AMBASSADOR CHARLENE BARSHEFSKY
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THE FUTURE OF U.S.-JAPAN TRADE RELATIONS

BY

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AT THE GEORGETOWN UNIVERSITY LAW CENTER SYMPOSIUM ON U.S. TRADE POLICY IN TRANSITION

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Trade is an essential element of the Clinton Administration's economic and foreign policies. It derives its importance from this Administration's signal emphasis on economics. This emphasis begins at home, with policies aimed at deficit reduction, new investment in education and training, and expansion of our nation's infrastructure in the traditional sense and through the application of information high technologies. It continues by seeking to ensure that foreign markets are open to competitive exports. This fall, Congressional passage of the NAFTA and the successful conclusion of the GATT Uruguay Round negotiations demonstrated the U.S. commitment to achieving greater economic growth at home and abroad through opening markets to trade and investment.

Around the world, deregulation and market opening policies are sweeping through places few would have predicted. From Eastern Europe to Latin America and Asia, countries with heavily restricted markets have moved toward a recognition that prosperity increasingly depends on the ability to compete in an open international system, and that a closed market only leads to a loss of competitiveness and economic vitality.

Amid a widening trend of opening markets, the Japanese economy presents unique challenges. It is impossible not to admire the tremendous advances of the Japanese economy in recent decades, or to recognize the beneficial lessons the world has learned from Japanese management and manufacturing practices. At the same time, however, it is impossible to ignore the very substantial economic imbalances that have continued for years between Japan and the rest of the world, and its underlying market access barriers.

Whether one looks at economy-wide indicators, such as Japan's manufactured goods imports as a percentage of GDP or its levels of inward foreign direct investment, or sector-specific indicators such as relative price levels, the conclusion is the same: as compared to other major industrialized economies, Japan's domestic market still remains significantly less open to foreign competition despite years of market opening efforts. When these facts are combined with Japan's enormous and persistent global current account surplus -- the single greatest imbalance in the current international economic system -- the inescapable perception is that, for Japan, trade with the United States and much of the rest of the world is too much of a one-way street.

Limited access to the Japanese market imposes high costs on the United States and Japan's other trading partners, as well as on Japan. Looking only at United States exports, the Institute for International Economics estimates that a full liberalization of Japan's economy would result in an expansion of U.S. exports of $9 to $18 billion annually, half of which would be in manufactures and a third in agricultural products. At approximately 20,000 job opportunities per $1 billion in U.S. exports, this increase could translate into 180,000 to 360,000 jobs. Of course, it is well-documented that export-related jobs tend to be higher-wage jobs. Moreover, since the U.S. accounts for less than 25 percent of Japan's total imports, the job creation benefits for the rest of the world are at least twice the number for the United States.

Japanese consumers and business also bear the brunt of policies and regulatory practices that restrict market access in Japan for foreign firms. As President Clinton said in his speech at Waseda University last July, Japan's high prices fall most heavily on its own people. Limited market access in Japan fosters inefficiencies that slow economic growth and today hamper the competitiveness and productivity of Japanese business. Japan's policies therefore burden not just Japanese consumers, but the Japanese economy overall, and with it, the world economy.

Many Japanese business and political leaders are themselves recognizing the need to reform economic policies and regulatory practices in Japan as a means to emerge from Japan's current recession and restructure their economy and business. In a speech before the Diet on August 23, Prime Minister Hosokawa stated:

> I intend to work vigorously for expanded domestic demand and improved market access and for such consumer-oriented policies as rectifying the disparity between domestic and international prices and promoting deregulation, and to strive to reduce our current account surplus, not just to maintain good external economic relations, but also to improve the quality of

Japanese life.

The Minister of International Trade and Industry, Hiroshi Kumagai, also has commented that "the [Japanese] market has tightly closed aspects." He stated that, "for Japanese firms to make it in international society, this system must be revised."

Prime Minister Hosokawa called on a special advisory commission on economic structural reform, made up of prominent public and private sector representatives, to analyze reforms needed for the Japanese economic system. This commission, the "Hiraiwa Commission," stated that "Japan's 'catch up and overtake' economic system -- interpreted positively as cooperation and negatively as collusion -- has functioned well so far, but it now requires reform." The Keizai Doyukai recently issued a similar report.

As may be inferred from these statements, it is believed that a cyclical economic recovery alone will not be enough to restore economic dynamism in Japan and export opportunities and corresponding job growth for the rest of the world. Rather, as Japanese business and political leaders have pointed out, fundamental structural and market access issues must be addressed.

It is this reality that has led the Clinton Administration to pursue, under the U.S.-Japan Framework for a New Economic Partnership, a bilateral trade initiative with Japan which has as its primary goal the opening of Japan's markets, and the correction of macroeconomic imbalances which inhibit global growth and prosperity. The Framework is intended to further Japan's economic convergence with the rest of the industrialized world, in both macroeconomic terms and in market access. Japan and the U.S. have recognized the need for a broad approach to addressing macroeconomic, sectoral and structural issues. We are seeking constructive solutions for the many economic imbalances that have had a corrosive effect on the U.S.-Japan bilateral relationship.

Let me turn to a more detailed discussion of the economic concerns underpinning the Framework discussions, and the specific approach we are taking in the negotiations.

JAPAN'S MARKET ACCESS IMBALANCE

Japan is the world's second largest economy. The United States and Japan together account for roughly one-third of global output. Japan is our second largest trade partner and the U.S. is Japan's largest overseas market. Two-way trade in goods and services between the two countries totals $200 billion. A strong U.S.-Japan trade relationship is thus critically important to both countries and to the world economy.

During the past period of rapid economic growth, Japan developed massive trade and current account surpluses -- surpluses which have grown even larger as Japan's economy entered recession. In the 1980s, Japan's cumulative annual surpluses on the current account exceeded $450 billion, while merchandise trade surpluses totalled almost $600 billion. This year, as last, the trade and current account surpluses of Japan are each expected to be in the vicinity of $140 billion, or over 3 percent of Japan's GDP (about 3.5 percent of GDP in 1993 and 3.2 percent in 1994). Such massive imbalances in Japan's current account -- the broadest measure of its economic transactions with the rest of the world -- depress production and employment throughout the world.

Such large, sustained surpluses in and of themselves do not demonstrate a highly protected home market. However, such large surpluses, when combined with other evidence of widespread restrictions on foreign producers' access to the Japanese market, strongly indicate an imbalanced approach to trade in Japan, which creates enormous strains on Japan's trade relations with the United States and other countries. The United States is not the only country that is concerned about Japan's trading practices.

For the United States, the continuance of such sustained external imbalances by Japan and restrictions on access to the Japanese market are no longer acceptable. We strongly favor measures by Japan that accelerate domestic demand led growth, deregulation, and a highly significant reduction in the current account surplus.

However, broad macroeconomic policies to reduce Japan's global trade imbalance are only part of the solution to the current problem. Structural changes removing specific barriers to doing business in Japan -- in both trade and investment -- must accompany efforts in the macroeconomic area to reduce aggregate trade imbalances.

The specific economic evidence of sectoral and structural market access barriers appears in several statistics.

<u>Japan's low receptivity to foreign goods.</u>

Japan imports relatively fewer manufactured goods than any other G-7 country. Japan's imports of manufactured goods as a percent of GDP stand at about 3.1 percent, as compared with 6.9 percent for the U.S. and 7.4 percent for the G-7 nations excluding Japan. Not only is Japan's ratio low, it has failed to rise substantially over the past twenty years despite the lowering of tariffs and other formal trade barriers. This pattern contrasts with that of other major industrialized countries, which have more than doubled their ratios of imports to GDP over the past two decades.

The limited role imports and foreign firms play in Japan's economy relative to other major economies is repeated in specific sectors such as telecommunications, medical devices, insurance, and motor vehicles and parts. These are all priority sectors that are being negotiated under the Framework. The numbers show a persistent pattern in which competitive foreign goods and services find far less success in Japan's market than they do in other industrialized economies.

-- In telecommunications equipment, the average foreign share of the private and public telecommunications market in G-7 countries excluding Japan is 25 percent. Yet the foreign share of Japan's market -- the world's third largest -- is only 5 percent.

-- In medical technology, U.S. firms are highly competitive throughout the world, accounting for over 50 percent of the global medical device market. In Japan, foreign participation is less than half that in other G-7 countries, despite our clear competitive advantage over Japanese industry.

-- Although Japan has the second largest insurance market in the world, foreign access has been limited perennially to about 2 percent of the market. Foreign access in G-7 countries, excluding Japan, ranges from approximately 10-33 percent. Japanese companies hold only a very small share of the market in other G-7 countries.

-- In autos and auto parts, foreign producers hold only 3 and 2 percent of the Japanese market, respectively, despite their competitiveness and price advantages.

I do not cite these numbers to suggest that foreign participation in these sectors in Japan should be identical to the levels in other G-7 countries. Nor do I cite these numbers to suggest that they should constitute point targets for Japan. These figures merely underscore the point that American producers that are highly competitive in world markets, often against Japanese competition, can not penetrate the Japanese market in a manner that reflects that worldwide competitiveness.

<u>Japan's low receptivity to foreign capital.</u>

Japan is even less receptive to foreign capital than it is to foreign imports. In 1991, Japan hosted about $12 billion in foreign direct investment, which represented only 0.7 percent of the world's stock of inward direct investment -- the lowest level of any industrialized country. By contrast, the U.S. hosted $414 billion, or 22 percent, of the stock of inward direct investment and the European Community had $714 billion, or 38 percent. Even countries such as Mexico, Brazil, and China are more receptive to inward direct investment than Japan. In 1991, these countries hosted $34 billion, $32 billion, and $23 billion, respectively, in inward direct investment.

Japan's lack of receptivity to foreign investment serves as a trade barrier in today's global economy, in which investment pulls trade. Foreign subsidiaries frequently purchase from or sell to their parent companies back home, to the extent that intracompany trade constitutes 30 to 40 percent of total global trade in manufactures. The low levels of foreign direct investment in Japan translate into a substantial loss of potential exports from foreign firms to their Japanese subsidiaries.

<u>Japan's high prices.</u>

Japan's high prices provide further evidence of market access barriers. Anyone who has traveled to Japan knows this problem well. According to a 1991 joint U.S.- Japan survey on prices, comparable goods are on average 37 percent more expensive in Japan than in the United States. Food is, on average, 47 percent more expensive and auto parts are over 100 percent more expensive.

Such large price differentials should present opportunities for traders -- buying auto parts or consumer goods overseas and re-selling them back into the Japanese market at a profit even after paying transportation and distribution costs. If there were not substantial barriers to Japan's market, a brisk trade in cheaper foreign goods or even re-importations of Japanese-made goods would develop, and over time the large price differentials would erode. The fact that these sharp price differentials persist underscores the difficulties of penetrating the Japanese market.

JAPAN'S UNIQUE BARRIERS

For the most part, the market access problem in Japan does not come from formal barriers at the border -- i.e., those most amenable to conventional forms of trade liberalization, such as tariffs. Rather the barriers to the Japanese market often are as invisible as they are pervasive. They stem from the complex interaction of Japan's economic structure, private business organizations and practices, relations between the Japanese private sector and government, and government policies and regulatory practices. These often interacting forces have not been the subject of government-to-government consultations until relatively recently.

The Japanese economy is characterized by a high degree of economic regulation -- a fact recognized by many political and business leaders, as well as by the Hiraiwa Commission that recently studied the issue. Just to cite one example, the large Japanese supermarket chain, Daiei, estimates the cost of obtaining licenses to open a single store is something on the order of $1.6 million. This high cost is driven by the need to obtain 40 different licenses required under 19 different laws.

The problem is not just the sheer number of regulations, but also a pervasive lack of transparency and predictability in their application. In many cases, formal Japanese laws and regulations are written only in general terms, with the details supplied by administrative guidance. The resulting broad power and discretion of government officials can make it extremely difficult for foreign firms to learn what approvals may be required to conduct business, and even more difficult to obtain those approvals.

Government-business relations in Japan are closer and different in nature and degree than in the United States or in many other industrialized countries. This poses special difficulties for foreign firms that do not have commensurate access to policy deliberations. For example, the Japanese government routinely consults with the private sector through trade associations, advisory committees, study groups and many other informal mechanisms, which often serve as fora for managing consensus on policy actions that affect private sector regulation. Such close government/business relations may be helpful in developing consensus on industrial development goals and specific policy questions, but it can easily disadvantage those firms, both foreign and domestic, that are not part of the circle of consultation.

Business practices between suppliers and producers, producers and distributors, and companies within industry or corporate groups also limit market access for new entrants -- foreign or domestic -- in many sectors of the Japanese economy. Often, such practices effectively prevent new entrants from winning customers on the basis of price, quality, and service. Although Japan has an Anti-Monopoly Law to address anti-competitive practices, the law has many exceptions, its penalties in many instances are inadequate, and its enforcement has not been sufficiently vigorous.

Finally, Japan's multi-layered and in many areas outdated distribution system remains an impediment to foreign firms and new market entrants. In many areas, it is extraordinary costly. It is very difficult and expensive for foreign firms to establish their own distribution channels or to enter using existing channels.

Senior Japanese business and political leaders have recognized these structural barriers in the Japanese economy. MITI Minister Kumagai stated that, "major companies have a strong tendency to defend the market by refusing to admit newcomers. Even if a company tries to open a business, they will not accept them in their society." When asked by a journalist if he meant that the Japanese market is exclusive, Minister Kumagai stated, "I think it is exclusive in the sense that it has many invisible barriers."

PAST NEGOTIATING APPROACHES

The United States over the past decade has tried many different approaches to dealing with Japan's trade barriers. For example, in the mid-1980s, the U.S. raised the issue of Japanese barriers to sales of telecommunications and medical equipment, pharmaceuticals, forestry products and auto parts through the so-called Market-Oriented Sector-Specific (MOSS) talks. In the last years of the 1980s, the U.S. focused on eliminating Japanese barriers to sales of supercomputers, satellites, and wood products utilizing the Super 301 provision of the 1988 Trade Act. In the early 1990s, the U.S. used the Structural Impediments Initiative (SII) focused on Japanese barriers to investment, exclusionary business practices, enforcement of the Anti-Monopoly law, and other structural trade and investment issues.

The fact that these issues remains on our negotiating agenda today suggests that past agreements and approaches to opening up Japan's market to greater foreign competition have had only limited success.

In meeting Japan's unique trade liberalization challenge, the Clinton Administration has determined that past approaches -- particularly those that relied solely on changes in rules and procedures -- will not provide solutions to the very real and specific problems posed by Japan's barriers. Of course, where changes in the rules contribute to the elimination of real trade barriers and to more open markets, as they have in the agricultural area for example, a strictly rules-based approach is appropriate. But in the majority of areas in which U.S. and other foreign producers are internationally competitive, experience suggests that changes in rules and procedures alone may not be enough to ensure real change in the marketplace.

THE FRAMEWORK APPROACH

For this reason, the Clinton Administration proposed a new approach to the bilateral economic relationship in the United States-Japan Framework for a New Economic Partnership, signed last July.

At the heart of the Framework lies the basic proposition that for both nations and the rest of the world to prosper into the next century, Japan's persistent trade and current account imbalances cannot be sustained. The Framework represents a comprehensive approach to sectoral, structural, and macroeconomic issues, aimed at these fundamental economic imbalances.

The Framework -- to which the U.S. and Japan agreed -- establishes a results-oriented approach to U.S.-Japan trade. It states that "tangible progress must be achieved," and calls for the use of qualitative and quantitative criteria to assess implementation of the agreements reached. While focussing on results, the Framework makes clear that the benefits achieved will be available on a most favored nation basis to Japan's other trading partners.

The Framework elevates the U.S.-Japan trade relationship and bilateral and economic issues to the high level where they belong. By establishing semi-annual heads-of-state meetings preceded by deputy minister level meetings, the Framework ensures that issues will be reviewed and resolved under the guidance of leaders focussing on the importance of the U.S.-Japan relationship and the significance of these issues for the global economy.

In the macroeconomic area, the Framework commits Japan to pursue a "highly significant" decrease in its current account surplus, as well as significant increases in its imports of goods and services over the medium term. The Framework commits the U.S. to pursue a reduction of its fiscal deficit, promotion of savings, and a strengthening of its international competitiveness -- goals toward which we clearly have made substantial progress in this Administration.

In its five "baskets" of sectoral and structural issues, the Framework addresses major sectoral and structural barriers faced by foreign firms seeking to sell into the Japanese market. These baskets include:

-- <u>Government procurement</u>, in which Japan has committed to put into place measures aimed at significantly expanding Japanese government procurement of competitive foreign goods and services in such areas as telecommunications equipment and services and medical technology.

-- <u>Regulatory reform and competitiveness</u>, in which we are addressing Japanese laws, regulations, and administrative practices that impede market access for foreign goods and services. In this basket, we are seeking initially an agreement with respect to Japan's insurance sector.

-- <u>Other major sectors</u>, in which we seek to reach agreement to remove barriers in Japan to foreign auto and auto parts producers, and to achieve substantially increased imports into Japan in this sector.

-- <u>Economic harmonization</u>, in which we are addressing issues affecting foreign direct investment, intellectual property rights, access to technology, and buyer-supplier relationships.

-- <u>Existing arrangements and measures</u>, in which we are reviewing all prior arrangements and measures entered into between our two countries.

The U.S. and Japan have agreed to the use of quantitative and qualitative criteria to assess the Framework agreements. I wish to be clear on exactly what this means. In each of our Framework negotiations, we intend to work with Japan to establish the changes we seek and the criteria that will be utilized to assess whether the agreements are achieving their fundamental purpose: substantially increasing market access and sales in Japan.

The United States is not engaging in managed trade; it is seeking to un-manage and expand trade in one of the most highly managed and regulated economy of any major industrialized country. As we have said from the outset, we are not seeking to set point targets for foreign market share levels in Japan. However, we also are not willing to repeat the past mistake of entering into agreements that do not result in a tangible difference in the marketplace. We are looking for practical solutions to the problems foreign firms have encountered in the specific sectors under negotiation. In each of our agreements, we must have a firm basis for confidence that the steps agreed to for removing market access barriers in fact leading to greater market access and sales for competitive foreign firms.

We have much work to do to reach agreements in our four priority areas by the heads-of-state meeting on February 11. However, I am confident that through the concerted efforts of both sides over the next few weeks, we will reach agreements that will begin the process of setting our bilateral relationship on a new course, laying the foundation for greater prosperity for Japan, the United States, and the rest of the world.

STATEMENT OF

AMBASSADOR CHARLENE BARSHEFSKY

DEPUTY UNITED STATES TRADE REPRESENTATIVE

ON TRADE POLICY TOWARD CHINA

BEFORE THE

HOUSE WAYS AND MEANS

SUBCOMMITTEE ON TRADE

24 FEBRUARY 1994

Mr. Chairman, members of the Committee, I am pleased to appear before you today to discuss China's mid-year results in meeting the Clinton Administration's conditions for renewal of MFN, as well as the status of our bilateral trade relationship.

As outlined in the President's Executive Order of May 28, 1993, China must meet certain conditions on emigration and prison labor, and achieve "overall, significant progress" in five specified human rights areas if the President is to grant China MFN status next year. The Executive Order is clear on these issues. I will leave an extended discussion of the President's Executive Order on MFN to the testimony of the State Department. But let me emphasize that steady, continuous progress on human rights in China is an essential element of this Administration's trade policy toward China, and that renewal of MFN will not be possible under the President's policy absent overall, significant progress on human rights.

With respect to trade, the Administration has pledged, in the Executive Order, to "pursue resolutely all legislative and executive actions to ensure that China abides by its commitments to follow fair, nondiscriminatory trade practices." The Report to the Congress Concerning Extension of Waiver Authority For the People's Republic of China is even more explicit. It commits the Administration to pursue market access and intellectual property rights Agreements and other issues and to make use of Section 301 where necessary in these areas.

This Administration has met fully these obligations with respect to the bilateral trade relationship. We have spent much of the past year actively pursuing full implementation of our current trade Agreements, resolving -- successfully -- some of our more serious concerns. We have produced real results. Where the Chinese have not proven willing to take the measures necessary to open their markets to fair competition, this Administration has not hesitated and we will not hesitate to make full use of the legislative tools available to us.

As I testified before this Committee last June, we have clear goals that we wish to achieve in our trade relationship with China. We have made some progress toward achieving those goals, though much remains to be done. First, 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 in the United States.

Second, over time, as a result of greater comparability in market access, we expect more rapid growth in our exports to China. Finally, we want to make certain that China accepts the rule of law as it applies to trade -- that is, that China's trade and economic policies be consistent with international norms and the rules and disciplines of the GATT.

China's Market Potential

The United States has an important stake in gaining genuine access to China's markets -- for both goods and services. Increasingly, U.S. economic growth is driven by growth in exports, and our economic health depends on open markets throughout the world.

China is now the world's fastest growing major economy. 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. In 1993, China again sustained this high rate of growth. The accelerating accumulation of wealth in coastal China and the concomitant growth in the purchasing power of China's industries and its consumers will ensure that China's market becomes increasingly attractive to U.S. exports.

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 $196 billion in 1993. While changes in accounting methods have reduced the ostensible size of China's foreign reserves, at $20 billion, they are still formidable. In trade terms, China is a major player.

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 $40 billion in 1993. The United States is now China's largest export market, with some 34 percent of China's exports going to the United States. Last year Americans imported nearly $32 billion of Chinese goods, which included some products originating in other Asian countries.

Our trade relationship, however, is out of balance. The bilateral trade deficit stood at $23 billion in 1993, up 25 percent over 1992. 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.

While the potential of China's market is enormous, U.S. exports to China still lag behind those of our major trading partners in China. Last year, Tokyo's statistics indicate that Japan's exports to the Chinese market grew by 44 percent, far more than ours. China's planners also import proportionately more from the European Union than 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 about $3 billion, with total pledged investment above $7 billion. Many Fortune 500 companies have made China one of their strategic targets, investing in large scale ventures in China, with preparations to export a greater variety of products such as telecommunications equipment, computers, medical equipment and heavy machinery. More than 550 U.S. 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 eliminated. U.S. competitiveness in the areas of greatest interest to China -- aircraft, high-technology exports, computers, fertilizer -- is excellent. China estimates that it will require more than $350 billion in project-related imports over the course of its Eighth Five Year Plan, which will be completed in 1995. The opportunities for U.S. exports are enormous.

For its part, the U.S.-China Business Council estimates that the market for power generation equipment in China over the next 25 years ranges from $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 domestic economic expansion and change, 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.

POLICY ON TRADE WITH CHINA

The Administration supports a strong, stable, and prosperous China. In Beijing, Treasury Secretary Bentsen commended China's recent decisions to move forward with market-oriented reforms of its monetary and banking systems, tax system, and foreign exchange system. Indeed, at its Third Plenum in November 1993, China announced major steps forward in its economic reform program. These steps, if implemented, will move China further toward a market economy.

Nonetheless, China maintains a highly protectionist trade regime. It has in place multiple, overlapping non-tariff barriers to imports and maintains relatively 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 still 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.

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.

<u>Trade Agreements</u>. The trade agreements that we have signed with China represent important steps toward the 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 solid 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 regime over a five year period. Since I last testified, we have held intensive discussions with the Chinese on implementation of these Agreements -- with real

progress in some key market access areas.

Let me take each of the MOU agreements in turn:

Market Access Agreement. Pursuant to a December 31, 1993 deadline, China has taken important steps to increase the transparency of its trade regime, and to open its market to U.S. industrial goods. Specifically, China committed to:

- **Increase the transparency** of its trade regime, by publishing and making readily available to foreign traders and governments all trade and investment-related documents. In addition, China has issued a State Council directive mandating that no unpublished law, rule, regulation or administrative guidance can be enforced. China has also published data on major central government projects through the year 2000 and the United States expects full disclosure of project-related information in China's provinces.

- **Eliminate import barriers** -- including licensing requirements, quotas, controls, and restrictions -- in many key U.S. export sectors. Effective December 31, 1993, China eliminated import restrictions on 258 items by HTS tariff line. These items include products of considerable export interest to the United States, such as agricultural products, including citrus fruit, apples, and ginseng; iron and steel products; heavy machinery; machinery tools;

textile machinery; rail locomotives; helicopters; scientific equipment; and commercial aircraft. In addition, effective January 1, 1994, China eliminated ahead of schedule import restrictions on integrated circuits as well as on selected chemical products, and removed explicit restrictions for 171 machinery and electronics products, including construction, energy generating, and television broadcast equipment.

On March 31, 1993, China also eliminated a directive that restricted sales of digital switching systems equipment to three non-American suppliers -- NEC, Alcatel, and Siemens. As a result of the elimination of this directive and the removal of controls on digital switching systems equipment, U.S. suppliers sold more than $500 million of this equipment to China during 1993 -- with the likelihood of substantially increased sales in 1994 and beyond.

- **Eliminate the use of import substitution policies and measures.** In August, 1992, China published an order forbidding the issuance of import substitution lists that designate equivalent Chinese domestic substitutes for foreign products.

- **Remove, as barriers to trade, scientifically unsound standards and testing requirements.** When complete, this action will further open China's markets to U.S. products, especially agricultural products. On non-agricultural issues, China has agreed to apply the same testing and certification standards to imported and domestic products and to apply these standards uniformly throughout the country.

- **Reduce tariffs** by a general average of 50 percent and in no instance lower than 35 percent, on 50 categories of products -- including about 200 items by HTS tariff line, effective January 1, 1994. The products include fruit, edible oils, photographic and cinematographic goods, miscellaneous chemical products, articles of iron and steel, machinery and mechanical appliances, electrical machinery and parts, essential oils, perfumery, cosmetic and toiletry preparations, and toys, games and sports articles. On January 1, 1993, China reduced tariffs from 80 to 5 percent on instant print film and instant cameras, and from 70 to 15 percent on chocolate confectioneries and sugar confectioneries.

While China is to be commended for these market opening measures, much remains to be done with respect to market access. U.S. negotiators will discuss next week in Beijing the issue of liberalization of quantitative restrictions (QR) for key U.S. export products cited in the MOU. We expect China to liberalize QRs at a rate that is in line with the growth of the market in each sector. We will continue to work with China to achieve this goal. In addition, although China has lifted restrictions on many machinery and electronics products, certain tendering regulations have been put into place which are unacceptable. China must bring its tendering regulations up to the level of standard international practice, including that embodied by the GATT Government Procurement Code. Finally, China must meet its obligations to base sanitary and phytosanitary standards on sound science. Without substantial progress in this area, China will be in violation of its MOU commitments.

<u>Intellectual Property Rights</u>. Protecting intellectual property is vitally important if U.S. industries are to maintain their comparative advantage in the high-technology sectors they dominate. Unfortunately, despite significant changes in China's intellectual property regime, there is an absence of effective enforcement. Infringement of trademarks and copyrighted works is endemic in China and the Chinese government has done little to bring it under control, much less eliminate it. China does not have effective IPR enforcement agencies and Chinese law offers no criminal penalties for copyright infringement. Clearly, on enforcement, China lags well behind most countries in the region. In addition to market barriers, the absence of effective IPR enforcement is the greatest hindrance to access to China's market by the recording, motion picture, computer software, and other industries.

The most egregious example of failed IPR enforcement is the infringement on a massive scale of foreign CDs and laser disks. China has permitted the establishment of 26 CD and laser disk companies in south and central China that have a production capacity of more than 50 million CDs -- in a domestic market of roughly 2 million. Exports of pirated CDs are now flooding Hong Kong -- where more than 93,000 were seized by Hong Kong Customs last year alone -- and are also entering countries in southeast Asia and Canada. One factory in the Shenzhen Special Economic Zone opposite Hong Kong appears to be among the largest offenders, exporting pirated versions of films, like Jurassic Park, that have not yet been released for home viewing in the United States.

In view of China's unwillingness to date to take the necessary steps to ensure effective IPR enforcement, USTR placed China on the Special 301 Priority Watch List in November. If China does not take prompt and effective measures to enforce intellectual property rights, we will elevate China to Priority Foreign Country status, which would subject China to possible trade action.

Apart from enforcement, China has implemented the IPR MOU satisfactorily, in most instances. In the Agreement, China committed to bring its intellectual property rights regime to world class standards. For example:

- On copyrights, China has joined the Berne Convention for the Protection of Literary and Artistic Works and the Geneva

Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, issued regulations implementing the Berne Convention in China, and promised to protect existing copyrighted works.

- 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.

Textiles. For the past several years, massive illegal transshipments of textiles from China and overshipments have undercut the effectiveness of the textile quota system. After months of fruitless negotiation and Chinese inaction, the Administration took decisive action, publishing sharp unilateral reductions in China's textile quotas. A new bilateral textiles agreement was entered into between the U.S. and China in mid-January, just hours before unilateral quota reductions were to be implemented. This agreement reflects three major accomplishments:

- The Agreement establishes significant reductions in the access the Chinese will have to the U.S. market. It contains no growth in the quotas between 1993 and 1994, and growth rates in the remaining years of the agreement -- 1995 and 1996 -- have been reduced substantially. In addition, overshipments from 1993 will be counted against the 1994 quotas. Over the term of the Agreement, China's access to the U.S. market for non-silk products will decline by 13 percent or approximately $700 million.

- The Agreement incorporates language that potentially subjects China to additional substantial cuts in access to the U.S. market if transshipment continues unabated. After three additional violations of the Agreement through transshipment, the U.S. Government can reduce China's quotas by up to three times the quantity involved in transshipment.

- Finally, China's exports of silk apparel to the United States, for the first time, are now subject to agreed limits, or ceilings. Chinese silk exports to the United States exceeded $2 billion in 1993, so this agreement represents an important new restraint.

The reductions in access to the U.S. market for Chinese textiles and apparel are entirely justified given the substantial transshipment and overshipments that have occurred in violation of our previous bilateral textiles agreement. U.S. Customs has determined that transshipments are occurring through at least 25 countries and estimated the value of China's quota violations at

$2 billion annually.

<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.

As a result of the conclusion of the Uruguay Round in December 1993, we have altered our approach to all current and future accessions to assure that we build the appropriate bridge to the adherence of all the Uruguay Round agreements for any country wishing to accede to the GATT/World Trade Organization (WTO). That is even more important in China's case. In light of China's growing importance in the world trade system, and as a trading partner of the United States, we believe it is essential that the terms by which China accedes are comprehensive and enforceable. Accordingly, China's accession must address three basic elements:

- The terms and conditions of accession -- the protocol.
- The schedule of concessions for goods
- The schedule of initial commitments for services.

We have significant issues yet to resolve in China's accession bid and cannot speculate about the timing of the completion of the accession process. The pace of progress will depend on the commitments China will take to implement and enforce the rules and disciplines of the GATT and its successor regime, the WTO. We expect China to further open its market for U.S. goods and services and to reform its regime so that China accords the United States comparable market access and advantages.

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 wholly-own their own retail outlets, are restricted in their right to 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 set the stage for the opening of China's potentially extensive market for services. We will begin formal bilateral negotiations with China on services in Beijing on March 2 and 3. We expect those negotiations to lead to substantial market access for U.S. service providers.

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. Let me emphasize, however, that this must happen in the context of the President's Executive Order, which requires that there be overall, significant progress on human rights in China for the President to renew China's MFN status.

FUTURE OF WESTERN HEMISPHERIC TRADE AND INVESTMENT RELATIONS

Keynote Address by
AMBASSADOR CHARLENE BARSHEFSKY
DEPUTY U.S. TRADE REPRESENTATIVE

Before the
INTER-AMERICAN DIALOGUE

March 2, 1994

INTRODUCTION

It is indeed a pleasure to speak before the Inter-American Dialogue -- a forum which includes many of the real experts on Latin America and the Caribbean. 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

One year ago at the American University, **President** Clinton delivered a major address on U.S. economic policy. In this important speech, he called upon the American people to make a tough choice at the "third great moment of decision in the 20th century." He asked us to reject a path that would lead us to repeat past mistakes of turning inward and, instead, to reach outward -- to "compete, not retreat."

This President clearly has a deep understanding and interest in the effect of the global market on the U.S. 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 Main Street U.S.A. It holds both promise and peril. Our objective is to seize the promise and pursue U.S. economic growth in an expanding world economy.

To do this requires an integrated approach to economic policy which starts at home. Improved education and labor skills, a re-employment program, health care reform, more efficient and effective government, stimulation of research and development, all are part of the Clinton Administration's agenda to improve our ability to compete effectively 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 Administration believes that global economic interdependence and trade expansion offer tangible routes to a new prosperity. The opportunities for the United States 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. Latin America and the Caribbean is an increasingly important market for these U.S. goods and services.

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

Latin America and the Caribbean 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. 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, the countries in Latin America and the Caribbean have opened their markets. A few illustrations might be useful.

o Average peak tariff rates in Latin America and the Caribbean have fallen from triple digits percent to around 25 percent; the simple average tariff rate in the major countries in the region is under 15 percent.

o Most countries have substantially reduced -- and in some cases all but abandoned -- the use of nontariff barriers, like restrictive import licenses and import quotas.

o Countries that once publicly condemned multinational corporations and decried the evils of foreign investment are now competing for those resources by revising their laws and practices to provide attractive investment environments.

Latin America and the Caribbean's policies have benefitted the United States. Let me share with you some numbers to illustrate my point.

o Forty three percent of all imports into Latin America and the Caribbean come from the United States. U.S. merchandise exports to the region rose from nearly $44 billion in 1988 to over $78 billion in 1993, an increase of 77 percent. U.S. exports to the region have increased at over twice the rate of U.S. exports overall.

- We have had a merchandise trade surplus with the region for the past three years.

- Most U.S. exports to the region are high valued goods -- exactly the kind of products the President sees being the source for creating future U.S. jobs. The preponderance of U.S. imports from the region are raw materials and complementary products.

- The U.S. market share in most countries in Latin America and the Caribbean is three to four times the share of the country's next trading partner.

- The largest stock of U.S. foreign direct investment with any developing region of the world was in Latin America and the Caribbean -- $77 billion as of 1991 (the latest available year).

The Administration is currently in the process of developing its trade and investment policy for enhancing our commercial ties with -- and taking advantage of opportunties offered in -- Latin America and the Caribbean. We want to develop the right approach for this important region of the future.

U.S. Policy and the Region

U.S. policy toward Latin America and the Caribbean has historically been heavily focused on political concerns. We concentrated on ways to provide assistance to the region, instead of finding the means of working with countries in the hemisphere.

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. Let me briefly explain what trade policy elements are in place and then touch upon additional considerations.

Element One: The Uruguay Round

The importance of the completion of the Uruguay Round, while viewed by some as not having the same significance to the hemisphere as the North American Free Trade Agreement (NAFTA), should not be underestimated. In addition to the vast scale and comprehensiveness of this global trade agreement, the success of the Uruguay Round sets in motion a range of actions unprecedented in global economy history -- expanding jobs, enhancing productivity and increasing real wages. Economist estimate that the increased trade will pump between $100 and $200 billion into the U.S. economy every year after the Round is fully implemented. Early entry into force of the Uruguay Round will build the foundations for an tremendous expansion of trade and prosperity for the 21st century.

Element Two: Sub-Regional Undertakings

The NAFTA, which is of immense importance to our relationship with Latin America and the Caribbean, will increase economic growth for its members and provide expanded trading opportunities to this growing market for countries outside the NAFTA. The NAFTA is the largest and best defined of the subregional trading blocs in the hemisphere; but it is not the only one.

To their credit, Latin American and Caribbean leaders are also moving rapidly to build 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. Countries in the region are strengthening their commercial ties by reviving old, or forming new, trading blocs -- the Andean Pact, the Caribbean Community (CARICOM), the Central American Common Market and the Southern Common Market (MERCOSUR). In addition, individual members of subregional blocs are "cross-integrating" with countries outside their subregional bloc -- e.g. the "G-3" (Colombia, Mexico and Venezuela), Chile with each of the "G-3" members, and the Central Americans and the Caribbean countries with Mexico and various countries in South America.

The results of regional integration has been impressive. Aggregate trade within 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.

The United States wants to work with, instead of compete against, the many subregional trading arrangements being formed in Latin America and the Caribbean. These sub-regional groups will be an important factor affecting trade and investment flows in the hemisphere. We should recognize this reality and respond to it with constructive efforts in market opening and trade expansion. We need to explore with members of the subregional arrangements the most appropriate means of achieving mutually beneficial results.

Element Three: Bilateral Efforts

Bilateral efforts at opening markets are a necessary component of any U.S. trade strategy for Latin America and the Caribbean. We are exploring a number of ways to enhance our bilateral relationship with countries in the region.

We are, of course, committed to a free trade arrangement with Chile and are considering the most appropriate means and timing of moving forward with that initiative. Also, we want to give President-elect Frei's new administration a chance to formulate its views on this issue.

Other types of 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. "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.

Additional Measures

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. 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. 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.

Ambassador Charlene Barshefsky
Talking Points for Washington International Business Council
March 8, 1994

-- We are at an important juncture in the U.S. - Japan trade relationship.

-- The current chapter in this relationship began with the Framework agreement of July 1993.

-- The Framework established a set of principles under which the U.S. And Japan would attempt to address Japan's economic asymmetries with the world economy.

-- These asymmetries are well known. As President Clinton said during his press conference with Prime Minister Hosokawa on February 11, **Japan remains less open to imports than does any other G-7 nation.**

-- The economic facts support this statement:

- o 1993 trade surplus with U.S. - $ 59.3 billion;
- o 1993 trade surplus with the world - $ 141.4 billion;
- o 1993 current accounts surplus - $ 131.4 billion;
- o Manufactured imported goods as share of GDP - 3 percent, or less than half that of the U.S. As little as one-six that of other G-7 nations.
- o Less than one percent of the total world stock of inward direct investment. **(0.7 percent)**

-- This trend towards imbalance is repeated when you look at specific sectors. To take just two:

- o Telecommunications: Foreign market share, G-7 average, excluding Japan, 25 percent. Foreign share of Japan's market, 5 percent.
- o Insurance (Japan world's second largest market), foreign market share of G-7, except Japan, 10-33 percent. Japan's, 2 percent.

-- In the sectoral arena, we've been trying for improvement for decades. Over 30 bilateral trade agreements since 1980.

-- Some successes. Many disappointments, where we thought we'd addressed barriers to access to competitive foreign goods only to find new barriers in their place.

-- This is real danger in the trade relationship. Cycle of frustration where issues are not really resolved, only disguised through cosmetic agreements leading to no real change in the Japanese market.

-- For the benefit of the overall relationship, we are trying to break this cycle under the Framework.

-- We agreed to concentrate on opening markets, and to seek agreements leading to "tangible progress" , which was to be measured using "objective criteria".

-- We negotiated intensively with the Japanese over the past six months to apply these principles to new agreements in four key sectors: Japanese government procurement of telecommunications and medical technology, insurance, and automobiles and auto parts.

-- Throughout these talks, Japanese negotiators failed to acknowledge in any useful way the key framework principles -- "results" and "objective criteria", to which they agreed last July.

-- In the weeks leading up to the Clinton - Hosokawa meeting, we attempted to engage senior japanese political leaders in an effort find a mutually agreeable approach to bring the negotiations to a satisfactory resolution.

-- Secretary Bentsen visited Tokyo on January 23 to convey a message of U.S. resolve, noting that we had to reach credible agreements under the Framework; that the pattern of concluding cosmetic agreements that yielded no real change in the Japanese marketplace was no longer acceptable.

-- Ambassador Kantor, visiting Tokyo February 1 through February 4, reiterated this message to the Japanese Prime Minister, members of his cabinet, and other senior political leaders.

-- In a final series of talks between Ambassador Kantor and Foreign Minister Hata, running almost until dawn on the day of the Clinton-Hosokawa meeting, the Japanese failed to acknowledge the key framework principles as a basis for successfully concluding negotiations.

-- This impasse was reflected in President Clinton's comments on February 11. The President stressed that, given the stakes involved for the U.S., for Japan, and for the rest of the world, it was better to have reached no agreements than to have reached empty agreements.

-- We are now assessing the viability of the framework as the primary means of addressing Japan's economic imbalances with the rest of the world. We are also considering other options for dealing with these imbalances.

Cellular Telephones

-- On February 15, the USTR announced a determination under section 1377 of the Omnibus Trade and Competitiveness Act of 1988 that Japan had not complied with the 1989 agreement to open its cellular telephone market to U.S. manufacturers of cellular telephone equipment.

-- This action resulted from a clear-cut failure of Japan to live up to a series of commitments in this area spanning almost ten years, of which the 1989 agreement was merely the most recent example.

-- The Japanese Government promised u.s. industry "comparable access" to the Japanese cellular telephone market, yet consistently supported actions which impeded such access.

-- The market access barriers erected against the highly competitive u.s. industry amounted to an exclusion of U.S. manufacturers from the crucial Tokyo-Nagoya market, a market corresponding in size to the Washington - Boston corridor in the U.S.

-- This determination is a measured response, in accordance with U.S. law, to this clear instance of non-compliance with a bilateral trade agreement.

-- The next step under the 1377 process is to develop a list of Japanese products on which to levy sanctions equivalent to the lost sales to U.S. industry as a result of the continued market barriers. This list will be published by mid-March, followed by an opportunity for public comment.

-- The 1377 review of this agreement took place largely outside of the U.S. - Japan framework. Japan's behavior in this sector, however, is an excellent example of why we need to pursue results orientation in our trade agreements with Japan.

-- Key aspects of the 1989 agreement lent themselves to delay and ambiguity in their implementation. Use of criteria such as that proposed within the Framework might well have averted this latest episode of frustration in our trade relationship with Japan.

-- We did not call for, nor do we want, pledges of a fixed numerical market share -- a target -- in this sector.

-- But perhaps we should have sought a date by which coverage of the Tokyo-Nagoya market for U.S. Industry would have been available, or other guideposts, so that we could indeed have had the opportunity for comparable access called for in the agreement.

Future/perspective

-- The administration is in the process of reviewing a number of different options regarding the next steps in our trade relationship with Japan.

-- Our response will be prompt, responsible and cautious; reflecting a full appreciation of the importance of our bilateral relationship with Japan and the importance of our economic ties to each other and to the world trading system.

-- **But as the President said on February 11th, "ultimately, Japan's market must be open".**

-- We need to continue these efforts for the health of the global economy and world trading system, and these efforts must take place on both the macroeconomic and sector specific levels.

-- We also need to continue these efforts for the growth of the U.S. economy. A closed Japanese market costs U.S. exports and U.S jobs -- particularly in the high technology arena.

-- **Quite aside from the issues of the trade deficit, Japan's closed market practices are denying the U.S. benefits it should expect in an open global world trading system. Output and jobs in our most competitive sectors -- high tech and others -- are lower than they would be because of Japanese practices. U.S. real average wages and living standards are lower than they should be.**

-- For this reason, we would need to pursue Japan's trade barriers on the sectoral level even if we were in trade surplus with Japan.

-- Our Japan policy is fully consistent with the administration's goal of expanding world trade and adding exports and jobs to our economy in the process.

Next Steps

-- As I said, we are looking at a broad range of options in addressing our trade problems with Japan.

-- As to the Framework negotiations, it is up to Japan to return to the table with credible proposals in the priority sectors which meet the key Framework principles.

-- We have heard that the the Hosokawa Government is in the process of drawing up unilateral plans to open the Japanese market. Of course, we support such efforts.

-- But to be credible, such plans must be specific and must yield real and measurable changes in the Japanese market.

Super 301

-- The Administration has long supported reinstatement of super 301 as a tool for complementing our market opening efforts around the world, and helping to establish our trade priorities.

-- In reinstating super 301 last week, we did not designate any specific country or indentify any specific foreign practice. Such designation would normally not take place until September.

-- Rather, we have given ourselves a very flexible instrument for pursuing our trade policies of open markets and export expansion worldwide.

Washington International Business Council
818 Connecticut Avenue, N.W., 12th Floor, Washington, D.C. 20006-2702

February 25, 1994

The Honorable Charlene Barshefsky
Deputy U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street, N.W., Room 200
Washington, D.C. 20506

Dear Ms. Barshefsky:

We look forward to welcoming you to our Washington International Business Council luncheon discussion meeting on on Tuesday, March 8, 1994, from 12:15 p.m. to 2:00 p.m in the Ballroom (second floor) of the Army and Navy Club, 901 17th Street, N.W.

For your information, I am enclosing a copy of the background paper we have distributed to the executives who will be participating in the meeting. You will be introduced at the luncheon by Ms. Mary Lou Lackey, Vice President and Director of International Trade Relations, Motorola, Inc.

We will call your office before the meeting to see if you have any questions.

Sincerely,

Solveig Spielman

Solveig B. Spielmann
Chairman and Executive Director

SBS:jmb

Enclosure

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Program and Management by International Business-Government Counsellors, Inc.

Washington International Business Council
818 Connecticut Avenue, N.W., 12th Floor, Washington, D.C. 20006-2702

February 25, 1994

BACKGROUND PAPER FOR LUNCHEON DISCUSSION MEETING

JAPAN AND THE UNITED STATES

Honored Guest: THE HONORABLE CHARLENE BARSHEFSKY
Deputy U.S. Trade Representative
Office of the
U.S. Trade Representative

Place: THE ARMY AND NAVY CLUB
901 Seventeenth St., NW
The Ballroom
(Second Floor)

Time: Tuesday, March 8, 1994
12:00 noon - 2:00 p.m.

Moderator: Ms. Mary Lou Lackey
Vice President and Director
of International Trade Relations
Motorola, Inc.

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(over)

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IBC

Washington International Business Council
818 Connecticut Avenue, N.W., 12th Floor, Washington, D.C. 20006-2702

March 8 recpn
12:00 lunch
speech

January 5, 1994

OK - after 2/11

The Honorable Charlene Barshevsky
Deputy U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street, N.W., Room 200
Washington, D.C. 20506

Dear Ms. Barshevsky:

I am writing on behalf of the executives of the Washington International Business Council to invite you to be the honored guest of the Council at a luncheon discussion, which we would arrange at your convenience in February.

Our Council is a group of executives from leading American international corporations. The activities and membership of the Council are described in the enclosed leaflet. The purpose of the Council is to be aware of American international economic policy by an interchange of facts and views between international business and government policymakers. Over the past several years this has been done most effectively through informal discussion meetings with key officials of the Executive Branch, Congress, embassies and international organizations. Some of our recent guests have included: U.S. Trade Representative Mickey Kantor; Special Assistant to the President for National Security Affairs and Economic Policy Robert Fauver; Special Assistant to the President and Senior Director for International Trade and Investment Robert Kyle; Department of the Treasury's Assistant Secretary for International Affairs Jeffrey Shafer; Senators Frank Murkowski, Mitch McConnell, and John D. Rockefeller; Congressmen Richard A. Gephardt, Lee Hamilton, and Charles D. Rangel; Chairman of the House Committee on Banking, Finance & Urban Affairs Henry B. Gonzalez and Chairman of the House Committee on Science, Space & Technology George Brown; Japanese Ambassador Takakazu Kuriyama; Head of the Delegation of the Commission of the European Communities Andreas van Agt; and Russian Deputy Prime Minister Boris G. Fedorov.

Our discussion meetings are strictly informal and off-the-record. We would invite you to make introductory comments of approximately ten minutes duration, followed by a two-way interchange with an opportunity for you to ask questions of the group as well as make comments.

The Honorable Charlene Barshevsky
January 5, 1994
Page Two

The Council would like to discuss with you the status of trade discussions with Japan.

I very much hope you can join us for a luncheon discussion in February. We will call your office early next week to see if we can schedule a convenient time.

Sincerely,

Solveig Spielmann

Ms. Solveig B. Spielmann
Chairman and Executive Director

SBS:cc

Enclosure

COMMENTS BY
Ambassador Charlene Barshefsky

SRI International
Washington International Corporate Circle
Washington, D.C.
March 18, 1994

Last year, the United States enjoyed a successful -- and important -- year in trade. In one year, we accomplished the following:

- At the G-7 Summit in Tokyo in July, the President reached a market access agreement with the "Quad" nations -- the European Community, Japan, Canada, and the United States -- which provided a jump-start for the Uruguay Round. After years of gridlock, we concluded the Uruguay Round, "in 10 1/2 months" which will stimulate the U.S. and the global economy, and create a new organization --

the World Trade Organization -- that will support a fair global trading system into the next century;

- We negotiated supplemental agreements to the North American Free Trade Agreement (NAFTA) and saw ~~its~~ NAFTA's approval by Congress;
- we negotiated a US-Japan fr. Agreement a process to open mkts in Japan
- President Clinton led a successful meeting of Asian nations -- the fastest growing economic region on earth -- in Seattle, culminating a year of U.S. leadership of the Asia-Pacific Economic Cooperation forum (APEC) which will lead to expanded trade in the region;
- We negot'd the alliance for mut. growth w our Asean partners combining tr. policy, tr. promo, + financing in one pkg to promote US commercial + bus ints. & policy reform. [illegible]
- We negotiated key agreements which opened previously closed markets to U.S. companies -- a heavy electrical equipment agreement with Europe, a

~~most recently~~ + cellular telephone agreement

~~w Japan~~ w Jap

construction agreement with Japan, and a telecommunications agreement with Korea -- which represent a further step in our effort to create jobs and foster growth; and

+ many others in specific sectors

- ~~We~~ We negotiated for accelerated implem. of the U.S.-China mkt access MOU,

- We negotiated dozens + dozens of bilateral agreements with countries from Cyprus to Venezuela that help ensure U.S. workers and companies can compete fairly in the global economy.

~~from~~ from JPK to investment

+ began bilat svc negot w Ch. for the 1st time

We met the challenges in 1993 -- and we will continue to meet them in 1994. We will work to see the Uruguay Round approved and successfully implemented; we will continue to work towards greater trade with the two areas of fastest economic growth in the world -- Latin America and

Asia; we will continue to ensure American workers and companies can compete fairly in the global economy.

Our biggest challenge at this time, and the most important unfinished business from 1993, apart from the UR implementation is the dual effort to continue to open up the Japanese and Chinese economies to our goods and services.

Let me take each in turn 1st China - pg 9.

The U.S. trade deficit last year was just over $115 billion. Our trade deficit with two countries -- China and Japan -- represent $83 billion of that figure. Clearly, that trade deficit is not the result of America's ~~ability or~~ inability to compete. Although many economic factors affect a nation's trade balance, in these cases, it is clear that American products, which are bought around the world, are in a manner that reflects their competitiveness

~~just~~ not able to enter China and Japan. ~~And American products are kept out of other countries as well~~. Those closed markets (+ those of other nations) deprive Americans of economic opportunities. At the same time, nations that close their markets hurt their own people by raising prices and limiting choices.

Last July, at the G-7 Summit in Tokyo, we created a framework for negotiations with Japan to open their market. Since then, however, we have been unable to reach ~~a~~ concrete agreements, in 4 priority areas — ones that will open the Japanese market. Around 4:30 in the morning of February 11th, negotiations on the framework broke down as it became clear that there was no possibility that we would be able to reach meaningful agreements.

This has never happened before.

Previous administrations have papered over the differences. Both sides go away feeling good, ~~we can all feel happy, and~~ but - business goes on as usual. And we then find 6 months or a year later that nothing happened and the cycle of bitterness and recrimination continues.
At the margins of the Economic Summit in Tokyo last July, President Clinton and Prime Minister Hosokawa agreed to establish the Framework for a New Economic Partnership between our two countries, to achieve reform in Japan's economy, open the Japanese market and correct macroeconomic imbalances which inhibit global growth and prosperity. Since then we have not been able to make more than limited progress.

The cellular telephone case is a clear example of the problem that exporters face in penetrating the Japanese market and a clear example of the frustration over how to resolve issues. For ten years, we have negotiated a series of commitments to open the Japanese market, of which the 1989 agreement was the most recent example. The Japanese government promised U.S. industry "comparable access" to the Japanese cellular telephone market. Yet they consistently supported actions which impeded such access. The market access barriers erected against the highly competitive U.S. industry amounted to an exclusion of U.S. manufacturers from the crucial Tokyo-Nagoya market, a market corresponding in size to the Washington-Boston corridor.

While the 1377 review took place largely outside of the U.S.-

Japan Framework, Japan's behavior in this sector is an excellent example of why we need to pursue results orientation in our trade agreements with Japan. Key aspects of the 1989 agreement lent themselves to delay and ambiguity in their implementation. Use of criteria such as that proposed within the Framework might well have averted this latest episode of frustration. Had we sought a date by which the Tokyo-Nagoya market would have been open, or other guideposts, both Japan and the United States would have had a clear and unambiguous indicator of comparable access called for in the agreement.

With the agreement reached with Japan on this issue last week, we now should have an agreement that will do the job.

China

~~The other Asian giant -- China -- presents similar problems~~. The growth of our bilateral trade relationship with China over the past decade and a half has been dramatic, ~~although largely one-sided~~. Our two-way trade has grown from $2.3 billion in 1979 to more than $41 billion in 1993. The United States is now China's largest export market, with more than 3~~0~~4 percent of China's exports going to the United States. Americans imported $32 billion of Chinese goods in 1993. 4 areas: - mkt access goods ag

human rights

- IPR
- svc.
- GATT accession

~~The challenge for China is to ensure that we don't follow the experience of Japan~~. The China trade agenda will concentrate on four areas: market access, IPR, services, and GATT Accession. In the Textile area, the United

States and China already reached a three-year agreement that substantially reduces China's access to the United States and establishes rigorous procedures to prevent further quota violations and strong penalties in the event of such violations by transshipment.

With respect to market access, Ambassador Kantor determined in December that China was substantially in compliance with its 1992 market access agreement. Nevertheless, we need to pursue some specific areas. First, we expect significant liberalization of quantitative restrictions on the remaining products on the Agreement annex dealing with computers, medical equipment and heavy machinery. And second, in agriculture, we need to ensure that sanitary and phytosanitary standards are based on sound science.

But overall, the market access commitments are being met and they will bring about unprecedented access for U.S. companies to China's market in virtually all of our key export sectors.

The problems in the area of intellectual property rights mimics many of the IPR problems in the region. The issue is not adequate laws or regulations that are consistent with international norms. Rather, the problems relate to enforcement of those laws -- a far more difficult problem to address, especially since those laws are enforced at the local level, not the national level. The extent of those losses are significant. U.S. industry claims that they are losing over $400 million annually in copyright piracy alone.

If our experiences in the rest of Asia are any guide, continuous pressure is needed to achieve results. Ambassador Kantor placed China on the Priority Watch List in November. If China does not take effective enforcement measures to protect U.S. intellectual property, the danger increases that China would be identified as a priority foreign country.

In the services sector, U.S. companies that have entered China's market are severely limited in their ability to expand and to provide their full range of products and services 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 wholly-own their own retail outlets, are restricted in their right to 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 will begin formal bilateral negotiations with China on services in Beijing on March 2 and 3. We expect those negotiations to lead to China's market for services opening to U.S. companies.

ASEAN

Our trade agenda with the rest of Asia, while not as visible and contentious as with Japan or China, is just as important in aggregate terms. Exports to ASEAN countries, for example, have grown by almost 20 percent annually over the last six years. Our exports to Taiwan and South Korea have also grown at double digit rates, but more importantly our deficit with Taiwan if half what it was in 1987 and a quarter of what it was in 1987 with South Korea.

In the past, our Trade agenda with ASEAN has been characterized by individual disputes over IPR and worker rights issues. While the remnants of those issues remain, substantial progress has been made those areas. As a result, we have reoriented our trade policy with ASEAN through the U.S.-ASEAN Alliance for Mutual Growth. This new program combines our trade promotion and policy objectives so that we are using cooperative programs in ways that will encourage policy reform -- and pursuing policy reform in ways that do not impede our trade promotion objectives. In particular, we will be concentrating on policy reforms that have commercial significance.

What the Alliance does is establish an intermediary mechanism, a more constructive approach, to promote U.S. business and commercial interests along with policy reform.

Looking to the Future

The end of the Cold War means our domestic and economic priorities are no longer subsumed by foreign policy priorities -- they now work in tandem. A safe prosperous world engaged in commerce is a foreign policy goal of the United States, as well as an economic goal.

At the same time, becoming competitive abroad first begins at home. Our trade policy is inextricably linked to our domestic policy. The President's domestic agenda -- reducing the deficit; reforming health care; improving education and worker retraining; increasing public investment; repairing the nation's infrastructure -- all work together to create jobs, foster growth, and make our nation more competitive.

Since trade policy is an integral part of our domestic economic policy, the Administration has integrated our efforts to open markets abroad and create jobs here at home. Through the Trade Promotion Coordination Committee, co-chaired by Commerce Secretary Ron Brown and Export-Import Bank President Kenneth Brody, all agencies are working together to promote exports. Embassies are more attuned to U.S. economic concerns; export licensing has been streamlined and liberalized; and our aid policies are more closely tied to U.S. economic interests.

The United States is uniquely positioned -- both geographically and culturally -- to reap the benefits of the global economy. Geographically, because we are the only economic power that is both an Atlantic and a Pacific nation. We have extensive trade with the mature economies of Europe and Japan as well as the dynamic growing economies of Latin America and Asia.

Culturally, because our tradition of diversity, freedom and tolerance ensures that we will never stagnate as a people. Our democratic and economic institutions ensure that when change is necessary, we will continue to face our challenges. And under President Clinton's leadership, we are facing up to the tough problems we face in becoming more competitive and reviving the American dream.

Gerald E. Connolly
Vice President Washington Operations

March 25, 1994

Speeches

The Honorable Charlene Barshefsky
Deputy U.S. Trade Representative
Office of the U.S. Trade Representative
Winder Building, 600 17th Street, NW
Washington, D.C. 20506

Dear Ambassador Barshefsky:

I am writing to express our sincere appreciation for your very valuable participation in our Washington International Corporate Circle meeting last week. We and the participants in the Corporate Circle found your candor and thoughtfulness to be of great value, and feel that your involvement contributed significantly to making the discussions so successful. We hope that you found the session to be of interest, as well.

As you may know, SRI International is one of the largest not-for-profit research and problem-solving organizations in the world, and over half of our work is for various departments and agencies of the federal government. With operating groups in engineering, science and technology, and business and policy, SRI has decades of solid professional experience across the range of today's most pressing issues. Our Washington office -- with some 100 people working across the spectrum of issues of interest to government and business -- is the largest outside of our California headquarters. I would hope you do not hesitate to contact me if there is any way in which we can be of assistance to you.

In order to express our thanks for your participation in our Corporate Circle meeting, we are enclosing a small memento of the March meeting.

Once again, our sincere thanks.

Sincerely yours,

Gerald E. Connolly

Gerald E. Connolly

GEC/jm
Enclosure

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Status of U.S. - Japan Trade Relations

Testimony to the House Committee on Government Operations Subcommittee on Commerce, Consumer, and Monetary Affairs

Ambassador Charlene Barshefsky
Deputy U.S. Trade Representative

March 23, 1994

Mr. Chairman, I am pleased to be here this morning to discuss with you the status of the U.S. - Japan trade relationship. The bilateral economic relationship with Japan is one of extreme importance, not just for Washington and Tokyo, but for the world economy and for the world trading system. That is why this relationship, together with NAFTA and completion of the Uruguay Round, has ranked as a top trade priority from the outset of this Administration. In all of these areas, our formula has been simple and consistent. The U.S. is committed to achieving greater economic growth at home and abroad through the opening of foreign markets to trade and investment.

The President stressed the importance of the bilateral economic relationship during his meeting with Prime Minister Hosokawa on February 11. He noted that as the world's second largest market, Japan is a vital potential partner in our efforts to promote global growth. However, Japan has yet to show that it is prepared to participate fully in such a partnership. As the President also stated, Japan remains less open to imports than does any other member of the G-7 group of industrialized countries.

The President made these remarks during a press conference with Prime Minister Hosokawa on February 11. The comments of the two leaders focussed primarily on the inability of the U.S. and Japan to resolve a set of negotiations on four sectors -- Japanese Government procurement of telecommunication and medical technology; insurance; and the automotive sector; which had been taking place over the previous six months under the U.S. - Japan Framework Agreement. We tried until 4:30 a.m. on February 11, at the level of Ambassador Kantor and Japanese Foreign Minister Hata, to move the negotiations toward resolution. Ultimately, the Administration decided against concluding last minute agreements that would have papered over our differences with Japan and on the need for Japan to take credible action to address its global trade imbalances. It was an unprecedented decision, but as the President said, the issues between Japan and the United States are so important for our own nations and for the rest of the world that it was better to have reached no agreements than to have reached empty agreements.

I want to first review the nature of the economic imbalances which lead us to seek major changes in the bilateral economic relationship, and how we are trying to address these imbalances under the Framework. I would then like to comment on some of the specific sectoral negotiations which were the focus of USTR activity under the recent negotiations. I would also like to comment on activity in the telecommunications sector concerning the determination that Japan had not complied with the Third Party Radio and Cellular Telephone Agreement of 1989. As you are aware, this issue was resolved on March 12, in a manner which has significant implications for broader trade concerns.

While we recognize the breadth and scope of Japan's economic achievements since the end of the Second World War, it is also evident 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 in particular. This is 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 comparatively low levels of inward direct investment and imports of manufactured goods.

Among the OECD countries, Japan accepts by far the lowest level of the global stock of inward direct investment; just 0.7 percent, as compared to 38.5 percent in Europe and 22 percent in the United States. Many economists point out that trade follows investment; this vast discrepancy in investment stock in Japan limits the ability of U.S. and foreign firms to use this channel to increase export flows.

In 1991, 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 G-7 nations Japan also ranks consistently low in measures of intra-industry trade. Intra-industry trade refers to the tendency of most industrialized economies to import products similar to the products they export. One measure of intra-industry trade based on 1990 data calculated that 58 percent of Japan's trade were in exports and imports within the same product category. The comparable figure for the U.S. was 83 percent, those of the European members the G-7 averaged 73 percent. Japan's low level of intra-industry trade is consistent with other evidence pointing to the relatively closed nature of Japanese markets.

In case after case, U.S. and other foreign products which enjoy substantial sales in markets outside of Japan are stymied in efforts to enter and prosper in the Japanese market. Sectoral barriers against foreign products and services in Japan raise problems for the U.S. quite apart from any concerns over our bilateral trade deficit. They affect our domestic economy by limiting the composition of our trade with Japan -- by telling us in what sectors we can and cannot export. These practices deny the U.S. and other foreign countries the benefits to be expected under an open global trading system. Output and jobs in our most competitive sectors are lower than they would otherwise be because of Japanese practices. We must address these sector specific barriers in the Japanese economy in order to enhance the volume and quality of our exports and export related jobs.

This Administration was determined from the outset to respond firmly and effectively to these economic imbalances. The need to address both macroeconomic and sectoral/structural issues was reflected in the U.S. - Japan Framework Agreement, agreed to by President Clinton and then Prime Minister Miyazawa in Tokyo in July 1993.

Under the macroeconomic portion of the Framework, Japan committed to pursue objectives promoting sustained demand-led growth and increased market access for competitive foreign goods and services 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. The macroeconomic dialogue is being conducted largely in the context of ongoing G-7 discussions.

USTR has been primarily responsible for various sectoral and structural aspects of the Framework. Under the Framework, the U.S. and Japan committed to seek new agreements in four priority areas prior to the February 11 meeting between President Clinton and Prime Minister Hosokawa. As I have noted, these sectors are Japanese government procurement of telecommunications and medical technology; insurance; and automobiles and auto parts. USTR chaired the government procurement area, and led the insurance talks for the U.S. side. We held intensive negotiations in these areas from September 1993 until February 11.

Let me describe for you the problems we face in the areas of Japanese Government procurement and insurance. In each, highly competitive U.S. and foreign industries are extremely under-represented in the Japanese market. For example, in 1991 the foreign share of Japan's market for telecommunications equipment -- the third largest market in the world -- was five percent. In the G-7 excluding Japan, foreign import penetration averaged 25 percent. In medical technology, Japan hosts an uncompetitive domestic industry which holds about 70 percent of its home market while only seven percent of the world market. An extremely vigorous U.S. industry which has more than a 40 percent market share in the foreign markets outside of Japan is limited less than half that in Japan. And although Japan has the second largest insurance market in the world, foreign access has perennially been limited to only about two percent of the market. Imports of insurance services constitute between 10 and 33 percent of the markets in the other G-7 countries.

In light of these discrepancies, the U.S. tabled proposals in telecommunications, medical technology and insurance. In telecommunications, our proposal contained provisions to ensure that procurement procedures are open, transparent and non-discriminatory, such as advance notice of procurements and limits on the use of sole sourcing by procuring entities. 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.

In medical equipment, the U.S. draft included specific provisions to improve the procurement of medical devices and services by Japanese Government entities. In particular, the U.S. proposal called for the widespread use of the best overall value approach in evaluating bids to ensure access for more costly but cost effective technologically advanced U.S. equipment. We also sought fair and transparent access to the procurement system for all categories of medical products and services, including expensive capital equipment and relatively low-end, low-price products in which U.S. competitiveness is also clear.

In insurance, we sought to address serious U.S. concerns regarding the closed nature of the Japanese market. Limited foreign access is caused by, among other things, a non-transparent regulatory regime based on 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 its insurance industry. Our negotiations sought to ensure that this process of reform resulted in real transparency in the marketplace, and yielded real access for our innovative industry.

These sectors are each very different, and I would be reluctant to generalize too broadly the degree to which the negotiations paralleled each other. In general, however, what we sought from the Japanese Government in each sector was procedural reform that would lead to significant increases in access and sales in Japan of competitive foreign goods and services: the "tangible progress" that was called for in the Framework. Also as the two governments had agreed to under the Framework, we sought objective criteria, both quantitative and qualitative, as a means of measuring the success of the agreements. Finally, these new agreements were to have been entered into on a most favored nation basis; the dividends of increasing openness would be available all of Japan's trading partners which are competitive vendors in these sectors.

During the negotiations, we made some limited progress on procedural reform, but as February 11 approached there were still significant differences in these areas. More troubling, Japanese negotiators failed to acknowledge in any meaningful way the key principles on which our two governments had agreed last July -- results orientation, that is, the need for tangible progress -- and measurement through the use of objective criteria.

The Japanese negotiating position on these issues was confined essentially to one statement: "no managed trade targets". This was a public relations device intended to label the U.S. position as unreasonable. It was not an accurate statement of the U.S. position. Our goal is to unmanage the most managed major economy in the industrialized world. This goal is shared by many of Japan's other trading partners and by many Japanese. Rather than a single, fixed market share goal to be achieved by a given deadline, we proposed from the outset a set of qualitative and quantitative criteria, that, in the aggregate, would permit us to assess implementation of each agreement and whether procedural reforms led to expected change in the marketplace. The Japanese approach, was essentially to disavow the very Framework principles to which both governments had agreed.

Following the February 11 talks, but unrelated to them, the Administration, on February 15, determined under section 1377 of the Omnibus Trade and Competitiveness Act of 1988 that Japan had not complied the 1989 agreement to open its cellular systems market to U.S. manufacturers of cellular telephone equipment. The determination resulted from a clear-cut failure of Japan to live up to a commitment to grant U.S. industry "comparable access" to the Japanese cellular systems market under the Third Party Radio and Cellular Agreement. U.S. our efforts to address market access barriers in this sector spanned almost a decade and included two government-to-government agreements and a letter of commitment. While "comparable access" was pledged, the Japanese Government consistently supported actions which impeded such progress.

Following the determination of non-compliance, in accordance with the 1377 process, we began to develop a list of Japanese products on which to levy sanctions equivalent to the lost sales to U.S. industry as a result of the market access barriers. The draft list was to have been published for public comment by March 17. However, on March 12, the U.S. and Japan agreed to a detailed series of actions to be put into place over the next 21 months that will ensure completion of the cellular system and comparable market access for U.S. equipment vendors. The section 1377 process will shortly be formally terminated.

Our experiences in this sector reflect broadly on the frustrations we have encountered in a number of our past bilateral trade experiences with Japan and our determination to pursue results oriented agreements, subject to objective evaluation, under the Framework. We have concluded over 30 trade agreements and initiatives with Japan since 1980, and despite that, as in the cellular telephone sector, we have had to come back to the table again and again, in many instances raising issues in sectors in which we already have an operative agreement.

There are many examples of agreements which have never translated into expected gains in the marketplace. For example, in the glass sector, Japan made commitments in 1992 under the Global Partnership Plan of Action aimed at increasing the foreign share of Japan's consumption of flat glass. In 1991, the foreign share of this market was about 5.1 percent. By the end of 1993, this share had fallen to about 3.5 percent. We also have a 1992 agreement calling for an increase in market access for foreign firms to Japan's 32 billion dollar market for primary paper and paperboard products. In 1991, prior to the agreement, foreign share of this lucrative market was only 3.7 percent. As of 1993, this share held stagnant at about 4 percent. And we also have ongoing concerns as to the way Japan is implementing other agreements, including those covering semiconductors, wood, supercomputers, computers, and amorphous metals, to name a few.

In semiconductors, for example, we remain concerned that U.S. and other foreign semiconductor suppliers are not achieving improved access to the Japanese market on a sustained basis commensurate with their very strong worldwide competitive position. Consultations are under way this week to discuss effective measures needed to ensure that gradual and steady improvement in foreign market access continues through the duration of the Arrangement, as contemplated by the arrangement.

Under the 1992 computer agreement, the Japanese Government committed to expand procurements of competitive foreign computer products and services in Japan. The data we reviewed with the Japanese Government in December of last year showed that while foreign companies made progress in quasi-governmental purchases in Japan, foreign computer companies' share of the Japanese national government market had declined from 4 percent to 3.7 percent. We are particularly concerned with this development given that the national government segment is the largest and only rapidly growing segment of the Japanese computer products market. The thrust of our future efforts to ensure full implementation of this agreement will center on efforts by the Japanese Government to open this important segment of the market.

This need for constant re-negotiation and consultation is one reason why we placed the existing body of trade agreements with Japan in the Implementation basket of the Framework for monitoring and to ensure compliance. And it is the major reason we seek results orientation and the use of objective criteria for the evaluation of success in new agreements arising under the Framework.

As of this date we have not yet resumed discussions under the Framework. However, we are actively monitoring our existing agreements with Japan, and engaging in consultations as called for under these agreements. We are also alert to new areas of possible concern. One such troubling issue, which we are following closely, is the review now underway in Japan concerning the decompilation of computer software. Specifically, the Agency for Cultural Affairs is undertaking a review which could lead to the weakening of copyright protection now granted software in Japan, a development which would seriously harm U.S. interests and put Japan out of step with international practice. The Administration has made it clear to Japan that we would view such a development with the gravest of concern.

We are on new ground in our trade relationship with Japan. We view this as an opportunity to build our overall bilateral relationship by restoring balance and confidence in our economic ties. We would like to see these ties as strong as those which bind our political and security relationships and our ability to cooperate on global issues. We believe that the political leadership in Tokyo shares this view. While we are assessing our options in the trade area, this Administration's approach to Japan will continue to be responsible, deliberate, and conscious of our shared concerns as well as our differences.

The Japanese are also reassessing their position. We understand that the Japanese Government is preparing proposals on a range of unilateral market opening measures to be released late this month, some of which may seek to address Framework issues. We encourage such activity, and support the Japanese Government's steps at deregulation. We would hope to see measures, however, which are bold and aggressive with respect to market access. As the President told Prime Minister Hosokawa, our door remains open to meaningful proposals from the Japanese, but in the end, it is the Japanese market which must be open. We look forward to working closely with Congress as we pursue this goal.

JAPAN TALKING POINTS
(For Use at JCA Luncheon)

The Relationship

-- The bilateral economic relationship with Japan is the most important in the world for the United States and for the world trading system.

-- This relationship, together with NAFTA and completion of the Uruguay Round, has ranked as a top trade priority from the outset of this Administration.

-- Our formula has been simple and consistent. The U.S. is committed to achieving greater economic growth at home and abroad through opening foreign markets to trade and investment.

Clinton - Hosokawa Summit

-- The President underscored the importance of Japan's trade relationship with the United States and the world during his meeting with Prime Minister Hosokawa in Washington on February 11.

-- He noted that as the world's second largest market, Japan is a vital potential partner in our efforts to boost global growth.

-- But we must question whether Japan is prepared to assume its full share of the responsibility in such a partnership.

-- As the President also stated, Japan remains less open to imports than does any other member of the G-7 group of industrialized countries.

-- U.S. and Japanese negotiators were unable to resolve negotiations on four sectors which had been taking place under the U.S. - Japan Framework Agreement over the previous six months.

-- The Administration consciously decided against the alternative of concluding last minute agreements that would have glossed over our differences with Japan on the need for Japan to take credible action to address its global trade imbalances.

-- It was a serious decision, but as the President said, the issues between Japan and the United States are so important for our own nations and for the rest of the world that it was better to have reached no agreements than to have reached empty and ineffective agreements.

The Japan Problem

-- This Administration has great respect for the tremendous advances in the Japanese economy since the end of the Second World War.

-- Our security relationship, as well as our ability to cooperate on global issues, is strong.

- The economic side of the relationship is, however, urgently in need of repair.

-- Last year, Japan's current account surplus reached 131 billion dollars, or about 3 percent of Japan's gross domestic product.

-- This surplus is the major asymmetry in the world economy today.

-- It serves as a drag on global demand and slows the pace of economic expansion and job growth in other nations.

Low Level of Imported Manufactures

-- I am also deeply concerned Japan's persistent lack of receptivity to the import of manufactured goods.

-- Expressed as a share of gross domestic product, Japan's manufactured imports stood at only three percent in 1992, a figure less than half that of the United States and only about a third to a sixth of that of the remaining members of the G-7.

-- Among the G-7 nations, indeed, even when compared to some newly industrializing countries, Japan also ranks consistently low in measures of intra-industry trade.

-- Other industrialized economies import higher levels of the same products that they also produce for export.

-- This is consistent with other evidence that Japan's markets are relatively closed.

-- Low foreign market share in some key high technology sectors reflects this problem.

-- For example, the foreign share of Japan's market for telecommunications equipment in 1991 was five percent. In the U.S., this figure was 28 percent. Among the other members of the G-7 , this number ranges from 11 to 38 percent.

-- Japan's sectoral barriers against imports raise problems for the U.S. quite apart from any concerns over our bilateral trade deficit.

-- They affect our domestic economy by restricting the composition of our trade with Japan; by telling us in what sectors we can and cannot export.

-- This is obviously unacceptable to this Administration, as it should be to any Administration, which places a very strong emphasis on building the competitiveness of U.S. high technology industries.

-- Even if our bilateral trade numbers with Japan were reversed, that is, if we were running a major trade surplus with Japan, we would still have to address these sector specific barriers in the Japanese economy in order to enhance the quality of our exports and export related jobs.

The Framework

-- Our drive to address both macroeconomic and sectoral issues was reflected in the U.S. - Japan Framework Agreement, initiated by President Clinton and then Prime Minister Miyazawa in Tokyo in July 1993.

-- From September 1993 until the early morning of February 11, 1994, the Administration was engaged in an intensive series of negotiations to reach new agreements in four sectors designated as priorities under the Framework.

-- These sectors are Japanese Government procurement of telecommunications and medical technology; insurance; and automobiles and auto parts.

-- In general, what we sought from the Japanese in each sector was new agreements that would lead to increased imports by Japan of competitive foreign goods and services in these sectors: "tangible progress" in the language of the Framework.

-- In plain language, we wanted results we could see in the Japanese market.

-- Also, as we had agreed to under the Framework, we sought objective criteria, both quantitative and qualitative, as a means of measuring the success of the agreements.

-- We made some limited progress on procedures but Japanese negotiators failed to acknowledge in any meaningful way these key principles that our heads of state had agreed to last July -- results and measurement.

-- The Japanese negotiating position on these issues was confined essentially to one statement: "no numerical targets".

-- The Japanese persistenty attempted to label the U.S. position as a call for managed trade.

-- Nothing can be further from the truth.

-- First, our goal, and here we are in agreement with Prime Minister Hosokawa and many voices in Japan, is to unmanage the most managed economy in the industrialized world.

-- Second, under our Framework talks, we never sought numerical targets as the Japanese were suggesting. We never sought a single, fixed market share goal to be achieved by a given deadline.

-- Rather we were looking for a set of qualitative and quantitative criteria, that, in the aggregate, would permit us to assess implementation of an agreement.

-- The Japanese approach, was, in essence, to deny that the term "quantitative criteria" had any bearing on the Framework talks.

-- In the weeks leading to February 11, we attempted to engage senior Japanese political leaders in an effort to convince the Japanese to acknowledge the key Framework principles in a manner that would enable us to bring the negotiations to a satisfactory conclusion.

-- With hours left until the Clinton - Hosokawa meeting, I continued to work with Foreign Minister Hata in an effort to get the Government of Japan to embody in the agreements what they had already agreed to in the Framework.

-- It was the inability of the Japanese Government, at any level, to take this step, which led to the impasse in the talks announced by the President.

Cellular Telephones

-- On March 12, I announced that the United States and Japan had reached a results-oriented agreement that will provide U.S. cellular telephone systems comparable market access to Japan.

-- As a result of this agreement, I am suspending further action under USTR's February 15 determination under section 1377 of the Omnibus Trade and Competitiveness Act of 1988 that Japan had not complied with the 1989 agreement to open its cellular telephone market to U.S. manufacturers of cellular telephone equipment.

-- The determination will be terminated in 30 days upon completion of a detailed deployment plan for the system.

-- The circumstances surrounding the determination, and the agreement that was reached last weekend, illustrate some of the sectoral barriers we are trying to address in the Framework, and support the administration's approach to our trade agenda with Japan.

-- The determination resulted from a clear-cut failure of Japan to live up to a commitment to grant U.S. industry "comparable access" to the Japanese market under the Third Party Radio and Cellular Agreement.

-- Our efforts to address market access barriers in this sector spanned almost a decade and included two trade agreements and a commercial understanding.

-- While "comparable access" was pledged, the Japanese Government consistently supported actions which impeded such progress.

-- Most notable was the forced selection of a Japanese firm to develop a system in the Tokyo - Nagoya area of Japan, using Motorola's technology, when the Japanese firm in question already had a major investment in the construction and subscription of a competing Japanese system.

-- While the Japanese firm completed construction of the competing system, construction of the system using using Motorola technology languished, with the Japanese partner refusing even to take delivery of necessary equipment for two years.

-- At the time of the determination, this behavior had led to the virtual exclusion of U.S. industry from the crucial Tokyo - Nagoya market.

-- Following the determination, in accordance with the 1377 process, we began to develop a list of Japanese products on which to levy sanctions equivalent to the lost sales to U.S. industry as a result of the market barriers.

-- But, we encouraged the companies involved to seek a resolution that would adequately redress the problem, and we engaged the Government of Japan in order to ensure that the responsible ministries would monitor and oversee the contruction of the system, and ensure compliance with the quarterly schedule of actions.

-- Fortunately, through the extremely hard work of all parties, a satisfactory solution was reached.

-- Our experiences in this sector reflect broadly on the frustrations we have encountered in our past bilateral trade experiences with Japan and our determination to pursue results oriented agreements.

-- After ten years and two trade agreements and and a major commercial understanding in the same area of the telecommunications sector, we were still compelled to take trade action in this case.

-- Use of criteria, such as those proposed within the Framework, might well have averted this latest episode of frustration in our trade relationship with Japan.

-- Accordingly, the March 12 U.S. - Japan Arrangement on Cellular Telephone Systems is a results-oriented agreement which links comparable access to the Japanese market to a specific, verifiable schedule of quarterly committments.

-- These commitments will yield 159 new base stations, containing 9900 additional voice channels. These commitments will ensure coverage of 95 percent of the key Tokyo-Nagoya market by December 1995.

-- We did not call for pledges of a fixed numerical market share for U.S. industry in this sector.

-- But we do have a step-by-step plan of action associated with specific and measurable actions by the Government of Japan and the Japanese commercial entities involved.

-- This agreement validates the results-oriented approach we are pursuing under the Framework.

-- It demonstrates that the U.S. and Japanese Government can work together to achieve tangible results in terms of increased market access in Japan.

-- It highlights the work we have yet to do in other sectors.

Semiconductors

-- The Semiconductor Arrangement is one of our success stories, but we need to remember the difficulties experienced in the implementation of this agreement and the that the improved market access promised in the agreement has been achieved only with great effort.

-- On March 18, I announced that foreign market share in the fourth quarter of 1993 had reached 20.7 percent.

-- Obviously we are pleased to see this increase in market share.

-- However, we should note that this rise occurred after three consecutive quarters of decline from the 20.2 percent level we reached at the end of 1992.

-- We are still concerned that U.S. and other foreign suppliers are not achieving access to the Japanese market commensurate with their worldwide competitive position.

-- We are consulting with the Japanese Government this week to on effective measures are taken to ensure that gradual and steady improvements in in foreign market share continue the the duration of the Arrangement.

__Future__

-- This is where we stand at present in our trade relationship with Japan. It is appropriate that I give you some idea of where I think we are headed from this point.

-- Parts of the media, and some other alarmists, have trotted out the military lexicon and predicted that we are about to enter a trade war with Japan.

-- This is not going to happen. The leadership in both Washington and Tokyo have a keen appreciation for the overall importance of our relationship.

-- The resolution of the cellular telephone dispute shows that we can keep trade issues from escalating, and address them in accordance with the Framework principles.

-- This Administration's approach to Japan will be deliberate and responsible.

-- While we have not yet resumed discussions under the Framework, we continue to monitor our existing agreements with Japan, and to be alert for new areas of possible concern.

-- We are assessing a number of different options regarding the next steps in our trade relationship with Japan.

-- We believe that the Japanese are also assessing their position.

-- We hope that they will take seriously their responsibility to spur global growth through trade. Partnership implies shared responsibility.

-- Recently, Japan has missed a number of opportunities to show a real interest in such a role; in the Framework, in the Uruguay Round market access negotiations, and in the lackluster efforts at unilateral deregulation embodied in the weak final report of the once promising Hiraiwa Commission.

-- To fulfill this role, Japan will have to be dramatically more forthcoming if we are to return to the negotiating table than they have been to date.

-- For our part, we anticipate working closely with Congress as we pursue the goal of ensuring that Japan's markets are open to competitive U.S. and foreign goods and services.

GRAHAM & JAMES

in association with Deacons | Sly & Weigall

Pls. ask Ira if I should do.

"a must" - Ira

- C

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Riyadh

March 11, 1994

Via Facsimile
(202) 395-4549

The Honorable Charlene Barshefsky
Deputy U.S. Trade Representative
600 17th Street, N.W.
Washington, D.C. 20506

Attention: Carol

Re: Japan Commerce Association Luncheon

Dear Ambassador Barshefky:

In my capacity as Chairman of the Speakers Bureau of the Japan Commerce Association of Washington, D.C. ("JCA"), I would like to request your attendance as a guest speaker at a monthly luncheon meeting of the JCA.

March 29 free

Suggest they have to re-date the date to suggest June in Florida. C.

JCA is a not-for-profit organization which includes approximately 100 corporate and 200 individual members who transact business or maintain an office in Washington, D.C. The corporate members include the Washington representative offices of major Japanese companies. For your information, I enclose a listing of the JCA corporate members. Despite the appearance of a strong business orientation, JCA is, in essence, an informal association of Japanese businessmen who periodically meet to discuss current topics. JCA also conducts various social programs for the families of the membership. Monthly luncheon meetings constitute one of the main activities of JCA.

The "breakdown" of the U.S.-Japan framework negotiations and the subsequent issuance of an executive order reinstating the Super 301 law have created a great deal of anxiety in the Japanese business community in Washington over the future of the bilateral relations. As an individual responsible for formulating U.S. trade policy, as well as implementing such policy through negotiations with foreign governments, your views on the subject of bilateral relations will be particularly valuable to the members of the JCA. Please understand that the Japanese business community here is deeply concerned about what appears to be a downward-spiralling relationship between the United States and Japan. Your remarks at a JCA luncheon meeting will provide needed guidance for the thinking of Japanese businessmen in this respect.

bio sent 3/16/94