunications, medical technology, computers, supercomputers, and satellites -- U.S. firms are unquestionably competitive world leaders. This has been borne out time and again by the substantial market share they enjoy in trade with other developed countries. Moreover, the ability to implement the Framework in this area lies solely within the direct responsibility of the Japanese Government -- the government controls the size and growth of the market, controls the products to be procured, sets the specifications, terms and conditions for the procurement, decides the timing of the procurement, chooses the winning tender, and controls follow-on procurement.

The government procurement basket is thus an important test of Japan's intention to implement the Framework. The markets concerned are well defined; our products in those sectors are established world class competitors; and the Japanese Government is the sole accountable actor in making or breaking the commitments undertaken in the Framework.

The other basket I would like to focus on today is the critical implementation basket, which encompasses the existing trade agreements with Japan. It includes over two dozen such agreements, among which are agreements on semiconductors, paper, wood products, glass, legal services, and the ongoing efforts to address the medical and pharmaceuticals trade under MOSS. I should add that we are continuing to deal with other agricultural agreements in our U.S. - Japan Trade Committee.

Some have brought progress; others have thus far failed to reach the intended results. We have brought these existing agreements and measures into the Framework process so that they will receive the full, high level, attention and resources of both the U.S. and Japanese Governments.

Where there has been progress under existing agreements, we hope to harness this momentum as a foundation for further market access. Where these agreements have fallen short, it is the responsibility of both governments within this basket to determine why and correct the problem.

Activity under this basket is critical to maintaining the credibility and efficacy of the negotiating process. We have sought to impress upon the Japanese that a substantial reason for the corrosion of our economic and trade relationship over the past decade has been precisely the issue of previous agreements which have not reached their potential. The implementation basket offers a crucial venue for resolving these shortfalls in a bilateral approach.

We have agreed to assess each area under the Framework and to evaluate progress based upon sets of objective criteria, both quantitative and qualitative. This is a key theme of the Framework. We must see tangible, measurable results in all areas. Many of our agreements in the past have led to change in process and procedures in Japan, but we have not seen increased sales and business for American and foreign firms. This cannot continue. Change that leads to theoretical opportunities for foreigners but that allows invisible barriers to continue is no change at all.

Let me turn briefly to the remaining baskets under the Framework. In the area of autos and auto parts, we are concerned with continuing serious problems in the ability of Americans to sell vehicles in Japan as well as insufficient Japanese purchases of American auto parts for use in their auto plants in both the United States and Japan. The auto sector represents over 60 percent of our bilateral deficit with Japan. Significant progress is necessary in this area in order to make a real difference in our bilateral trading relationship.

Under economic harmonization, issues of intellectual property rights protection, insufficient access to Japanese technology, inadequate relationships between Japanese buyers and American suppliers, and serious constraints on foreigners' ability to invest in Japan all deprive Americans and other foreigners of the substantial success they should have in the Japanese market.

Finally, in the regulatory reform basket, over-regulation, non-transparency, and discrimination in the financial services and insurance sectors, as well as the broader issues of the Japanese distribution system and an inadequate competition law policy regime, impede globally competitive American firms.

Particularly in insurance, as to which and agreement will be tabled shortly, although Japan has the third largest insurance market in the world, foreign access has been limited perennially to only about a 2.5 percent market share. We believe that this limited foreign access to the Japanese market is caused by, among other things, the non-transparent regulatory regime, a highly concentrated industry structure, keiretsu and cross-shareholding arrangements, and a highly restricted insurance product approval process which limits innovation. The Japanese Government is aware of the need for change and is currently in the process of drafting legislation to reform the Japanese insurance industry. We plan to reach an agreement by next January that would ensure that the issues I have just listed are effectively addressed.

By itself, the Framework achieves no market opening. It is the beginning of a process and it is to the actual negotiations of agreements under the Framework to which our full attention and force must be directed. It is critical that the Congress and the Administration work closely on these issues that are so important to our economic future. Thank you.

Regional Trade Pacts: Catalysts or Catastrophes?
Remarks by Ambassador Charlene Barshefsky
Overseas Development Council
October 14, 1993

Thank you for inviting me to appear on this panel. It is a pleasure to be here.

The Administration's highest trade priorities right now are getting NAFTA passed by the Congress; and successfully completing the Uruguay Round, and then getting it approved by the Congress.

Obviously, both are very difficult tasks. The Uruguay Round continues in a precarious state with the global economic costs of failure, along with the political price of changing the status quo, very much on the minds of leaders around the world. However, there is a determined effort underway in Geneva to find the negotiating equation, or group of equations, necessary to solve this seven year riddle.

NAFTA, meanwhile, is being debated in the Congress. We, in the Administration, believe the controversy over the agreement ultimately stems from the legitimate concerns people have for their economic future, but these are the very concerns that we are trying to address with agreements like NAFTA that will grow the economy and create jobs.

The Uruguay Round and NAFTA debates raise questions about the importance and role of regional trade pacts in the coming years, and what U.S. policy will be in regard to them.

The President has repeatedly stated that trade policy is an integral part of domestic economic policy, the goal of which is to create a growing, high-wage economy. Expanding trade is a key mechanism for doing that. Hence, it is vital to us to obtain greater access to markets around the world.

In addition, the President has made it clear that a trade policy premised on opening markets can be a buttress to our foreign policy objectives. Completing trade agreements, whether on the multilateral or regional basis, with countries that have made recent transitions to democracy can support those transitions. Countries that are receiving the economic benefits of increased global trade, and realize they have to play by the rules to maintain it, are less likely to slip back into authoritarian regimes, all other things being equal.

We want to see the developing countries share in the prosperity and stability that comes with expansion of global trade. It is good for them, but it is good for us, too.

The Administration is in the process of assessing the post-NAFTA and the post-Uruguay Round agenda; what our trade priorities will be for the next three years, and how we will balance the concerns of multilateral, regional, and bilateral negotiations.

Since the mid-'80s, the United States has pursued a multi-track approach, by addressing U.S. interests and negotiating agreements multilaterally, regionally and bilaterally. Our major multilateral effort has been to urge conclusion of the Uruguay Round. The regional approach has come into play with NAFTA and the increasing importance of APEC. And of course, we continue to engage in numerous bilateral initiatives.

The Clinton Administration will continue this multi-track approach to our trade relations and to trade liberalization. We do not see the three types of negotiations as mutually exclusive. Indeed, each can work to reinforce and promote trade liberalization.

Clearly there is a trend toward regionalism within the context of the multilateral system. There are also evolving trends in globalization and in multilateral and unilateral liberalization. These trends reflect a constructive effort on the part of global trading partners to respond to the increasingly rapid pace of economic activity taking place at all levels of our economies -- traditional areas such as agriculture and manufacturing, as well as new areas related to services, technology and capital.

We see regional and multilateral negotiations as complementary. Multilateral talks are an anchor for regional ones, while regional talks can serve as a lubricant for multilateral talks. This has been our experience with the free trade negotiations we have conducted to date, and we are confident this will continue to be the case. It should be noted that the founding fathers of GATT must have anticipated this situation, since they allowed free trade areas in the GATT rules.

Let me focus for a moment on two areas that are becoming increasingly important to the United States -- the Asia-Pacific region and Latin America.

The countries in these two areas have growth rates that exceed those of the European Community nations. Many of the countries in Asia and Latin America have chosen, in recent years, to cast off or sharply reduce economic controls and high degrees of regulation. The result has been booming economies for those countries and booming exports for the US.

The Asia-Pacific region is the fastest growing area in the world. Forty percent of American trade is with this region.

Latin America is the second fastest growing region in the world and over 16 percent of 1992 U.S. exports were to this region. Latin America was also the largest recipient of U.S. foreign direct investment of any developing country region. Since 1982, U.S. exports to Latin America and the Caribbean increased 127 percent and are growing at over twice the rate of U.S. exports to the rest of the world.

In Asia, the United States supports a stronger, more active APEC that will take on a role as a forum for consultations on trade policy and expansion of trade and investment. APEC's goal is to facilitate economic ties while supporting the multilateral system.

As to Latin America, President Clinton has made it clear he supports additional efforts to open markets with the countries in Latin America, including the possibility of joining NAFTA, assuming they have made the proper political and economic steps, including the opening of their trade and investment regimes. The Administration supports GATT consistent efforts within the region to form sub-regional groups as a way to open markets and expand trade. We intend to remain engaged in the region to serve as a catalyst for market opening, U.S. exports, and trade expansion and are currently exploring how best to accomplish this task. The President's commitment to pursue a free trade arrangement with Chile remains. We hope to build on this ongoing regional revolution over time.

Our goal, most broadly defined, thus, is trade liberalization, because it will lead to global economic growth. That enhances our domestic economy, and the economies of all the nations involved. While the multilateral system remains the main force to advance that goal, bilateral and regional agreements can accomplish this as well.

We already have experience that shows bilateral and regional approaches buttress the multilateral system.

In the bilateral area, our Special 301 program supported our pursuit of enhanced intellectual property rights protection in the GATT.

In the regional area, each FTA in existence has provided a basis for greater global liberalization under the GATT. The Free Trade Agreement with Israel provided a basis for upgrading the GATT's discipline on Balance of Payments actions taken under GATT article 18. The Canada-U.S. FTA addressed issues previously uncovered in FTAs, such as energy and services. NAFTA has some of the most comprehensive intellectual property rights and investment disciplines which exist to date. NAFTA has also been innovative in addressing environmental and labor standards -- issues which will no doubt be of concern to other GATT parties in subsequent GATT negotiations.

These are examples of how regional and bilateral approaches can "ratchet up" the multilateral system, to use Fred Bergsten's phrase.

Whether we expand trade with Asia and Latin America (or other regions) through multilateral, regional or bilateral agreements, the challenges are formidable:

There are great disparities in levels of economic development in these areas, as well as the degree of openness.

While market oriented reforms are gaining support both in the government and the public in these nations, government intervention remains high.

Infrastructure bottlenecks are becoming a serious concern in many of these countries and a constraint on further growth. In addition, outdated regulations often impede solutions to these problems. A number of studies, including a report by the World Bank and a report commissioned by MITI in Japan, support this conclusion.

Trade barriers still significantly limit trade in the area. While trade volume is growing, it could be higher, if barriers were reduced further. In addition, gaining control of inflation and bringing about sustained macroeconomic stability is a central factor in driving up trade flows both bilaterally, regionally and globally.

Finally, many countries in these regions have yet to commit to high standards in investment, services, and intellectual property protection.

Such formidable problems necessitate creatively using the multilateral, bilateral and regional approaches to trade negotiations.

A creative approach also means that we need to pull together all export-related policy instruments -- trade negotiations, export finance, and export promotion -- into a coherent and comprehensive U.S. strategy. In addition, we have to closely coordinate with the U.S. private sector and other interested groups.

I hope then, that I have answered the question raised by this panel. Regional trade pacts are a catalyst. They should not be seen as a threat to the multilateral system. They should be seen as building blocks when they are GATT consistent, buttressing the multilateral trading system and adding to it. They are only a catastrophe if they hinder global trade or result in exclusive and competing blocs. These outcomes are obviously to be avoided.

Ultimately, the multilateral trading system -- the GATT -- has, since its founding, been successful as the main ingredient in sustaining global prosperity, and should be at the top of global trading system food chain.

Remarks by Deputy U.S. Trade Representative
Charlene Barshefsky
before the
Columbus Group and Paul H. Nitze
School of Advanced
International Studies October 28, 1993

Introduction

I am delighted to be here today to discuss U.S. - Latin American and Caribbean trade and investment policy. I am sure there are many of you in the audience with both expertise and a keen interest in the topic. It is a topic that has taken on increased interest in the Americas as the countries of this hemisphere pursue their economic interests in this uncertain and unrelentingly competitive global economy.

The Administration's Overall Policy Objectives

I want to start by touching on the Clinton Administration's overall economic policy objectives because it is the basis of our trade and investment policy. This President has a deep understanding and interest in the effect on the U.S. economy of the global economy. The two are inseparable and our economic futures are ultimately one in the same. The process of global economic transformation is not a distant topic of discussion for those who may be intellectually interested, but a reality on mainstreet U.S.A. It holds both promise and peril. Our objective is to seize the promise and pursue global, hence U.S., economic growth.

To do this requires an integrated approach to economic policy which starts at home with a greater emphasis on broader and coordinated participation in policy making. We are doing this under the rubric of a White House coordinated decision-making forum - the National Economic Council (NEC). Improved education and labor skills, health care reform, deficit reduction, increased national savings, more efficient and effective government, stimulation of research and development and defense industry conversion all are part of the Clinton Administration's agenda to improve our ability to effectively compete in the global economy to improve the lives of Americans.

Trade and investment policy is an integral component of our overall economic strategy. It is the central role of trade policy to open markets, expand trade, and stimulate U.S. and global economic growth. Never before has trade and investment policy been such an important element in our economic policy and fortunes. Approximately 25 percent of our gross domestic product is reliant on trade, and this percentage is expected to increase.

The global economy is our future already. The American public senses this and it has created the unease in some that naturally occurs with what is thought to be the unknown.

The Administration believes that global economic interdependence and trade expansion offer tangible routes to a new prosperity. Export related manufacturing jobs pay better than other manufacturing jobs by as much as 17 percent. The opportunities for the U.S. are enormous in a broad range of capital goods, telecommunications, computer related and digital electronics, creative intellectual property reliant industries, not to mention high valued added agriculture and other high skilled manufacturing and service sectors. Untapped markets exist for those prepared to pursue them and we intend to do all we can to help U.S. firms capture them.

<u>Latin America and the Caribbean: Its Place in the Global Economy</u>

Latin America has undergone a profound economic and political transformation that rivals any region in the world. It is now a dynamic region of economic growth, the second fastest growing region in the world after the Asian Pacific Rim. Less than ten years ago it was mired in the "lost decade." It's economic prospects have dramatically changed with bold and sound leadership that recognizes the crucial role the global economy plays in domestic economic prosperity. Rather than turning inward, markets have been liberalized and competitive enterprises that grow jobs, hope and security have been created.

To their credit, Latin American and Caribbean leaders are moving rapidly to build yet more opportunities for their economies through bilateral and sub-regional market opening agreements that have helped, along with sound macroeconomic reform, spur trade within the region. Aggregate trade in Latin America and the Caribbean jumped from $186 billion in 1985 to $326 billion in 1992, and increase of 57 percent. During the same period, regional aggregate imports from all sources increased 12 percent per year. The leaders of Latin America and the Caribbean recognize that access to developed country markets is not enough -- that a new prosperity starts at home and with immediate neighbors. For example, the average tariff peak in twelve major countries in the region during the 1986 to 1992 period decreased from 118 percent to 27 percent <u>ad valorem</u>.

Latin America's success is our success, and the same goes for other regions of the world. Let me give you some numbers to illustrate my point. Forty three percent of all imports into Latin America and the Caribbean come from the U.S. U.S. exports to the region rose from nearly $44 billion in 1988 to nearly $76 billion in 1992, an increase of 58 percent. U.S. exports to the region have increased at over twice the rate of U.S. exports overall and this was also the largest developing country region recipient of U.S. foreign direct investment in 1991 (the latest figures available) - $77 billion. The U.S. ran a trade surplus with the region in 1992 of $7 billion, the first time we ran a trade surplus with the region since 1981.

As a percentage of total U.S. exports during the 1988-92 period, exports to Latin American and the Caribbean increased from a little over 13 percent to nearly 17 percent. U.S. exports of manufactures during the period increased from some $39 billion to nearly $70 billion, an increase of 56 percent. And, our capital goods exports to the region, which tend to support higher paying jobs in the U.S., are extremely competitive.

U.S. Policy and the Region

U.S. policy toward Latin America and the Caribbean has historically been heavily focused on political concerns, much of it stemming from the days of the U.S. - Soviet rivalry, and often related forms of official assistance. Those days are gone. The driving factor in our more mature policy towards the region is our collective economic future. The President is committed to making the Americas a better place to live through expanded trade and investment opportunities, and over time, through the eventual creation of a hemispheric free trade zone. Preference based elements of our trade policy towards the region remain intact, including the Caribbean Basin Economic Recovery Act, the Andean Trade Preference Act and the Generalized System of Preferences. The Administration is also exploring various additional ways to expand trade. Let me briefly explain what trade policy elements are in place and then touch upon additional considerations.

Element One: The Uruguay Round

At the top of our integrated approach to trade policy, which includes complementary multilateral, regional and bilateral agendas, is the successful conclusion of the Uruguay Round by December 15. This is the best opportunity before us to open markets within the Americas. If successful, it will set in motion a range of actions unprecedented in global economic history. It is estimated that a good Uruguay Round agreement could produce, after ten years, net U.S. employment increases of 1.4 million jobs, average productivity increases for labor slightly over 2% and a real wage gain of 1.6%. In addition, USTR and the Council of Economic Advisors estimated in 1990 that if we assumed a one-third cut in global tariffs and in reductions in non-tariff barriers as well, it would result in a $1.1 trillion increase in global economic output over 10 years.

It is time to finish the Round. We should not tolerate a situation where trade agreements languish for seven years. The world is moving too fast now. Governments come and go, technologies change, and economies are revolutionized in that amount of time. Just look at Latin America.

<u>Element Two: Sub-Regional Undertakings</u>

The likely nearest term signal the U.S. will send regarding its ability to move forward and effectively cope with global economic transformation is the Congressional vote on the NAFTA. However, our effort to form a free trade area in the northern sphere of the Americas involving Canada and Mexico is not unlike the phenomenon that is occurring all over the Americas. The Southern Common Market, or MERCOSUR, the G-3 agreement involving Mexico, Venezuela and Colombia, the Chile-Mexico and Chile-Venezuela agreements, the Central American Common Market and the CARICOM involving the english speaking nations of the Caribbean are all examples of sub-regional efforts to open markets and stimulate trade and investment.

The process of integration in Latin America is economically inevitable and we will work with sub-regional groups where possible to intensify market opening action. These sub-regional groups will be an important factor in the effort to move towards hemispheric free trade. It behooves us to recognize this reality and respond to it with constructive efforts in market opening and trade expansion.

<u>Element Three: Bilateral Efforts</u>

Bilateral efforts at opening markets are a necessary component of any U.S. trade policy strategy for Latin America and the Caribbean. Bilateral agreements can set important precedents that encourage higher standards of discipline in the trade and investment arena. The existing trade and investment framework agreements with virtually every country in the region, with the exception of Haiti and Cuba, are vehicles that should be utilized to focus energy on concrete problem solving. Beyond the dialogue under the framework agreements, we intend to work constructively on a bilateral basis where important trade and investment interests are at stake. Bilateral "building blocks" such as investment treaties and intellectual property rights agreements can play an important role in ratcheting up regional and multilateral disciplines and in improving the overall bilateral relationships.

The President is committed to pursuing a free trade arrangement with Chile. Such an arrangement would not only advance the respective economic interests of Chile and the U.S., but it would be an important step in opening up markets between North and South America. The President has also indicated his interest in additional arrangements with economically appropriate countries in the region.

Additional Options

The Administration is also examining additional ways to stimulate the opening of markets and expansion of trade within the Americas. Broad based regional efforts in confidence building measures, for example examining customs facilitation, tariff schedule and rules of origin harmonization, and improved transparency of trade and investment regimes may be considered. Regional discussions on these issues can help round out the effort to confront trade impediments collectively as part of a multi-pronged strategy, but the process should include a concrete work program. The APEC experience may be a useful guide in this regard. Although efforts of this type are not necessarily headline grabbing, they can have important implications for the trade and investment community and signal a pragmatic approach to work cooperatively together to expand trade opportunities.

Conclusion

In this time of global economic transformation, the President understands the necessity of, and is committed to, moving forward. He has organized the policy making apparatus in the Executive Branch to better develop policy and accomplish his objectives. Expanded trade is an integral component of the Administration's economic policy objectives at home. Latin America and the Caribbean provide substantial new opportunities that we intend to pursue.

There are those that will always resist efforts to change the status quo. We need to recognize this, deal with it in constructive and sensitive ways, and craft policy mechanisms for change that will keep us economically healthy. Change is a constant in this global economy. We cannot stop it; we can, and must, seek out new opportunities and greater prosperity. The Clinton Administration is determined to do just that. Thank you.

The Clinton Administration's Goals for the November Asia-Pacific Economic Cooperation (APEC) Forum's Annual Meeting.

Remarks by Deputy U.S. Trade Representative
Charlene Barshefsky
before the

American Society of International Law
November 2, 1993

Introduction

I am delighted to be here today to discuss the Clinton Administration's Goals for the upcoming annual Ministerial meetings of APEC: the Asia-Pacific Economic Cooperation forum.

The Administration's Overall Policy Objectives

I want to start by touching on the Clinton Administration's overall economic policy objectives because they help explain the importance we are placing on APEC. This President has a deep understanding and interest in the effect on the U.S. economy of the global economy. The two are inseparable and our economic futures are ultimately one and the same. The process of global economic transformation is not a distant topic of discussion for those who may be intellectually interested, but a reality on mainstreet U.S.A. It holds both promise and peril. Our objective is to seize the promise and pursue global, hence U.S., economic growth.

Expanding exports and the jobs linked to exports is an integral component of our overall economic strategy. Promoting free trade and open markets around the world is central to our trade policy and essential to our economic well-being. At present approximately 25 percent of our gross domestic product is reliant on trade, and this percentage is expected to increase.

The Administration believes that global economic interdependence and trade expansion offer tangible routes to a new prosperity. Export related manufacturing jobs pay better than other manufacturing jobs by as much as 17 percent. The opportunities for the U.S. are enormous in a broad range of capital goods, telecommunications, computer related and digital electronics, creative intellectual property reliant industries, not to mention high valued added agriculture and other high skilled manufacturing and service sectors. Untapped markets exist for those prepared to pursue them and we intend to do all we can to help U.S. firms capture them.

Asia and the Pacific: Its Place in the Global Economy

Asia and the Pacific, as defined by APEC's 15 members, is the most economically dynamic region in the world. It combines five major industrial economies, the four Asian newly-industrializing economies often referred to the four dragons, and the fastemerging economies of the ASEAN nations and the People's Republic of China.

Collectively the 15 APEC economies represent the most powerful regional economy in the world. Together they contain 40 percent of the world's population, have a combined gross domestic product of $13 trillion and account for 40 percent of total world trade. In 1992, our trans-Pacific trade exceeded our trans-Atlantic trade by 50 percent. U.S. investment in Asia and the Pacific doubled between 1985 and 1990 while at the same time, Asian and Pacific investment in the United States has become an important source of capital for our own economic growth, not to mention new jobs. Today there are about 2.5 million jobs in the United States that are dependent of Asian trade.

U.S. Policy Towards Asia and the Pacific

President Clinton, in his address at Tokyo's Waseda University last July, noted that the time has come for America to join with Japan and its Asian neighbors to create "a new Pacific Community." Viewing the Asia-Pacific region as a vast source of jobs, income and growth for Americans, he described APEC as "the most promising economic forum we have for debating a lot of these issues."

President Clinton was delighted to discover that the first year of his Presidency coincides with the year that the United States is chairing APEC. He seeks to capitalize on this opportunity to emphasize the importance of the Asia-Pacific region to the U.S. economy.

In keeping with our domestic policy of expanding the job market, part of our economic strategy is to open up new markets in areas of fast growth, such as the Asia-Pacific region, in order to maximize our opportunities there and avoid handing them to our competitors.

Another part of our economic strategy is to seek ways to meet the challenges we will face if we are to be competitive. Already, the EC's trade with Asia is on the brink of surpassing that with the United States for the first time. We need to develop constructive alliances with our neighbors in the Asia-Pacific region if we are to adapt successfully to rapidly changing global economic dynamics and remain a leader in the Pacific.

Demonstrating his high level of commitment towards APEC, the President will host an unprecedented meeting with leaders of the 15 APEC economies in Seattle on November 20. At no time in the past has a group of leaders from these nations gathered to discuss economic issues. Not since 1966 under Lyndon Johnson have a group of Asian leaders come to the United States to meet collectively with a U.S. President. This meeting, which will discuss how to reduce barriers and create opportunities among APEC members, will follow the Fifth APEC Ministerial meeting which will take place on the 18th and 19th of November.

APEC and Its Importance

The Administration views APEC as the ideal vehicle for forging new relationships with our Asian and Pacific neighbors as we jointly look ahead to the 21st century. Believing the Asia-Pacific region will be critical to the United States' economic future, we support a stronger, more active APEC that will become the forum for regional trade and investment liberalization, as well as broader economic cooperation.

When APEC was founded in 1989, it was essentially a facilitation and cooperation forum having as its major objective the successful conclusion of the Uruguay Round. Since last year's ministerial meeting in Bangkok, however, work has expanded significantly to address practical means to reduce transactional costs of trade within the region and to lay the groundwork for future policy decisions.

The Administration's Goals for APEC's Ministerial Meetings

As chair of APEC this year, the United States has selected the development of APEC's role in interregional trade and investment as its theme. Towards this end, we have proposed a Declaration on an APEC Trade and Investment Framework that would take APEC beyond its current role as a facilitation and cooperation forum to more of a policy role to be expanded through consultation and consensus by its members. This proposal recently received the blessing of APEC Senior Officials and will be presented to Ministers in Seattle later this month for adoption.

In addition to the adoption of this Trade and Investment Framework we are planning three other key results at the Ministerial meeting:

- o Presentation of a report by a group of eminent, non-government affiliated individual representatives from throughout the region containing a vision for what APEC should become in the next decade.
- o Identification of significant ways for the business community to become more involved in APEC's work.
- o Arrival at a decision concerning the application of new members and criteria for future applications.

Let me focus briefly on each of these four planned results:

First, the trade and investment framework, if adopted, will represent a substantial step forward for APEC. It outlines an evolving trade and investment policy role for APEC in addition to APEC's mandate to facilitate business and economic ties among members. It will establish a permanent Trade and Investment Committee and propose an initial year work program which will continue some very productive areas of APEC's activities in customs and investment, for example, but also move gradually into additional policy areas as the comfort level and commitment of members expand.

Second, the presentation of the Eminent Person's Group report will provide a starting point from which APEC members can move forward to begin debating long-term goals for APEC. The motivation for forming this group was to develop an independent, unbiased, long-term vision for APEC by selecting members not bound by normal policy constraints. Their vision will not automatically be adopted but rather serve to stimulate debate.

The report, which has been circulated among members in advance, will highlight potential threats to economic growth in the region, propose its own long-term vision for APEC and the region and recommend initiatives for implementing its vision.

The report proposes that APEC accelerate and expand cooperation within the region by leading an initiative to create an Asia-Pacific Economic Community aimed at eventually establishing free trade and investment within the region. It will also outline possible short-term building blocks for attaining this goal and recommend continued broad support for the multilateral system.

Third, examining ways to expand the private sector's role in APEC, a number of options are under discussion ranging from each member seeking its own private sector's advice to a more formal APEC-wide advisory process.

Already, there has been a considerable level of participation by the private sector in APEC's ten Working Groups. (These Working Groups focus on the cooperation aspect of APEC's mandate in particular subject areas such as Trade Promotion, Telecommunications, Transportation and Tourism).

Fourth, the issue of new members is one of the most hotly debated at present. The desire to include new members is currently juxtaposed against an increasing concern among many members that APEC must first consolidate and produce concrete results. While Mexico, Papua New Guinea and Chile are under active consideration, no consensus exists at present.

<u>Conclusion</u>

Our goals are to see APEC assume a more policy-oriented role in the areas of trade and investment; to consider and begin an active debate on APEC's future direction; to find an expanded role for the private sector within APEC; and to settle the issue of membership.

The Clinton Administration will utilize the Seattle meeting as a vehicle to demonstrate to the region and the nation that the U.S. intends to remain a leader in the Pacific and that it will continue to promote free trade and open markets in the region and the world.

Domestically, the Administration will underscore the vital role played on the Asia Pacific region in U.S. domestic prosperity and global growth. APEC pulls into focus the tremendous importance of the region to our domestic economic strength; the efforts we are making to open up its markets and the challenges we will face if we are to be competitive.

JAPAN FRAMEWORK AND OTHER JAPAN MEETINGS

November 8-9(am):	Medical Technology (Wash., DC)
November 9 (pm):	Preferential Procurement Working Group (Wash., D.C.)
November 9-10:	Insurance (Wash., D.C.)
November 10 & 12:	Telecommunications (Wash., D.C.)
November 12:	Informal meeting with MPT/NTT (Wash., D.C.)
November 10-12:	Autos and Auto Parts (working level) (tentative; Wash. D.C.)
November 18:	Informal Meetings on Construction (tentative; Tokyo)
Week of Nov. 29:	Computer and Supercomputer Consultations (tenative; Washington, D.C.)
December:	Telecommunications, Medical Techology, Insurance, Competition and Deregulation meetings (tentative; Tokyo)
December 13-15:	3rd Quarter Semiconductor Foreign Market Share Calculation Meeting (Wash., D.C.)
December 20-22:	IPR (tentative; Tokyo)

Status of the U.S. - Japan Economic Framework
Testimony to the Senate Finance Committee
Subcommittee on International Trade
Ambassador Charlene Barshefsky
November 8, 1993

I appreciate the opportunity to appear before the subcommittee today to discuss the status of negotiations under the U.S. - Japan Economic Framework, and our trade relations with Japan in general. I would also like to comment on our expectations for the APEC meetings in Seattle, which are upcoming next week. The Seattle Ministerial and Leader's Conference should be very important steps in the development of this young but promising regional forum.

The timing of today's hearing is particularly appropriate. The Framework was initiated four months ago. We have held two rounds of substantive talks on the priority issues of Japanese Government procurement of telecommunications and medical technology; insurance, and autos and auto parts. The third round of negotiations will take place this week. Talks in several other areas of the Framework have begun as well. There have also been important developments outside of the Framework, particularly with regard to the construction issue, which merit discussion. Finally, as you know, the APEC meetings at Seattle will provide a venue for high level bilateral meetings between the U.S. and Japan.

I want to first take this opportunity to put the Framework into context: to outline what makes the Framework a necessary element in redressing Japan's economic imbalances with its trading partners.

It has long been recognized that the Japanese economy performs in a manner which sets it clearly apart from the other major industrialized countries in general and the G-7. This is very evident when looking at the macroeconomic dimensions of the problem; at Japan's massive current account surplus, which now constitutes the major asymmetry in the world economy today; and at its low level of manufactured goods imports and inward flow of direct foreign investment. In 1991, for example, manufactured goods imported by the U.S. accounted for 6.9 percent of GDP, an average of 7.4 percent for the rest of the G-7, excluding Japan, but only 3.1 percent for Japan. Among the OECD countries, Japan has by far the lowest percentage of the global stock of inward foreign direct investment; just 0.7 percent, as compared to 38.5 percent in Europe and 28.6 percent in the United States.

These marked differences are repeated at the sectoral level.

Intra-industry trade, the propensity of countries to import what they also produce for export, is a characteristic of developed economies. In fact, intra-industry trade has a tendency to increase as an economy develops over time. Yet, this has not been the case with Japan. Academic studies of intra-industry trade have placed Japan consistently near the bottom of the scale. We find this trend reflected in the sectors which are singled out in the Framework. With regard to telecommunications products for instance, Japan is the world's second largest market, Yet, Japan's global import share of telecommunications products is 5 percent, while the G-7 average, excluding Japan, is 25 percent. This pattern extends to services as well. Although Japan has the third largest insurance market in the world, foreign access has perennially been limited to 2 percent of the market, while imports of insurance services In the G-7, excluding Japan, ranges from 10 to 36 percent.

This is the common theme running through the macroeconomic and sectoral and structural areas of the Framework. There is a persistent and repeated pattern under which competitive U.S. and foreign goods and services, which thrive in the global economy, face multiple barriers to access inhibiting their success in Japan. We expect that agreements reached under the Framework will address these barriers, and work to bring Japan's import levels in these important sectors into line, over the medium term, with those of its G-7 partners.

Let me briefly review in more details the Framework under which we are working, (described to you in some depth in my previous testimony of July 22). Unlike the past, when the U.S. focused on either structural or sectoral issues, we are approaching each market access problem area under the five Framework "baskets" at the intersection of structural and sectoral concerns. Our negotiations are focused on tangible results -- process and procedural change is not enough unless it leads to concrete change in the marketplace. We will be using objective criteria, both quantitative and qualitative, to assess these results; as the Framework specifies, tangible progress towards market access and sales must be made. In the priority areas which I cited earlier, agreements must be reached by early 1994. Once these agreements are in place, we will establish a monitoring program to assess their impact. Agreements in the other sectoral and structural areas cited under the Framework should be reached by the July of 1994.

The Framework also includes macroeconomic commitments. Japan is committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods leading to a highly significant decrease in its current account surplus over the medium term, and to promote a significant increase in global imports of goods and services.

Let me turn to the status of the priority Framework issues in which USTR has the lead -- government procurement and the insurance sector. While these present very different sectoral issues, our broad goals for each are similar.

In each of these areas, we presented the Japanese with draft texts delineating our goals -- both with respect to process and procedural change and with respect to qualitative and quantitative indicators. We discussed these texts in detail, responding to Japanese questions. These texts will form the basis for the third round of talks to be held here this week.

Of course, the draft proposals differ in detail from sector to sector. They all, however, reflect two key principles to which we agreed in the Framework, and which will be necessary elements of the agreements we are looking for by January.

-- the need to obtain tangible results in each area;

-- the need to establish objective criteria, both quantitative and qualitative, to evaluate market access.

Our proposed telecommunications text contains provisions to ensure that procurement procedures are open, transparent and non-discriminatory. We made it clear to the Japanese that the closed nature of the Japanese market in this key sector was unacceptable, particularly given the global competitiveness of U.S. and other foreign telecommunications companies. We stressed that we expected a "prompt, substantial and continuous" increase in sales and access of telecommunications products and services so that foreign market share in Japan will be comparable to the import share in other developed countries over the next 3-4 years.

In medical equipment, a team led by the Department of Commerce presented a draft agreement which included specific provisions to improve the procurement of medical devices and services by Japanese Government entities. The continued maintenance by Japanese firms of an overwhelming share of their home market, to the detriment of world class industries in the U.S. and elsewhere, despite a poor Japanese showing overseas, suggests that forces other than market factors are limiting foreign penetration into the Japanese medical device and services market.

In insurance, the paper we tabled directly addressed serious U.S. concerns regarding the closed nature of the Japanese market. Severely limited foreign access is caused by, among other things, a non-transparent regulatory regime which is based on the extensive use of "administrative guidance"; a highly concentrated industry structure, "keiretsu" and cross-shareholding arrangements, and a highly restricted insurance product approval process which limits innovation. The Japanese Government is aware of the need for change and is currently in the process of drafting legislation to reform their insurance industry. Regulatory change should not be used however, as a means to further disadvantage competitive foreign insurance providers. As in the telecommunications and medical sectors, we expect a prompt, substantial and continuous increase in foreign access, so that foreign market share is comparable to the import share in other developed economies over the medium term.

Let me turn briefly to another Framework basket -- implementation basket, which encompasses existing trade agreements with Japan. It includes over two dozen such arrangements, among which are agreements on semiconductors, paper, wood products, glass, legal services and the ongoing efforts to address the medical and pharmaceuticals trade under MOSS.

We initiated discussions under this basket in late September. Our goal is to look first at existing agreements where progress has been made, and to build on that progress in a tangible way. In cases where limited progress has been made, we are determined to move beyond process and procedural change and theoretical opportunities for foreign firms to real improvements which yield sales for competitive foreign goods and services. At present we are focusing on glass, wood, and paper.

Within the Framework, we are also addressing both regulatory impediments to U.S. exports, as well as private restraints of trade, in a sub-basket working group on deregulation and competition policy. We are pushing the Japanese Government to enforce their antimonopoly laws aggressively to eliminate anticompetitive practices and market structures that prevent American firms from competing on a level playing field in Japan. And, we are trying to ensure that the Japanese Government's deregulation efforts result in transparent government procedures and elimination of barriers to the distribution of imported American products in Japan.

Looking outside of the Framework, there have been developments in two areas, the construction sector and the work of the Hiraiwa Commission, on which I would like to comment. On October 26, the Government of Japan announced an "action plan" to reform substantially its public sector construction market. The plan represents a significant change in the Japanese Government's attitude towards this sector, indicating that for the first time, Japan is determined to bring about the type of reforms we have been urging for years. Among the changes to be made by the Japanese Government is the adoption of an open and competitive bidding system to replace the designated bidder system. As a result, USTR recommended to the President that the Title VII sanctions scheduled to take effect on November 1 be postponed until January 20, 1994. We intend to consult closely with the Japanese as details of the plan are developed through the end of the year. This is an important instance in which the thrust and goals of our trade policy, represented by over five years of discussions and two agreements in the construction sector, found resonance in the desire of the Hosokawa Government and the Japanese people for real change.

USTR is also heartened by the potential of the Hiraiwa Commission, a special body established to recommend to Prime Minister Hosokawa changes to Japan's regulatory structure. The goals of the Commission appear similar to those of the Framework, whether through deregulation or the removal of other barriers to market access, to make the Japanese market more responsive to market forces than it is at present.

The Commission will publish its preliminary report today and its final recommendations on deregulation in December. Prompt action on its recommendations will be needed, and we expect that the Commission's findings will be translated into real change in the marketplace in Japan.

These developments underline our firm belief that the principles established in the Framework are fully compatible with the stated goals of the Hosokawa Government. We welcome the Prime Minister's recent commitment to "redouble" his efforts under the Framework. The successful implementation of the Framework, along the timetable laid out in the agreement, will assist the Japanese Government to achieve its stated goal of real change in Japan. Such change will allow Japan to confront those aspects of its economy which to set it apart from the rest of the industrialized community and which detract from the positive attributes of its formidable economic achievements.

With this desire for real change should come a greater will to assume a responsible role in preserving the international trading system, of which Japan has been a major beneficiary. This will be evidenced not only by Japan's implementation of the bilateral Framework, but also in its contribution to a successful conclusion of the Uruguay Round. With a little over a month left to December's deadline, Japan must be prepared to place their best offers on the table. Tokyo continues to protect its financial services and agricultural sectors. And its tariff offer must be widened to include "zero for zero" tariffs on wood and paper, and harmonization in the chemical sector.

Let me now turn briefly to APEC -- the Asia Pacific Economic Cooperation Forum. Next week's events in Seattle will mark an a vital step in the development of the promising regional forum APEC. As chair of APEC this year, the U.S. has selected the development of APEC's role in regional trade and investment as its theme. Towards this end, we have proposed a Declaration on an APEC Trade and Investment Framework that would take APEC beyond its current role as a facilitation and cooperation forum to a policy making role, to be expanded gradually through consultation and consensus among its members. This proposal has been recently approved by APEC Senior Officials and will be presented to the Ministers in Seattle for adoption. In addition to the Framework Declaration, the Ministerial will be presented with an "eminent persons" report, setting out recommendations on APEC's future direction and role. Trade liberalization and building blocs to a Pacific trade zone will be topics for discussion by the Eminent Person's Group (EPG), and should generate broad discussion among the Ministers. It is hoped that the APEC will spend the next year studying the report and its many recommendations. Finally, the President will hold an unprecedented meeting with the leaders of the APEC economies on November 20. The Leaders are expected to address such issues as the growth in and direction of their domestic economies to the next decade, the growth in and direction of the regional economy, and areas of cooperation among the APEC members. The Leaders Conference and Ministerial hold long term promise for the country and for global economic growth.

We welcome the opportunity to work closely with you, Mr. Chairman and members of the committee and the Congress on bringing the Japan Framework to a successful conclusion, and in charting the course for enhanced regional cooperation under APEC. Thank you.

Speech

Remarks to APEC CEO Symposium
by Deputy U.S. Trade Representative
Charlene Barshefsky
17 November 1993

Introduction

o Delighted to be here this morning to lead off this panel discussion on APEC.

-- Sorry Ambassador Kantor could not be today, I know he would have been honored to share this panel with such distinguished colleagues: Wu Yi, Minister of Foreign Economic Cooperation and Trade from the People's Republic of China and Billy Jeodono (Yoodono), Minister of Trade for Indonesia.

confident re NAF passage

o This concrete demonstration of high-level private sector commitment parallels the official APEC meetings this week. I hope that in the future, the private sector will become more directly involved in APEC's work and continue to be involved in Ministerial week activities.

US expts

integration dom/int'l growth

o The Clinton Administration sees APEC as an important vehicle for forging new relationships with our Asian and Pacific neighbors. We support a stronger, more active APEC that will become the forum for regional trade expansion and investment liberalization.

50% ↑ 5 yrs
40% world trade
40% world populat
> EC trade

-- APEC is the best venue to foster broader economic cooperation in the most economically powerful and dynamic region in the world.

o We believe it is imperative for you to participate in this process with us. For it is you, our business leaders, who have forged this path for APEC. Your companies have spurred the economic activity and growth in the region.

we are #1 or 2 in each mkt

o I would like to review some of the significant accomplishments of APEC this year which, I believe, will entice the business community to expand its participation in our discussions.

o Then, I would like to hear your ideas on how best to include private sector representatives in the APEC process.

EPG Report

o APEC Ministers established a group of eminent persons to challenge members with a vision of APEC's future. The report completed for this Ministerial sets out a general description of economic conditions, but also discusses <u>threats to our future prosperity</u>.

- -- The report highlights the critical importance of the multilateral trading system and the Uruguay Round, noting APEC's potential role in "ratcheting up" the multilateral process.

- -- The report also proposes that APEC accelerate and expand cooperation within the region and that, over the longer term and through a building block approach, APEC create an Asia-Pacific Economic Community aimed at eventually establishing free trade and investment with the region.

o I know you all will have comments on that! APEC will need to hear your views on how to proceed--or if we should proceed at all.

Declaration on Trade and Investment Framework

o Ministers are expected to adopt a Declaration on an APEC Trade and Investment Framework that will take APEC beyond its current role as a facilitation and cooperation forum to a policy making role.

- -- The Declaration establishes a permanent Committee on Trade and Investment. This development signals a growing importance with which APEC members view the role APEC can play.

- -- It further directs members to more actively find ways to expand trade and create a more attractive investment climate.

Expanded Work Program

o Important work has already been accomplished in the ten APEC working groups, which address practical issues in areas such as telecommunications, transportation, tourism, and marine resources. These groups are where we have enjoyed most the participation of business experts and we'd like to build on this further.

o Significant projects in the Regional Trade Liberalization group, such as the Customs Guide and Symposium, examination of a tariff database, and publication of an investment guidebook also have benefitted from input by the business sector.

o APEC will adopt a new trade and investment work program, to be undertaken by the new Committee. In this program, ongoing work (i.e., customs, investment, standards) will advance and APEC will work together actively on implementation of the Uruguay Round results, trade policy aspects of small and medium business creation and selected issues raised by the Eminent Persons Report.

- o We've tried this year to recognize the importance of UR implementation and the resource drain that will place on many APEC members this year. Therefore, we've not overloaded the initial trade and investment agenda.

- o Need to develop this agenda further next year with your assistance taking the agenda as far as APEC consensus will take.

Conclusion

- o The task before us, then, is to establish an open, continuous dialogue between government officials and business representatives on APEC issues--at all levels.

  - -- As most of you are aware, the United States has a well-established private sector advisory system, which includes a newly-formed sub-group (in the ACTPN and chaired by Hank Greenberg) on APEC.

  - -- Also, we have the active private sector groups in this room who will be key actors.

- o We hope that our fellow APEC members also will reach out to their business sectors so as to provide APEC with a fully representative collection of viewpoints from the entire APEC region.

- o We have had an active debate by Senior Officials this week and are looking at a variety of ways to accomplish this goal. This subject will be on the Ministers' schedule later this week and I dare say even on that of the APEC leaders.

  - -- Some initial ideas suggested are specific presentations by business/private sector representatives on issues in the Work Program throughout the year; and business/private sector meetings held on the fringes of APEC Senior Officials' and Ministers' meetings.

- o Let me stop there because I would really like to hear your views. We can begin our open dialogue on APEC issue between government officials and the business community right now!

November 18, 1993 (8:15AM)

CEO.TPS

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