

*Speech*

AMBASSADOR BARSHEFSKY'S ADDRESS TO THE CARNEGIE BOSCH INSTITUTE  
CONFERENCE ON GOVERNMENT POLICIES THAT INFLUENCE THE  
COMPETITIVENESS OF FIRMS

GEORGETOWN UNIVERSITY CONFERENCE CENTER

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THANK YOU FOR THE OPPORTUNITY TO JOIN WITH YOU TODAY TO DISCUSS  
THE VITALLY IMPORTANT ISSUE OF THE IMPACT OF GOVERNMENT POLICIES  
ON COMPETITIVENESS. I UNDERSTAND YOU WILL BE FOCUSING YOUR  
ATTENTION AT THIS CONFERENCE ON THE IMPACT OF GOVERNMENT  
REGULATIONS UPON INTERNATIONAL BUSINESS. AS I HOPE YOU ARE  
ALREADY AWARE, THIS ADMINISTRATION HAS BEEN WORKING HARD TO OPEN  
MARKETS FOR AMERICAN BUSINESS OVERSEAS. REMOVING REGULATORY  
HURDLES AND OTHER GOVERNMENT RESTRICTIONS THAT HAMPER BUSINESS'S  
ABILITY TO TAKE ADVANTAGE OF THEIR COMPETITIVE PROWESS AND  
SEIZING TRADE OPPORTUNITIES HAS BEEN A CRUCIAL FACET OF OUR TRADE  
POLICY. FROM OUR PERSPECTIVE IN THE TRADE POLICY SPHERE, THE  
BEST WAY FOR GOVERNMENTS TO FOSTER COMPETITIVENESS IS TO  
AGGRESSIVELY DISMANTLE POLICIES THAT INHIBIT TRADE AND TO  
ESTABLISH INTERNATIONAL RULES THAT ENABLE U.S. AND OTHER FIRMS TO  
COMPETE ON A LEVEL PLAYING FIELD.

PRESIDENT CLINTON BELIEVES THAT INCREASED TRADE IS CRITICAL TO  
HIS EFFORT TO CREATE JOBS AND RAISE LIVING STANDARDS IN THIS  
COUNTRY. INTERNATIONAL TRADE IS FUNDAMENTAL TO OUR ECONOMIC  
HEALTH. THIS MEANS IT IS IN OUR NATIONAL INTEREST TO HAVE AN

INTERNATIONAL TRADING SYSTEM BASED UPON A SET OF RIGHTS AND RESPONSIBILITIES THAT ALL COUNTRIES MUST ACCEPT.

SINCE WORLD WAR II, THE UNITED STATES HAS TENDED TO REGARD TRADE POLICY AS AN ELEMENT IN A STRATEGY TO HELP REBUILD THE ECONOMIES OF WESTERN EUROPE AND JAPAN AND RESIST COMMUNIST EXPANSIONISM. AS PART OF THIS STRATEGY, WE FOSTERED GLOBAL EFFORTS TO DISMANTLE TRADE BARRIERS AND CREATE INSTITUTIONS THAT WOULD FACILITATE INTERNATIONAL TRADE.

THIS STRATEGY SUCCEEDED. HOWEVER, AMONG THE FRUITS OF OUR SUCCESS ARE NEW ECONOMIC CHALLENGES. WE ARE NO LONGER THE WORLD'S SOLE DOMINANT ECONOMIC POWER. OUR ECONOMY REPRESENTED 40 PER CENT OF TOTAL WORLD OUTPUT AT THE END OF WORLD WAR II. WHILE STILL THE WORLD'S BIGGEST ECONOMY, WE NOW ACCOUNT FOR SOME 20 PER CENT OF TOTAL WORLD OUTPUT. OUR ECONOMY WAS ONCE LARGELY SELF CONTAINED. HOWEVER, WE HAVE BECOME INCREASINGLY DEPENDENT UPON TRADE - JUST AS THE REST OF THE WORLD HAS ALWAYS BEEN DEPENDENT UPON OUR MARKET, AND UPON OUR SUPPLIES OF ESSENTIAL GOODS AND SERVICES. TWENTY-SEVEN PER CENT OF OUR ECONOMY IS NOW DEPENDENT UPON TRADE.

THE CLINTON ADMINISTRATION HAS HAD TO RECOGNIZE THESE NEW REALITIES. WE HAVE TRANSLATED A REALISTIC ASSESSMENT OF OUR PLACE IN TODAY'S WORLD - AND THE CENTRALITY OF TRADING RELATIONSHIPS IN MAINTAINING OUR POSITION - INTO AN AGGRESSIVE

APPROACH TO THE TRADE PROBLEMS FACING AMERICAN BUSINESSES OVERSEAS. IN JUST OVER TWO YEARS, PRESIDENT CLINTON, WITH BIPARTISAN SUPPORT IN CONGRESS, HAS ENSURED PASSAGE OF THE NORTH AMERICAN FREE TRADE AGREEMENT; SET NEGOTIATIONS WITH JAPAN ON A NEW COURSE UNDER THE FRAMEWORK AGREEMENT, AND IS NOW WORKING DILIGENTLY TO OPEN JAPAN'S CLOSED AUTO AND AUTO PARTS MARKETS; CONCLUDED AND WON CONGRESSIONAL APPROVAL FOR THE BROADEST TRADE AGREEMENT IN HISTORY, THE URUGUAY ROUND; SET THE STAGE FOR FUTURE TRADE EXPANSION IN ASIA THROUGH THE ASIA PACIFIC ECONOMIC COOPERATION FORUM; AND ANNOUNCED CREATION OF A FREE TRADE AREA OF THE AMERICAS BY 2005 AT LAST YEAR'S HISTORIC SUMMIT OF THE AMERICAS. WE CONCLUDED THE LARGEST PROCUREMENT AGREEMENT IN HISTORY WITH THE EUROPEAN UNION, TOGETHER WITH SOME 14 SEPARATE AGREEMENTS WITH JAPAN, AN AGREEMENT TO REDUCE GLOBAL SHIPBUILDING SUBSIDIES AND AN HISTORIC AGREEMENT ON INTELLECTUAL PROPERTY RIGHTS WITH CHINA. AT THE SAME TIME, THIS ADMINISTRATION WAS SUCCESSFULLY COMPLETING SCORES OF OTHER BILATERAL TRADE AGREEMENTS.

OUR FOCUS IS, OF COURSE, ON FREEING UP MARKETS FOR AMERICAN BUSINESS AND WORKERS BUT THAT SHOULD NOT CLOUD THE FACT THAT THE POLICIES WE ARE PURSUING AND THE HISTORIC AGREEMENTS CONCLUDED, OR IN TH WORKS, WILL PROVIDE DRAMATIC NEW OPPORTUNITIES FOR COMPETITIVE BUSINESSMEN THROUGHOUT THE WORLD. WE ARE UNDER NO ILLUSION THAT EVEN THIS EXTENSIVE LIST OF ACHIEVEMENTS MEANS THAT THE ADMINISTRATION HAS SUCCEEDED IN REMOVING ALL IMPEDIMENTS TO

THE FREE FLOW OF GOODS IN THE INTERNATIONAL MARKETPLACE. WE ARE NOW PURSUING MAJOR REGIONAL INITIATIVES - IN THE PACIFIC RIM, IN THE WESTERN HEMISPHERE - WHICH WILL ENCOURAGE POLICIES CONDUCTIVE TO EXPANDING TRADE. REMOVING REGULATORY IMPEDIMENTS TO TRADE IS AN IMPORTANT ELEMENT IN OUR STRATEGY.

I WANT TO TAKE A FEW MOMENTS TO LOOK AT THE CHANGES WE ARE SEEKING IN THESE TWO DISTINCT, BUT EXTREMELY IMPORTANT, REGIONS OF THE WORLD.

THE ASIA PACIFIC REGION IS CRITICAL TO FUTURE PROSPECTS FOR TRADE EXPANSION. THIS REGION IS THE FASTEST GROWING IN THE WORLD.

OVER THE PAST THREE DECADES, ASIA'S SHARE OF WORLD GROSS DOMESTIC PRODUCT HAS GROWN FROM EIGHT PER CENT TO OVER 25 PER CENT. IF CURRENT TRENDS CONTINUE, BY THE YEAR 2000 THE EAST ASIAN ECONOMIES WILL FORM THE LARGEST MARKET IN THE WORLD, SURPASSING WESTERN EUROPE AND NORTH AMERICA. EAST ASIA IS ALREADY THE NUMBER ONE EXPORT MARKET FOR U.S. PRODUCTS.

HEADS OF GOVERNMENT OF THE PACIFIC RIM NATIONS, MEETING LAST NOVEMBER IN BOGOR, INDONESIA, COMMITTED THEIR COUNTRIES TO ELIMINATING BARRIERS TO TRADE BY 2010 OR 2020, DEPENDING ON EACH COUNTRY'S LEVEL OF DEVELOPMENT. WORK IS NOW UNDERWAY TO DEVELOP AN ACTION AGENDA FOR TRANSLATING THIS COMMITMENT INTO ACCOMPLISHMENT. IT IS EXPECTED THAT THIS ACTION AGENDA WILL BE READY FOR CONSIDERATION WHEN PACIFIC RIM HEADS OF GOVERNMENT NEXT

MEET IN OSAKA, JAPAN IN NOVEMBER. THE OSAKA MEETING WILL BE THE NEXT CRITICAL STEP TOWARDS REALIZING THE SEATTLE SUMMIT'S VISION OF AN ASIA-PACIFIC COMMUNITY OF NATIONS WHICH WILL ENSURE THE U.S. PRESENCE IN THE REGION'S ECONOMY IN THE FUTURE.

OF COURSE, ALONG WITH ITS HUGE POTENTIAL EAST ASIA SOMETIMES PRESENTS US WITH SOME OF OUR MORE DRAMATIC TRADE PROBLEMS IN THE PRESENT. WE DEALT SUCCESSFULLY WITH ONE SUCH PROBLEM - INTELLECTUAL PROPERTY RIGHTS IN CHINA - EARLIER THIS YEAR. ANOTHER SUCH ISSUE - ACCESS TO THE JAPANESE AUTO AND AUTO PARTS MARKETS - IS VERY MUCH ON THE AGENDA THESE DAYS.

AS I HAVE ALREADY NOTED, THE RESTORATION OF THE JAPANESE ECONOMY WAS A KEY AMERICAN POLICY OBJECTIVE IN THE PERIOD JUST AFTER WORLD WAR II. THIS EFFORT WAS, OF COURSE, A CONSPICUOUS SUCCESS.

HOWEVER, THE POSTWAR JAPANESE ECONOMY EVOLVED IN SOME RESPECTS QUITE DIFFERENTLY FROM OTHER SUCCESSFUL INDUSTRIALIZED DEMOCRACIES IN NORTH AMERICA AND WESTERN EUROPE. AFTER WORLD WAR II, WITH OUR ACQUIESCENCE, JAPAN CLOSED ITS MARKETS THROUGH TARIFFS AND OTHER GOVERNMENT ACTIONS, AND REBUILT ITS INDUSTRIAL STRENGTH THROUGH AN INTEGRATED TRADE POLICY AND INDUSTRIAL STRATEGY. THIS HISTORY HAS LEFT ITS RESIDUE IN THE FORM OF A TIGHTLY REGULATED DOMESTIC ECONOMY IN JAPAN.

THE UNITED STATES AND OTHERS HAVE RECOGNIZED THAT THE LONG-TERM

KEY TO SUCCESSFULLY INTEGRATING JAPAN INTO THE WORLD TRADING SYSTEM LIES IN LIFTING THE ONEROUS BURDEN OF UNNECESSARY GOVERNMENT REGULATION WHICH IS STIFLING INITIATIVE IN THE JAPANESE DOMESTIC ECONOMY. WE BELIEVE THAT DOING SO WOULD BE IN THE BEST INTERESTS OF JAPANESE CONSUMERS AND ENTREPRENEURS, AS WELL AS EXPORTERS IN THE UNITED STATES AND ELSEWHERE. WE HAVE BEEN PURSUING A DIALOGUE WITH RECENT JAPANESE GOVERNMENTS INTENDED TO ENCOURAGE DEREGULATION.

IN THE MANUFACTURING AND HIGH TECHNOLOGY SECTORS IN PARTICULAR, THE CHALLENGE FOR U.S. TRADE POLICY IS TO OPEN MARKETS THAT ARE BY NATURE CLOSED. WE HAVE MADE CONSIDERABLE PROGRESS IN THIS RESPECT WITH JAPAN OVER THE PAST TWO YEARS. UNDER OUR JAPAN FRAMEWORK, WE HAVE NEGOTIATED PRACTICAL, MARKET-BASED, RESULTS-ORIENTED AGREEMENTS AFFECTING SUCH INDUSTRIES AS TELECOMMUNICATIONS, MEDICAL TECHNOLOGY, INSURANCE AND FLAT GLASS. WE HAVE HAMMERED AWAY, IDENTIFYING THE MAJOR SECTORS TO MARKETING FOREIGN GOODS, ALIGNING OURSELVES WITH THE FORCES IN JAPAN THAT FAVOR CHANGE.

AND WE ARE GAINING GROUND. TRADE STATISTICS RELEASED IN APRIL SHOWED THAT OUR MONTHLY EXPORTS TO JAPAN HAD EXCEEDED FIVE BILLION DOLLARS FOR THE FIRST TIME IN HISTORY. THAT REPRESENTS AN INCREASE OF 25 PER CENT OVER THE 1992 MONTHLY AVERAGE.

HOWEVER, THE AUTOMOBILE INDUSTRY REMAINS A MAJOR PROBLEM AREA.

OUR TRADE DEFICIT WITH JAPAN IN AUTOS AND AUTO PARTS WAS ALMOST \$37 BILLION LAST YEAR. THIS RECORD DEFICIT STANDS IN STARK CONTRAST TO THE RESURGENCE OF THE U.S. AUTO INDUSTRY AS WORLD CLASS COMPETITORS AND THE HIGH QUALITY AND LOW PRICE OF U.S.-MADE AUTO PARTS.

WE HAVE ASKED THE JAPANESE GOVERNMENT TO COMMIT TO MAKING SERIOUS EFFORTS TO DEREGULATE THEIR DOMESTIC AUTO MARKET AND TO ELIMINATE ANTICOMPETITIVE PRACTICES IN THAT MARKET. WE HAVE ASKED JAPANESE AUTO MANUFACTURERS, WHO HAVE BENEFITTED SO ENORMOUSLY FROM THE OPENNESS OF THE AMERICAN MARKET TO FOREIGN COMPETITION, TO TAKE RESPONSIBILITY FOR ALLOWING FAIR COMPETITION BOTH ON THE JAPANESE MARKET AND IN THE PURCHASING DECISIONS OF THEIR "TRANSPLANT" MANUFACTURING FACILITIES IN THIS COUNTRY.

FOR THE PAST 20 MONTHS WE HAVE BEEN ATTEMPTING TO NEGOTIATE AN AGREEMENT BASED ON A SOLEMN COMMITMENT BY THE JAPANESE GOVERNMENT TO "SIGNIFICANTLY EXPAND" SALES, ACCESS AND OPPORTUNITIES FOR COMPETITIVE FOREIGN AUTOS AND AUTO PARTS IN THEIR DOMESTIC MARKET. UNFORTUNATELY, OUR EFFORTS HAVE NOT MET WITH A POSITIVE RESPONSE FROM EITHER THE JAPANESE GOVERNMENT OR THEIR AUTO INDUSTRY. THIS STUBBORN REFUSAL TO RESPOND TO OUR EFFORTS TO END THE OVERREGULATION AND RESTRICTIVE NATURE OF THE JAPANESE AUTO AND AUTO PARTS MARKETS -- NOT UNREASONABLE DEMANDS ON OUR AUTO PART OR A DESIRE FOR CONFRONTATION IS THE CAUSE OF CURRENT CONFLICT ON THIS ISSUE.

AFTER 35 YEARS OF DISCRIMINATION IN THE JAPANESE DOMESTIC MARKET, AND 20 MONTHS OF FRUITLESS NEGOTIATIONS, THE PRESIDENT DECIDED TO ACT. WE HAVE ACTED IN TWO WAYS. WE HAVE NOTIFIED THE DIRECTOR GENERAL OF THE WORLD TRADE ORGANIZATION OF OUR INTENTION TO FILE A CASE CHALLENGING JAPANESE ACTIONS, PRACTICES AND POLICIES UNDER THE DISPUTE SETTLEMENT MECHANISM PROVIDED FOR IN THE URUGUAY ROUND AGREEMENTS. AT THE SAME TIME, WE ANNOUNCED OUR INTENTION TO REACT TO DISCRIMINATORY JAPANESE PRACTICES BY APPLYING U.S. LAWS AND INVOKING SANCTIONS WHICH WOULD IMPOSE A 100 PER CENT TARIFF ON THIRTEEN LUXURY MODELS OF JAPANESE AUTOMOBILES. WE RETAINED THE RIGHT TO EXERCISE OUR OWN LAWS IN SUCH DISPUTES - AS DID EVERY OTHER NATION OF THE WORLD - IN THE URUGUAY ROUND AGREEMENTS.

OUR PREFERENCE WOULD HAVE BEEN - INDEED, REMAINS - A FAIR, NEGOTIATED SETTLEMENT. THAT POSSIBILITY IS STILL THERE, IF THE JAPANESE GOVERNMENT IS WILLING TO GRASP IT. HOWEVER, WE ARE NOT PREPARED TO WAIT ANY LONGER FOR JAPAN TO FULFILL ITS BILATERAL COMMITMENTS IN THIS AREA. HOWEVER, THIS ISSUE ULTIMATELY PLAYS OUT, HOWEVER, IT SHOULD LEAVE NO ONE IN DOUBT THAT THIS ADMINISTRATION IS SERIOUS ABOUT REMOVING UNFAIR RESTRICTIONS AND POLICIES THAT BLOCK U.S. TRADING OPPORTUNITIES ABROAD.

ANOTHER PRIORITY AREA FOR THIS ADMINISTRATION'S TRADE POLICY IS THE WESTERN HEMISPHERE. FOR MUCH OF THE PAST THIRTY YEARS OUR ECONOMIC RELATIONS WITH LATIN AMERICA AND THE CARIBBEAN HAVE BEEN

BASED ON OFFICIAL DEVELOPMENT ASSISTANCE AND POLITICALLY DRIVEN INITIATIVES TO ENCOURAGE DEMOCRACY. THE REGION WAS REGARDED AS ESSENTIALLY DEVOID OF MARKET-BASED COMPETITIVE ECONOMIC POLICIES OR SIGNIFICANT EXPORT OPPORTUNITIES.

ALL THAT HAS CHANGED. LATIN AMERICA HAS WITNESSED A HISTORIC TRANSFORMATION IN ECONOMIC POLICY, AS WELL AS A NEW COMMITMENT TO STRENGTHENING POLITICAL DEMOCRACY. THE ECONOMIC PAYOFF HAS BEEN SUBSTANTIAL. LATIN AMERICA HAS BECOME THE SECOND FASTEST GROWING REGION IN THE WORLD TODAY. OUR EXPORTS TO LATIN AMERICA HAVE GROWN FROM SOME \$30 BILLION IN THE MID-1980S TO OVER \$90 BILLION IN 1994, CREATING OVER 600,000 NEW JOBS IN THE U.S. IN THE PROCESS.

THIS ADMINISTRATION IS DETERMINED TO TAKE ADVANTAGE OF THIS HISTORIC OPPORTUNITY TO STRENGTHEN HEMISPHERIC PROSPERITY - AND EXPAND U.S. EXPORT PROSPECTS AT THE SAME TIME. AS IN THE CASE OF THE PACIFIC RIM, WE BELIEVE THE BEST APPROACH WOULD BE ONE THAT ENCOMPASSES THE ENTIRE REGION. AS WAS ALSO THE CASE IN THE PACIFIC REGION, OUR EFFORTS TO FOSTER CLOSER REGIONAL COOPERATION HAVE STRUCK A RESPONSIVE CORD AMONG THE LEADERS OF OTHER NATIONS IN THE HEMISPHERE, AS WAS DEMONSTRATED AT THE SUMMIT OF THE AMERICAS IN MIAMI LAST DECEMBER.

WE SEE AN HISTORIC OPPORTUNITY NOW FOR MAJOR STEPS TOWARDS HEMISPHERIC PROSPERITY. WE BELIEVE THAT STRENGTHENING ECONOMIC

TIES AMONG THE NATIONS OF THE AMERICAS WILL CEMENT RECENT ECONOMIC REFORMS, FOSTER GROWTH, BUILD THE MIDDLE CLASSES IN MANY OF THESE COUNTRIES AND STRENGTHEN DEMOCRACY. THIS IS NO TIME TO SIT BACK AND HOPE FOR THE BEST. WE WANT TO SEE THE UNITED STATES SQUARELY IN THE CENTER OF INTEGRATING THE HEMISPHERE'S ECONOMIES, BREAKING DOWN REMAINING BARRIERS AND REGULATORY IMPEDIMENTS TO TRADE.

THIS ADMINISTRATION IS DETERMINED TO MOVE FORWARD TO BUILDING A FREE TRADE AREA OF THE AMERICAS. THE NEXT STEP IN ACCOMPLISHING THIS WILL BE A MEETING OF WESTERN HEMISPHERE TRADE MINISTERS, WHICH WILL BE HELD IN DENVER LATER THIS MONTH.

HOWEVER, AN EARLY INDICATION OF SUCCESS FOR OUR HEMISPHERIC STRATEGY WILL BE NEGOTIATION OF CHILE'S ACCESSION TO THE NAFTA. WE BELIEVE IT IS PARTICULARLY IMPORTANT FOR THE UNITED STATES TO FORGE A PARTNERSHIP WITH CHILE, A LEADER OF ECONOMIC REFORM IN LATIN AMERICA AND THE REGION'S MOST DYNAMIC ECONOMY OVER THE PAST TEN YEARS.

CHILE IS ALSO ONE OF OUR FASTEST GROWING EXPORT MARKETS IN LATIN AMERICA. OUR EXPORTS TO CHILE HAVE QUADRUPLED - TO \$2.8 BILLION ANNUALLY - BETWEEN 1985 AND 1994. WE RAN A TRADE SURPLUS WITH CHILE OF NEARLY ONE BILLION DOLLARS LAST YEAR. SINCE 1985, CHILE'S ECONOMY HAS GROWN AT AN AVERAGE RATE OF SIX PER CENT, RIVALLING THE GROWTH RATES OF DYNAMIC PACIFIC RIM ECONOMIES.

CHILE HAS NOT ONLY PROVIDED AN EXAMPLE TO OTHER LATIN AMERICAN COUNTRIES OF THE BENEFITS OF PRUDENT, GROWTH-ORIENTED ECONOMIC POLICIES, BUT HAS ALSO BEEN ACTIVE IN OPENING NEW MARKETS. CHILE HAS MADE ACCESS TO THE NAFTA ITS NUMBER ONE TRADE PRIORITY. TWO SUCCESSIVE AMERICAN PRESIDENTS HAVE ALSO ENDORSED THIS GOAL. FOR THE UNITED STATES, CHILE'S ACCESSION TO THE NAFTA, BECAUSE IT WILL NECESSARILY ENTAIL CHILEAN AGREEMENT TO A COMPREHENSIVE SET OF U.S.-INSPIRED DISCIPLINES, WILL ENCOURAGE THE EVOLUTION OF TRADE POLICY ELSEWHERE IN LATIN AMERICA IN A TRADE-OPENING DIRECTION.

CHILE, THE REGION AND OUR OTHER TRADING PARTNERS WILL ALL BE MEASURING OUR COMMITMENT TO LEAD THE ECONOMIC TRANSFORMATION OF THE WESTERN HEMISPHERE. THE REST OF THE WORLD ALSO RECOGNIZES THE ECONOMIC VIBRANCY OF THIS REGION.

THE REGION HAS EMBARKED ON ITS OWN AGENDA, EASILY THE MOST ACTIVE OF ANY DEVELOPING REGION IN THE WORLD. THE EUROPEAN UNION IS SEEKING PREFERENTIAL TRADE AGREEMENTS WITH THE SOUTHERN COMMON MARKET - ARGENTINA, BRAZIL, PARAGUAY AND URUGUAY - WHICH ACCOUNTS FOR OVER HALF THE TOTAL ECONOMIC OUTPUT OF LATIN AMERICA. MEANWHILE, THE AVERAGE TARIFF IN THE REGION IS STILL FOUR TIMES THE U.S. AVERAGE. IT IS IN OUR INTEREST TO TAKE THE LEAD IN GAINING TARIFF-FREE ACCESS TO THESE IMPORTANT MARKETS.

FOR PRESIDENT CLINTON, TRADE POLICY IS AN IMPORTANT ELEMENT OF AN

ECONOMIC STRATEGY TO KEEP THE AMERICAN DREAM ALIVE AS WE MOVE INTO THE 21ST CENTURY. THE PRESIDENT UNDERSTANDS THAT OUR FUTURE PROSPERITY DEPENDS ON OUR ABILITY TO COMPETE AND WIN IN THE GLOBAL MARKETPLACE. HIS ADMINISTRATION IS COMMITTED TO ENSURING THAT AMERICAN BUSINESS, AS WELL AS COMPETITIVE BUSINESSMEN EVERYWHERE, WILL CONTINUE TO HAVE THE ABILITY TO COMPETE FAIRLY FOR OPPORTUNITIES EVERYWHERE IN THE WORLD. THIS IS A CRITICAL PART OF OUR EFFORT TO CREATE JOBS AND RAISE LIVING STANDARDS IN THE U.S. AND THROUGHOUT THE WORLD, WHILE FOSTERING GROWTH AND GLOBAL STABILITY.

*testimony*

Testimony Before the  
Trade Subcommittee  
House Ways and Means Committee  
June 21, 1995  
Charlene Barshefsky  
Deputy United States Trade Representative

**Introduction**

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss the importance of a free trade area with Chile. We have a historic opportunity to create jobs in this country, and foster growth and stability in this hemisphere.

The goal of U.S. trade policy is to create jobs and raise standards of living in the United States, to foster global growth, and to build global stability. As we approach a new century, the future prosperity of the United States more than ever before depends on our ability to compete and win in the global economy. There is no possibility of avoiding this new challenge.

Where our economy was once largely self contained, we are now increasingly interdependent with the rest of the world. This change began decades ago, but has accelerated in recent years. Twenty-seven percent of our economy is now dependent on trade.

The global economy offers tremendous opportunities for American workers. Over 11 million workers in this country owe their jobs to exports. These jobs pay higher wages, on average, than jobs not related to trade. Every billion dollars of exports supports 17,000 jobs. Clearly, expanding trade is critical to our effort to create good, high-wage jobs.

The United States has a mature economy -- and only four percent of the world's population. Future opportunities for growth here at home lie in selling goods and services to the other 96 percent. Given this fact, opening markets, expanding trade and enforcing our trade agreements are critical to fostering growth here at home.

Since taking office, the Clinton Administration has demonstrated a clear commitment to opening markets and expanding trade. With bipartisan support in Congress, we completed and secured the approval of the North American Free Trade Agreement (NAFTA) creating the largest regional free trade area in the world. We completed the Uruguay Round negotiations. A bipartisan coalition in Congress voted to implement its results which lower barriers to trade and strengthen the global trading system, creating growth and jobs in the United States. We negotiated the Summit of the Americas Declaration and Action Plan that is designed to lead to the creation of the Free Trade Area of the Americas (FTAA) by the year 2005. We negotiated the Bogor Declaration which sets for the objective of free and open trade among the Asia Pacific Economic Cooperation (APEC) members. We set our negotiations with Japan on a new course under the Framework Agreement, completing fourteen trade agreements to open their market to U.S. exports, and are now working diligently to open Japan's closed autos and auto parts market. In addition, we concluded the largest procurement agreement in history with the European Union, an agreement covering 80 percent of global shipbuilding, an historic intellectual property rights agreement with China, and scores of other bilateral trade agreements.

Mr. Chairman, for all the hard work of the last two and a half years in opening markets we still have much to do. Formal and informal trade barriers still exist around the world to limit U.S. exports. This, in turn, hinders growth and job creation in this country.

#### Chile: The Case for Moving Forward

The United States has a strong economic interest in moving forward with an ambitious and timely trade agreement agenda in the Western Hemisphere. Ambassador Kantor made clear in his May 17 testimony on fast-track - itself a vital component for U.S. success in this hemisphere and the global economy - why moving forward is essential, but allow me to explain why it is particularly important to move forward with Chile now.

Moving forward with Chile is one essential component of a two part strategy to shape the critical initial elements of the FTAA. One element of this strategy is based upon the building of stronger trade relations with all of the countries in the hemisphere, both bilaterally and through the larger sub-regional trade arrangements to which they belong. In this connection, the

progressive liberalization of trade and improved disciplines in a range of areas is critical. The Administration is now preparing, along with the rest of the hemisphere, for a meeting of Ministers responsible for trade in Denver at the end of this month to lay the initial groundwork that will move us in this direction. This is the first important hemispheric step in the post-Summit of the Americas trade action plan. We expect to set in motion in Denver a process that will lead to major new economic opportunities for the United States and the hemisphere.

The other element of an overall strategy in the hemisphere is NAFTA accession. Not only are we moving to strengthen mutually beneficial ties across the hemisphere, but we are moving to strategically influence the structure of those ties in the near term. NAFTA accession is central to that objective. The hemisphere contains numerous sub-regional free trade arrangements reflecting a diversity of objectives and traditions that are largely uninfluenced by the United States. In fact, Latin America has a significant trade agreement history over the last four decades. In recent years these efforts have become more comprehensive. For example, the Southern Common Market, or MERCOSUR - which accounts for over half the gross domestic product of Latin America - is an effort to create a customs union and eventually a common market. It is critical that the United States contribute tangibly to this ongoing sub-regional process to balance and help shape the free trade agreement agenda in Latin America. Only in this way will the United States ensure U.S. exporters, service providers and workers a fair shake at the second fastest growing markets in the world.

In addition, building a comprehensive trade relationship with Chile has broad strategic trade policy attractions. Chile is negotiating a free trade agreement with MERCOSUR. Chile is also a member of the APEC. Chile is both a trade policy gateway to MERCOSUR and South America and the Chile's accession to the NAFTA will bring to four the number of APEC members participating in North American free trade.

For many years the United States had a very limited trade relationship with Latin America, one that held little promise for the future due to Latin America's inward looking economic and trade policies. Now that has dramatically changed. A market-based economic policy transformation, coupled with a renewed commitment to democracy has turned a region with little promise into a region that inspires. Officials from the World Bank, for

example, just issued a report indicating that growth in Latin America could accelerate to more than six percent per year over the next few years, thus providing significant new opportunities for our exporters. U.S. exports to Latin America already approximate our exports to Western Europe, and if current trends continue they will exceed those to Western Europe and Japan combined by the year 2010. This upward trend and the opportunities that it has brought - over 600,000 higher than average paying U.S. jobs since 1985 - will only be sustained with sound macroeconomic policymaking in Latin America and the United States and an aggressive and ongoing effort to open closed markets to the benefits of unimpeded trade. Many of our competitors, including the EU, have also noticed the prospects for major trade gains and are acting to ensure their interests are protected with their own trade agreement strategies with the region.

Chile is a country in which two successive Presidents have been committed to the pursuit of a free trade area. No other country in Latin America has a better record of economic accomplishment in the last ten years than Chile. If the United States seeks broadly to encourage stable, growth-sustaining policies and the adherence to open markets there is no other country in the region better qualified in which to build the strongest trade relations. Chile weathered a very difficult period in the early 1980s characterized by dramatically reduced economic output and an unemployment rate of 20 percent. It learned valuable lessons regarding the management of its economy which serve it well today. Chile's economic accomplishments are outstanding.

Let's examine some facts:

- o Chile was recently voted by the highly regarded Davos Economic Forum the fifth most competitive emerging economy in the world;
- o Chile's average economic growth rate since 1985 has been over 6 percent putting it on par with the most dynamic economies of the Asian Pacific Rim;
- o Chile's growth rate in the first quarter of this year was 6.6 percent, with inflation at 7.4 percent on an annualized basis continuing its downward trend and unemployment continuing to trend downwards at 5.3 percent;

- o Chile's currency has been appreciating against the dollar;
- o Chile's market-based economic policies have lifted over one million people out of poverty since the transition to democracy -- out of a total population of over 13 million;
- o Chile pioneered Latin America's comprehensive privatization efforts;
- o Chile's national savings rate was a strong 24 percent of gross domestic product during the 1990-93 period, based in part on significant contributions from Chile's private social security system;
- o Chile's national investment rate was an astounding 27 percent of gross domestic product during the 1990-93 period, the highest in the region;
- o Chile has run a surplus in its national budget for eight straight years with public savings accounting for almost five percent of gross domestic product in 1994 and its foreign reserves are high and rising;
- o Chile's financial system is strong - the Chilean banking sector averaged 19 percent profitability on an annual basis over the last 10 years and Standard and Poor's recognized its banking supervisory bureau as the best in Latin America;
- o Chile's trade regime is characterized by a uniform tariff rate of 11 percent ad valorem across the board with virtually no quantitative restrictions;
- o Chile was the first developing country to bind its tariffs across the board in the Tokyo Round of multilateral trade negotiations in 1979;
- o Chile was an active contributor to the Uruguay Round of multilateral trade negotiations;
- o Chile is a new and valued member of APEC; and
- o Chile has one of the most aggressive free trade agreement agendas in Latin America, having concluded agreements (which

address primarily tariffs and quantitative restrictions) with Mexico, Colombia, Venezuela and Ecuador and less comprehensive agreements with Argentina and Bolivia. In addition, and as indicated earlier, Chile is negotiating a free trade agreement with the MERCOSUR, but has also proposed an agreement with the EU.

#### United States - Chile Trade: A Model

U.S. - Chile trade has increased dramatically. The vibrancy of the trade relationship is an example we would hope to repeat across the region. U.S. exports to Chile quadrupled during 1985-94, growing from \$682 million to \$2.8 billion. Last year, the U.S. ran a trade surplus with Chile of nearly \$1 billion. During the 1992-94 period, U.S. exports of:

- o motor vehicles increased 35 percent;
- o earth moving vehicles increased 46 percent;
- o computers and related equipment increased 28 percent;
- o telecommunications equipment increased 55 percent; and
- o medical equipment increased 33 percent.

#### The Accession Negotiations

Negotiating Chile's accession to the NAFTA will remove significant remaining barriers that impede U.S. exports to Chile and thus further increase the potential for additional export gains. The NAFTA and its related agreements cover a broad spectrum of disciplines and Chile's adherence to these rules will help to upgrade trade and regulatory practices and policies in Chile that will ensure a continually growing and mutually productive trade relationship.

In the best tradition of working in partnership with the Congress, we look forward to discussing the issues relevant to this negotiation with this Committee and other relevant Committees as we proceed.

Consistent with past practice for agreements subject to fast track, the Administration has solicited the advice of the U.S. International Trade Commission on the economic implications for

the United States of Chile's accession to the NAFTA. We will consider the Commission's advice carefully. We have also solicited and received advice from our official advisory committees, including from the membership of the Advisory Committee on Trade Policy and Negotiations (ACTPN) and the sectoral and functional committees. Our negotiators will continue to seek the views of the advisory committees as we proceed. The Administration has also sought and received advice from the public and welcomes any additional advice interested parties wish to provide.

Based upon the President's joint statement of December 11, 1994 with the leaders of Canada, Mexico and Chile, we have now officially launched the accession negotiations. In announcing the formal commencement of talks in Toronto on June 7, Ambassador Kantor and his counterparts set guidelines for negotiators from the four sides that will ensure a rapid and successful launch. USTR will coordinate the negotiation effort working with an interagency team reflective of the expertise of particular agencies and individuals. Consistent with the Ministerial Guidance, for example, lead negotiators from the four countries will be exchanging tariff and trade data by the end of this month. The first round of negotiations to discuss individual NAFTA chapters will occur in July with talks commencing through the summer. Negotiators will report to Ministers in September on progress achieved. Ministers will meet as necessary to assess the progress and determine the next steps in the negotiations.

The Administration believes it essential the United States move forward in a timely and constructive manner successfully to negotiate Chile's accession to the NAFTA and its related agreements. We look forward to working closely with this Committee and others as we progress.

### **Conclusion**

A free trade area with Chile is in our interest as well as Chile's. It will create jobs and economic opportunities in both countries. It will strengthen our relationship with a key friend in the Americas, and serve as a bridge to forging hemispheric prosperity.

Benjamin Franklin once said, "no nation was ever ruined by trade." American workers understand that. Americans do not fear open and fair competition. But we do insist that our trade

agreements are "single undertakings" where everyone plays by the same rules.

We ask for -- we insist on -- a level playing field in trade because it is the right and fair thing to do, and because it is in the best interest of all nations.

As a nation, we are at our best when we reach out and face new challenges. I look forward to working with all of you in the days and months ahead as we strive to foster growth, create jobs and lay the foundation for the 21st century. Thank you.

Speech

**REMARKS PREPARED FOR DELIVERY  
AMERICAS SOCIETY  
AMBASSADOR CHARLENE BARSHEFSKY  
July 12, 1995**

**"FREE TRADE IN THE AMERICAS"**

INTRODUCTION

It is a real pleasure to speak before the Americas Society. I would like to thank Susan Kaufman Purcell for inviting me to address your group.

"Free Trade in the Americas" has been the goal of three U.S. Presidents. Reagan and Bush put forward a U.S. vision. President Clinton implemented that vision by obtaining agreement in the Hemisphere on the "Free Trade Area of the Americas" (FTAA), which was adopted in Miami last December.

Before discussing the broad contours of our bilateral, subregional and regional trade policy with Latin America and the Caribbean -- let me emphasize the importance of trade to our future prosperity. President Clinton's trade policy is an integral part of an economic strategy to enhance U.S. prosperity as we move into the 21st century. The President understands that our future wealth depends on our ability to compete successfully in the global economy. There is no possibility of avoiding this new challenge.

Where our economy was once largely self contained, we are now increasingly interdependent with the rest of the world. This change began decades ago but has accelerated in recent years. Twenty-seven percent of our economy is now

dependent on trade. Over 11 million workers in this country owe their jobs to exports.

The United States has only four percent of the world's population and has a mature economy. Future growth opportunities lie in providing goods and services to the other 96 percent of the world's people.

Recognizing the importance of trade, the Clinton Administration focussed on achieving the most important two years in trade in history. We passed the NAFTA; set our negotiations with Japan on a new course, including the recent autos agreement; concluded and approved the broadest trade

agreement in history, the Uruguay Round; hosted the first Summit of Asia-Pacific Economic Cooperation leaders; and negotiated scores of other bilateral trade agreements, which will increase U.S. exports and create jobs.

And, in the Western Hemisphere, the Administration has been pursuing a strategy to expand trade on a bilateral, subregional and regional basis. The Summit of the Americas, which President Clinton convened last December in Miami, is a key element of our overall strategy with the Hemisphere.

## SUMMIT OF THE AMERICAS

The Miami Summit's Declaration of Principles included commitments to strengthen democracy, eradicate poverty, and guarantee sustainable development. But, it was the goal of constructing the Free Trade Area of the Americas (FTAA) by the year 2005 which was the centerpiece of the Summit.

The Summit's ambitious vision of the FTAA consolidated and directed the emerging trend in the Hemisphere toward open markets and economic reform. Indeed, nowhere has change been more dramatic than in Latin America and the Caribbean.

The nations of Latin America have boldly reformed their economies in recent years. New leaders have cast off the shackles of decades of heavy government intervention and trade protection. State enterprises have been privatized, and trade barriers have fallen substantially.

The results have been impressive. The "lost decade" of the 1980s has been replaced by solid real economic growth in the 1990s. Inflation rates which reached several thousand percent in some countries have fallen to single digits in most nations. Private investments have overcome the public "debt crisis." Capital flight of \$10 billion per year in the 1980s turned into investment of \$64 billion fighting to get into the region in 1992. Even with the recent "peso crisis," investor confidence in the Hemisphere has remained strong.

The United States benefitted from economic reform in the hemisphere. U.S. exports to Latin America jumped from \$30 billion in the mid-1980s to \$92 billion in 1994. U.S. exports to Latin America now approximate our exports to the European Union (EU) and are expected to reach \$232 billion by 2010 -- greater than our combined exports to the EU and Japan (\$216 billion).

U.S. exports to Latin America and the Caribbean are mainly high-valued products. Capital goods, which now account for over half of U.S. exports to the region, increased dramatically from 1992 to 1994. For example, electrical machinery exports jumped 42 percent (from \$6.8 billion to

\$9.7 billion), and office machines and computer equipment rose 47 percent (from \$3.4 billion to \$5 billion).

The United States has a commanding commercial presence in Latin America. U.S. exports account for 45 percent of the region's trade. We supply over 70 percent of some countries' imports and often three to four times as much as a country's next largest trading partner. And, we have achieved this presence despite facing trade barriers which are about four times higher in those countries than they face exporting to us.

Recognizing these opportunities, President Clinton hosted the Summit of the Americas. And, recognizing that momentum must be maintained for these opportunities to be realized, the Leaders at the Summit adopted a "Plan of Action" for the FTAA. The June 1995 Trade Ministerial, which we just hosted in Denver, was one key element of this Plan of Action.

## DENVER TRADE MINISTERIAL

### Main Agenda Items

The main issue on the Denver Trade Ministerial, which ~~Ambassador Kantor chaired~~, was adoption of the "Joint Declaration." The Denver Declaration had been prepared in

consultation with the other 33 countries during the preceding four months.

Another issue which the Ministers discussed in general terms was consideration of the "paths" to achieve the FTAA. That is, what approach does the Hemisphere take to reach the FTAA goal set by our Leaders. This topic will assume greater importance for the March 1996 Trade Ministerial.

Let me discuss each of these.

## Denver Declaration

The "Joint Declaration" is very important for the FTAA process. First, it builds on progress made at the Miami Summit, demonstrating the region's continued commitment to the FTAA. And second, the Denver Declaration establishes an initial program of work, which is essential to prepare for subsequent negotiations.

Let me explain in a little more detail what the Denver Declaration accomplishes.

The "Joint Declaration" begins the hard work of constructing the FTAA. The Declaration sets out some initial principles for the FTAA.

The FTAA will:

- \* be consistent with the Agreement establishing the World Trade Organization;
- \* be balanced and comprehensive, covering all areas in the Summit's Plan of Action, i.e., essentially all of the chapters of the NAFTA;
- \* not raise barriers to other countries; and
- \* represent a single undertaking -- i.e. a package deal encompassing all of the areas.

The "Joint Declaration" established seven working groups now and four more by March 1996. Let me give you some examples of the important work these groups will be doing and how they will contribute to advancing the FTAA.

- \* The Market Access Working Group will prepare a comprehensive data base on market access barriers in the Hemisphere. Compiling this information is the only way to identify those barriers which must be eliminated in the FTAA. This Working Group will also make specific recommendations for conducting market access negotiations.

- \* The Customs Procedures and Rules of Origin Working Group will compile information on customs procedures and will publish a very useful guide on those procedures. It will also recommend a Hemisphere-wide means to simplify Customs Procedures and make specific recommendations for conducting negotiations on rules of origin.

By focussing on ways to conduct negotiations, the two working groups I just mentioned -- market access and rules of origin -- will form the vanguard of FTAA work as we approach the March 1996 Ministerial.

But, the other working groups will also perform important tasks.

- \* The Standards and Technical Barriers to Trade Working Group will recommend ways to make rules clearer and more understandable and will make recommendations on product testing and certification, with the objective of concluding mutual recognition agreements.
- \* The Working Group on Investment will create an inventory of all of the some 147 investment agreements and of the investment regimes in each nation in the Hemisphere. On the basis of this

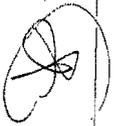
information, the Working Group will determine if there are common elements upon which to form the basis for specific recommendations on investment.

- \* The Working Group on Sanitary and Phytosanitary Measures will create an inventory of all agreements in this area which exist in the Hemisphere and will identify ways to enhance transparency and understanding. This Working Group will also recommend improvements in this area.

- \* In the area of subsidies, antidumping, and countervailing duties, the working group will focus on agricultural export subsidies, promote understanding of international obligations, and

review the laws and practices in these areas. While the agreements in the WTO will serve as the baseline in these areas, some of the countries in the Hemisphere are not yet there.

~~These~~ product of these six working groups is very necessary for the FTAA. The Hemisphere cannot engage in negotiations without undertaking this preparatory work. And, in most areas, the working groups are expected to give Ministers at the March 1996 meeting their clear recommendations on the next steps, including on launching negotiations.



In addition to these six working groups, the Ministers created a Working Group on Smaller Economies. This working group is important because of the many smaller economies which exist in the Hemisphere. The working group will examine the types of transitional measures which may be needed to ease these countries' adjustments as they move toward the FTAA. For example, some of these countries are highly depended on tariff revenue to operate their governments; as tariffs are eliminated through free trade, other sources of revenue need to be secured.

At the same time, the United States is not prepared to grant up front -- i.e., before negotiations even begin -- some type of commitment to special preferences. Once negotiations begin, each country's special problems could be considered.

In order to jump-start the work of the seven working groups, the "Joint Declaration lists the countries which will serve as the initial coordinators. That is, an official from each country will call the first meeting of the working group, at which time the chairman will be selected. That chairman, who might or might not come from the initial coordinator country, runs the working group until the March 1996 Trade Ministerial.

While these seven working groups will soon begin their tasks, the other four areas -- intellectual property, services, government procurement and competition policy -- in the Summit Plan of Action have not been omitted. These working groups were not established in Denver because

of the resource constraint in many countries -- i.e., the difficulty in covering so many working groups -- and the complexity of the issues which these groups would handle.

Both of these concerns are valid; we took the view that in Denver working groups should be created only in those areas where there was unanimous approval.

But, work in these other four areas has only been delayed, not ignored. The "Joint Declaration" indicates that working groups and terms of reference will be established for the remaining areas by March 1996, and we will push hard to have substantive agendas for each of these areas.

The Denver Declaration also initiated a mechanism to oversee these working groups. Vice Ministers will coordinate the work of these groups and will meet on an as-needed basis. Colombia, as host of the March 1996 Trade Ministerial, will determine, in consultation with other countries, when such meetings are needed.

Let me stress that the FTAA is being created using existing resources and institutions. Both the Miami Declaration and the Denver Declaration were developed through consultations in existing trade and investment fora. Likewise, technical and analytical support will come largely from governments themselves, as well as from the

Organization of American States, the Inter-American Development Bank, and the UN Economic Commission for Latin America and the Caribbean.

As you can see, with the Denver Declaration we begin the hard work of constructing the foundation for the FTAA.

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And, while this work is going on, countries in the region will continue their efforts to economically integrate in other ways. In other words, there are a number of "paths" leading to the FTAA -- another matter the Ministers discussed in Denver.

## Paths to the FTAA

One such "path" is to interpret the phrase in the Summit's Declaration, "build upon existing subregional and bilateral arrangements" to mean that the only way to construct the FTAA is for countries to join existing blocs and, when a critical mass in each bloc has been achieved, for these blocs to join together. For example, the members of MERCOSUR might want to first consolidate that arrangement, then bring in new members -- perhaps even creating the "South American Free Trade Agreement" (SAFTA). Only after the SAFTA has been concluded, would they begin negotiations with the other countries in the Hemisphere on the FTAA.

The United States sees accession to existing agreements such as the NAFTA, as only one of several possible ways to move forward on the FTAA. There are other ways to build the necessary infrastructure for the FTAA. We should not confine the FTAA process to only one approach at this time but should look for a variety of reinforcing means to the FTAA end.

For example, building the FTAA can include some or all of the following:

- \* establishing some new hemisphere-wide disciplines in certain areas which may be based upon, or may go beyond, current provisions of the subregional pacts;

- \* incorporating certain WTO obligations into regional frameworks;
- \* perfecting subregional pacts, for example by reducing the number of product exemptions;
- \* adding more countries through accession to existing subregional pacts; and
- \* negotiating linkages between pacts.

The majority of countries in Denver seemed to agree that various approaches should be used to move forward on the

FTAA. Indeed, the agreement in the "Joint Declaration" to establish working groups in so many areas demonstrates clearly that there is more than one "path" leading to the FTAA.

Let me also be clear that one such "path" the United States advocates is accession to the NAFTA. Chile's accession is now underway.

### CHILE'S ACCESSION

At the Summit in Miami, the "three amigos" became the "four amigos" -- to quote Canadian Prime Minister Chretien.

Preparatory work for Chile's accession began almost immediately after the Summit, leading to the Toronto Ministerial on June 7, when negotiations were formally launched.

The four countries have agreed on an organizational structure for the negotiations -- dividing the NAFTA Chapters among four negotiating groups -- and have agreed to have the first session on July 25. We are still working out arrangements for the venue.

Chile's accession to the NAFTA is important because of the trade benefits this can bring to our nations and because Chile serves as a model for future candidates. No other

country in Latin America has a better record of economic accomplishments in the last ten years than Chile. If the United States seeks to encourage stable, growth-sustaining policies and the adherence to open markets, there is no other country in the region better qualified in which to build the strongest trade relationship.

While the Administration can begin these accession negotiations, to conclude them and to bring the package back to the U.S. Congress, we need "fast-track." Through this legislative procedure, Congress agrees to consider implementing legislation by an "up or down" vote -- i.e., no amendments -- and within a specified time.

Ambassador Kantor has been working with Members of Congress on fast-track, and we recently received some good news. A letter signed by Senator Packwood and Congressman Archer, chairmen of the Senate Finance Committee and the Ways and Means Committees, respectively, expressed the hope that "clean" fast-track authority can be passed by Congress this year. They also supported Chile's accession to the NAFTA.

We would like to see a fast-track bill go through a "mark-up" this month. We expect to have a clearer idea of the prospects for fast-track later this summer. Achieving rapid progress in the FTAA depends largely on obtaining fast-track.

## BILATERAL AGENDA

In addition to, and complementary of, the FTAA, the United States has a bilateral agenda with the other countries in the region. We have trade and investment councils with all of the Summit's participants, except Haiti. These fora enable us to discuss a wide range of issues with each nation.

For example, we are encouraging countries to improve their protection of foreign investment through a bilateral investment treaty. And, we are pressing for improved protection of intellectual property rights (IPR) by working with countries on enforcement of existing laws and seeking

commitments to improve those laws by concluding an IPR agreement with us. We are also seeking improved market access, for example by ensuring countries keep the commitments they made in the Uruguay Round.

More recently, President Clinton and Brazilian President Cardoso agreed to undertake a special review of our trade relations during the latter's visit to Washington in April. This review will encompass measures to expand U.S.-Brazilian bilateral trade, identify areas of mutual interest in creating the FTAA; determine ways to foster a positive relationship between NAFTA and MERCOSUR, and find common means to support the WTO. We are working with the Brazilians on this review, which is expected to be presented to the two presidents by November 1.

## CONCLUSION

As you can see, the Administration plans to continue to ~~have~~ a very ambitious trade agenda -- perhaps not as far-reaching as his first two years, but very important nonetheless. In Latin America and the Caribbean, our focus is on constructing the FTAA. While we will continue to address bilateral problems, many of these issues would dissolve with the creation of the FTAA.

The issues we are addressing in our Hemisphere are really global in character. As we open markets on a reciprocal basis in the Hemisphere, we can build on those

achievements to encourage our trading partners in other regions of the world to liberalize further -- including on a multilateral basis.

And, as I indicated when I began this presentation, achieving open markets and expanded trade is not the end game. The ultimate goal of U.S. trade policy is to improve the lives of the American people. This is President Clinton's aim and why he fights so hard for support for his trade policy.

**LUNCHEON ADDRESS OF THE  
HONORABLE CHARLENE BARSHEFSKY  
DEPUTY U.S. TRADE REPRESENTATIVE**

*Speeches*

**BEFORE THE INTERNATIONAL WORKSHOP**

**GEORGETOWN UNIVERSITY  
GRADUATE PUBLIC POLICY PROGRAM**

**THE NATIONAL POLICY PROGRAM  
OF SEOUL NATIONAL UNIVERSITY**

*Korea*

**JULY 17, 1995**

*Speeches*

Thank you. I would like to welcome the distinguished visitors from Seoul and to thank ~~the Georgetown University Public Policy Program~~ and Seoul National University for the opportunity to speak today.

I am particularly pleased to be invited to speak about Korea.

The United States and the Republic of Korea have maintained a special, vital relationship for more than four decades now.

~~Fifty-seven thousand Americans gave their lives in the Korean War. The United States' commitment to Korea continues today. Approximately 37,000 American men and women serve in Korea. The United States spent more than \$2 billion last year to help preserve peace on the Korean Peninsula, still one of the most volatile, dangerous regions in the world.~~

*econ, political  
working  
for stability  
+ peace  
in the  
world*

~~Behind this commitment,~~ the people of Korea have sacrificed and worked hard to create a powerful economy which continues to prosper. Korea is one of the top fifteen exporters in the world, with an economy larger than two-thirds of OECD member states.

The United States absorbs about twenty percent of Korea's exports, including semiconductors, automobiles, steel, D-RAMS, textiles, petrochemicals and electronics. Korea is the United States's sixth largest export market overall, our third largest market for beef, our fourth largest market for all agricultural and food products. Other top exports include semiconductors, aircraft, oil, leather and telecommunications equipment.

It is no wonder that the economic dimension to our relationship has grown and taken on equal importance to our mutual security interests. Today I would like to talk about some of the perceptions held by Koreans and Americans regarding the nature of our bilateral trade relationship.

Korean officials and many in the Korean press have expressed alarm this year, asserting that the United States has embarked upon a "trade war" with Korea. *This is neither true nor a helpful* ~~In our view, this is somewhat of a myopic view. It does not take into account global developments, such as the establishment of the new WTO, an event not specifically related to Korea. Neither is it a very helpful~~

Characteristics

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view, because it becomes harder to resolve even ordinary day-to-day business problems when each disagreement is treated as an affront to Korea's sovereignty.

or US

Given the sheer volume of trade between the United States and Korea, disagreements over how that trade is conducted is natural. One need only review our negotiations with Canada or the European Union to appreciate that a mature trading relationship often brings with it an increase in disputes.

Even more significant is the establishment of the World Trade Organization last January. The WTO covers new areas of trade, such as agriculture, services, intellectual property rights and phytosanitary and sanitary rules. The reforms in dispute settlement procedures also makes it more likely that countries will use that body to resolve problems. The two pending complaints brought by the United States against Korea at the WTO are two such examples.

bee SPS }  
citrus SPS }  
→ shelf life  
- inspection procedure

Another observation often made by Korean officials is that because trade with the United States is roughly in balance, the

4  
**United States has no reason to complain about trade barriers.**

**We think the trade figures reflect a more complex story. A different picture emerges when certain sectoral balances are compared. Take autos for example. The Korean automobile market is one of the fastest growing markets in the world, and Korean automakers are the fifth largest exporter in the world.**

**Yet imports make up a mere .02 percent of the Korean domestic market. This compares to 5 percent <sup>even</sup> in Japan, and 25 percent in the United States. We can't help but draw the conclusion that there are barriers to Korea's market for foreign automobiles.**

**That said, we are not searching for mirror parity in trade balances. What is critical to our exporters -- and what is clearly missing in the argument regarding Korea's trade balance with the United States -- is the role of global trading rules. Korea has undertaken international obligations, bilaterally and multilaterally.**

**Those obligations should be respected, regardless of trade deficits or surpluses. American businessmen believe that**

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**Korea could be even a more significant market if the rules were followed.**

**The U.S. business community still perceives Korea as one of the toughest markets in the world for foreigners to do business. Impediments most often cited include Korea's burdensome, non-transparent regulations; civil servants who use their considerable discretion to thwart "unpatriotic" imports; theft of trade secrets and other intellectual property; a hostile inward investment climate ~~on foreign investment~~ and barriers in Korea's financial sector.**

**Cases of harassment are reported frequently. Just last week, one American company faced police action simply for changing its' address. Another American company was forced to change its' name because of adverse publicity fostered by Korean government officials. Unfortunately, imports and foreigners still seem unwelcome.**

**While many formal barriers to imports have fallen, Korea has raised new more subtle barriers that effectively prevent the**

6

liberalization envisioned under the major trade policy initiatives of the late 1980's. Consequently, bilateral problems are on the rise, particularly with respect to standards, licensing, certification, rule-making and customs clearance.

Exporters have for years experienced extraordinary delays at the ports because of Korea's Byzantine customs and quarantine procedures, which lead to delays on average of three to four weeks. Korea in fact is the only country in the world that requires inspection of 100 percent of all shipments. These delays are used deliberately to impede imports of perishable agricultural and food products.

The problem has become more severe as Korea has begun implementing its commitments under the agricultural agreement of the WTO. In a recent case, containers of citrus sat on the docks for three weeks until they were rotted. They were blocked from clearance by a local Korean citrus cooperative which was administering the quota. Korean authorities finally released the shipment -- rotten fruit and all-- only after the United States

formally brought the case to the WTO under the new Sanitary and Phytosanitary Agreement.

Unscientific sanitary regulations are also commonly employed to keep out imports, particularly agricultural products. A good example is Korea's unscientific government-mandated shelf-life requirements that effectively prohibit the importation of many products. Most countries in the world, including members of APEC and the EU, use manufacturer's "use-by" dates to control food safety. The United States is pursuing this complaint under the WTO as well.

The dispute began last February, when Korean authorities suddenly seized a shipment of American sausages because they had been "wrongly classified" by customs officials over the past four years as products with a 90-day expiration period. Under the correct classification, authorities said, the sausages would have been allowed only a 30-day expiration period. This is about how long it would take for the sausages to clear port. Korea finally reversed itself, but not until the U.S. meat industry had filed a

Section 301 petition last fall. This practice is costing our meat industry alone over \$200 million a year.

Korea's penchant for regulating away imports also hurts the United States' high tech exports to Korea. Korea recently began to enforce new regulations governing medical devices which do not conform to international standards. Each medical device is unwrapped and inspected at Customs, which risks contamination. If a device is contaminated, then it cannot be imported. To add insult to injury, the local Korean trade association for medical devices must approve each import license application.

~~Other examples are legion, and might almost be amusing if they were not so damaging to our economic interests.~~ These kinds of disputes are not helpful to Korea's economy either.

*not only damage US econ int's but also*

For the past five years, <sup>US</sup> companies have been pulling out of Korea. Some of these firms have been operating in Korea for decades. <sup>(stability)</sup> New direct foreign investment declined more than 36 percent last year; more ominously, the value of funds redeemed from terminated joint ventures grew more than five times to \$369

9  
million from \$69 million. Much of that money and the technology behind it has moved to lower-cost Asian markets, but many American firms have simply left for what are perceived as more hospitable markets.

There ~~certainly~~ <sup>importantly</sup> have been some economic reforms over the past two years under President Kim's leadership: real name disclosure, streamlined investment screening, opening of a few more sectors to foreign investment, passage of a "basic law" for administrative procedures, and eased restrictions on land ownership.

But many in the United States believe that these efforts were only partial and that further reform has stalled. One ~~American official~~ <sup>commentator</sup> observed that Koreans seem ambivalent about reform. On one hand, "globalization," deregulation and liberalization of the economy are seen as key to Korea's competitiveness. At the same time, <sup>some believe that</sup> these reforms threaten the very policies and civil servants who nurtured Korea's economic miracle in the first place.

To some, the moderate reforms may be adequate to sustain Korea's growth. After all, Korea's growth rate has recovered to an impressive eight percent. Yet Korea has fallen in global competitiveness. Korea ranked twenty-fourth out of forty-one countries in a recent survey; in another study of developing countries, Korea fell from third place in 1991 to seventh last year.

Korea's decline in competitiveness coupled with foreign disinvestment are troubling signs. The Kim administration has made it clear that further economic liberalization is imperative to reverse these trends. *We agree & applaud President Kim's leadership* Regrettably, the bureaucracy does not yet appear ready to embrace or effectively implement reform. *Korea*

~~U.S. trade officials also view Korea as a difficult negotiating partner. Negotiations are protracted, even for minor issues, and the same problems keep reappearing. Since President Kim reorganized the trade and economic ministries last December, we have had a hard time finding an interlocutor who has clear authority to negotiate for the government. Problems must often be escalated to very high levels before there is any response.~~

There are many ways to settle arguments, and the United States <sup>is committed to working with Korea to find the right mechanism</sup> and ~~Korea~~ seem to have tried nearly every one of

them. ~~We have negotiated bilaterally, sometimes under the threat of trade sanctions.~~ We have also concluded

twenty-six trade agreements over the past decade. <sup>While some may say,</sup> ~~From our perspective,~~ the results have been modest, ~~at best.~~

<sup>This Admin has relied on</sup> ~~We have also tried a~~ non-confrontational approach under the Dialogue for Economic Cooperation (DEC). A basic goal of the

DEC <sup>has been</sup> was to settle issues of general importance early, especially issues about foreign investment, so that we could prevent

confrontations over specific problems in the future. <sup>The DEC process has been positive in some respects -</sup> ~~Promises were made, but the problems remain. The DEC no longer meets.~~

**CONCLUSION**



US Korea relat v. imp.

In the short term, I suspect that Korea and the United States we will most likely continue to hold different perceptions of each other's trade and economic policies. We will continue to have trade disputes, and will continue to search for alternative ways to resolve those differences. We also urge Korea to be

what they  
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or event, n't  
APEC

The DEC process has been positive in some respects -  
compet  
rol -  
but overall,  
problems  
concerns  
tend to persist.

resolute in ~~its~~ liberalizing its economy; for our part, we will  
continue to <sup>work in Korea in our mutual int.</sup> ~~advance our economic interests.~~

~~Above all, we will continue to~~ value our strong bilateral  
ties. <sup>US</sup> Korea will remain a major ally and trading partner, playing  
an increasingly important role regionally and globally. As our  
bilateral economic relationship matures, it is my hope that those  
of you participating in the workshop this week will help lead the  
way in meeting the challenges that most certainly lie ahead.

**TESTIMONY FOR DEPUTY USTR CHARLENE BARSHEFSKY  
BEFORE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS'  
SUBCOMMITTEES ON ASIA AND THE PACIFIC  
AND INTERNATIONAL ECONOMIC POLICY AND TRADE  
Tuesday, July 18, 1995**

Introduction

I would like to begin by thanking Chairmen Bereuter and Roth for holding this hearing on the Asia-Pacific Economic Cooperation forum, or "APEC." USTR is pleased to have the opportunity to testify on APEC, which we view as a key initiative in furthering U.S. interests and fostering constructive economic relationships in the Asia-Pacific region, the fastest growing region in the world.

Importance of APEC

APEC is an economic forum composed of 18 of the world's most dynamic and diverse economies, all of which rim the Pacific.<sup>1</sup> APEC member economies and our relationship with them represent an important part of our economic future. APEC economies accounted for over half of the world's GDP in 1994. Economic growth rates in this region averaged 5.2 percent in 1994. However, some growth rates exceed these levels quite substantially. For example, while Japan and Canada have generated modest growth rates in recent years of 0.7 percent and 4.5 percent, respectively, China's growth rate in 1994 was 12 percent, Singapore grew at 10.1 percent, Malaysia at 8.5 percent, and Korea at 8 percent. Several of the world's most populous countries -- China, Indonesia, Japan, and Mexico -- are represented in APEC. All APEC nations have growing middle classes and rapidly improving levels of education -- both important elements in improving their ability to trade and invest with the United States in the future. Our cooperative ventures with all these nations also serve to reinforce the on-going evolution of our national character as a Pacific, as well as an Atlantic nation.

The growth and dynamism of the APEC region has led to an explosion of trade with the United States. East Asia is the number one export market for U.S. products. U.S. merchandise exports to APEC countries totaled \$304.8 billion during 1994. This accounted for 60 percent of total U.S. merchandise exports. Last year our exports to APEC nations grew by almost 15 percent; export growth this year exceeds 17 percent. We often focus only on our exports to Japan, or perhaps China, but our trade is growing rapidly with the region as a whole. One recent projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to roughly \$250 billion in U.S. exports.

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<sup>1</sup>APEC member economies include the following: Australia, Brunei Darussalam, Canada, Chile, the Peoples Republic of China, Indonesia, Hong Kong, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Chinese Taipei (Taiwan), Thailand, and the United States.

Despite these optimistic figures, no one can deny that APEC economies also represent the region with which we have our most substantial trade deficits. Over 85 percent of our global trade deficit in 1994 was with APEC nations. Japan and China are responsible for almost three-quarters of this deficit, with most other players shifting between surplus and deficit year-to-year. We have been addressing the problems related to our deficits with Japan and China bilaterally, as you know. We have made a significant step forward with the conclusion of our recent agreement on trade in autos and auto parts, which constitutes a large portion of our deficit with Japan. We are working with China on market access bilaterally and in the WTO accession context. We will continue to work on these and other trade problems bilaterally and in the WTO, but APEC may also be able to play a long-term role in improving our access to these markets.

The only regional economic institution in the Asia Pacific of its kind, APEC serves to complement, not to replace, U.S. multilateral and bilateral foreign policy objectives and trade and investment liberalization. Our commitment to addressing our trade problems multilaterally, where possible, and bilaterally, where necessary, remains steadfast. However, APEC provides a superb opportunity to build upon efforts in these other fora and to advance trade and investment facilitation and liberalization further in a manner that supports our overall goals, supports U.S. business, and anchors the United States in the Pacific for the long term.

In my testimony today, I will focus on APEC's work on trade and investment issues. However, I would like to begin by touching on APEC's history to explain the context in which APEC's current work is proceeding.

### History and Context

While APEC had existed since 1989, President Clinton provided bold leadership and a new direction for APEC by hosting the first meeting of APEC Leaders in 1993 in Seattle. The Seattle meeting set out a broad vision of an Asia-Pacific community of nations. This meeting also was critical to evolving APEC's role as an institution committed to trade and investment facilitation and liberalization, not just a "talk shop." Since Seattle, the institution has gained stature, found greater direction and dramatically expanded the scope and nature of its activities, particularly those related to trade and investment policy.

The energy and policy direction created by the Seattle Leaders' meeting was instrumental in President Soeharto's decision to advance the Seattle vision further at the second Leaders' meeting last year in Bogor. In 1994, APEC Leaders further refined their vision and established an explicit goal of free and open trade and investment by 2010 for industrialized members and 2020 for developing members. Bogor also supports the on-going goals already embraced by APEC -- economic cooperation,

largely through technical assistance, and business facilitation, especially through harmonization or convergence of trade-related rules and procedures.

Building on the dynamic forces generated by the Asia-Pacific business community and on the trends in the region toward unilateral liberalization and deregulation, APEC is approaching liberalization through a unique integration of practical, concrete business facilitation steps; technical assistance and cooperation; and trade and investment liberalization. The Bogor Leaders vision of free and open trade and investment in the Asia-Pacific region was the start of a long-range process. In the earliest stages, this vision can be translated into producing "ever freer trade and investment" in the region as well as into practical steps to make it easier to do business in the region. As APEC operates on consensus and represents countries at varying levels of development, implementing the free trade and investment vision presents some special challenges and opportunities.

This November in Osaka, the site of the third Leaders' and Ministers' meetings, we expect APEC to take another step in advancing the Leaders' vision by outlining some of the substance, the specific objectives, and the process for reaching the central freer trade and investment goal.

#### Preparations for Osaka

APEC recently held a series of Senior Officials' meetings in Sapporo, Japan. This is the third in a series of meetings this year designed to advance APEC's work program and develop what is being called the APEC action agenda, or blueprint, to realize the Bogor vision and to prepare the results of the Osaka meeting. Although work is not yet completed, we believe several key steps will be taken to advance APEC's work and the Leaders' objectives, including development of the following:

- (1) the mid-/long-term plan for achieving free trade and investment by a date certain -- the action agenda; and
- (2) concrete business facilitation initiatives in areas such as customs, standards, telecommunications, and transportation.

In addition, members are discussing how they can each demonstrate their commitment to the Bogor vision in the immediate term by promoting steps that advance trade and investment liberalization and promote the more efficient operation of their economies. Such steps may include accelerating implementation of some of the Uruguay Round results -- perhaps tariffs or rulemaking provisions like those in the TRIPs Agreement -- as well as significant deregulation steps taken this year.

#### Action Agenda

The action agenda is viewed as the primary outcome of the Osaka meeting. While the details of the action agenda are still being developed, APEC Senior Officials, in conjunction with Japan, which is chairing APEC this year, have settled on a broad outline as a result of their meetings held thus far this year. This outline will likely include the following elements: key principles that will guide APEC's liberalization efforts; business facilitation, cooperation/technical assistance, and policy/liberalization steps that APEC members will take over time to achieve the free trade and investment goal; and approaches or processes to be used over time to implement these steps. APEC Senior Officials are currently discussing all of these elements.

### Principles

The broad principles that are likely to be included in the action agenda will establish parameters for APEC's trade and investment liberalization plans. At present, a number of principles are under consideration. Some that are particularly important to the United States include the following:

- (1) GATT/WTO consistency - APEC arrangements will be GATT/WTO consistent and will strengthen the multilateral trading system;
- (2) common start date and continuous contribution - all APEC members will begin the liberalization process together and continue to contribute throughout the 1996-2010/2020 timeframe;
- (3) comparability - offers of liberalization will be conditioned on achieving a balance among all APEC members' offers of liberalization; and
- (4) monitoring - the action agenda and progress made toward its implementation will be subject to on-going review, perhaps annually or at fixed future points.

Other principles on comprehensive coverage and standstill are also being discussed.

### Substance

USTR, in conjunction with the Departments of State and Commerce, has coordinated an intensive interagency review to define initially what the United States would like to see in the action agenda. In formulating U.S. views on the substance of the action agenda, we are consulting with the Congress, with our business sector advisors, and with the broader business community actively engaged in trading with APEC economies. We welcome this opportunity to expand our dialogue with Congress on the broad range of APEC activities and on the action agenda.

To achieve the goal of free trade and investment, the United States is encouraging APEC to include in the action agenda a broad range of issues such as the following:

- (1) market access (tariffs and non-tariff measures);
- (2) investment;
- (3) standards and customs;
- (4) implementation of the Uruguay Round Agreements;
- (5) services (telecommunications, transportation, tourism, professional, financial, and audio/visual);
- (6) intellectual property rights;
- (7) government procurement;
- (8) deregulation;
- (9) competition policy;
- (10) dispute mediation (U.S. focus on commercial);
- (11) rules of origin;
- (12) human resource development;
- (13) environment;
- (14) energy; and
- (15) small and medium enterprises.

For each of these issue areas, we are also advocating that the action agenda include mid- to long-term objectives; key "milestones," or building blocks to measure progress toward reaching these objectives; and some concrete steps APEC could take toward the objectives over the next couple of years.

### Processes

APEC members are considering a number of possible approaches or processes that could be used to implement the plan for liberalization in each of the areas just cited. Some are based on agreement on common guidelines, followed by implementation by each economy. Others focus more on collective, APEC-wide action (all APEC members agree to do "X" by "Y" date). A third approach outlines potential APEC work to support WTO activity. The United States believes that there is no one approach versatile enough to implement successfully an objective as far-reaching as free and open trade and investment. Furthermore, we believe that the liberalization process on any one issue area will evolve over time and different approaches will be appropriate at different stages in the process. Finally, the United States has worked hard over the past several months to shift the focus in APEC from the question of approach, *i.e.*, how to implement the action agenda, to the question of substance, *i.e.*, what the action agenda will contain.

### Other APEC Trade and Investment Activities

In addition to the action agenda, APEC has an active on-going trade and investment agenda. In Seattle, APEC Leaders agreed to a package of improvements to Uruguay Round tariff offers. This package augmented the zero-for-zero offers already on the table and demonstrated APEC members' commitment to the successful completion of the Uruguay Round. Since Seattle, APEC has further complemented multilateral efforts on trade and investment. Through a series of seminars coordinated by the United States, APEC has educated its members about the specifics of implementation of the Uruguay Round Agreements, thereby helping to ensure timely, full, and faithful follow-through on Uruguay Round commitments. In addition, APEC has provided a forum for discussing newer trade issues, including some not currently covered by the WTO, such as competition policy. Finally, APEC has supplemented U.S. bilateral initiatives by (1) encouraging concrete business facilitation initiatives, such as harmonization of customs procedures and simplification of standards-setting processes; and (2) coordinating technical assistance in areas such as enforcement of intellectual property rights protection. These programs are likely to expand and intensify following adoption of the action agenda.

### Conclusion

APEC Leaders have presented members with a tremendous challenge, which all are taking seriously. The United States has made a great deal of progress toward building consensus on substantive U.S. recommendations for the action agenda. In addition, the recent meetings in Sapporo, Japan brought us closer to APEC agreement on the applicability of a variety of approaches to the implementation of the action agenda. Although we have made some headway on general principles to guide the liberalization process in APEC, we anticipate a great deal more discussion on principles, and in addition, on processes and substance, during the remaining meetings of Senior Officials before November.

As chair of the APEC process this year, Japan has a difficult task ahead in leading this effort. There is broad support by APEC members for the implementation of Bogor, but the devil is in the details, and the details are just now being addressed.

**STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY  
DEPUTY U.S. TRADE REPRESENTATIVE  
BEFORE THE HOUSE JUDICIARY COMMITTEE  
SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY  
JULY 13, 1995**

I am pleased to have the opportunity to convey to the Subcommittee the views of the Office of the United States Trade Representative concerning H.R. 989, the Copyright Term Extension Act of 1995.

There can be no question of the importance of strong copyright protection in promoting the creation and dissemination of works of art, literature, music, film, photography, drama and architecture. The laws of the United States afford strong protection to the rights of its creators and artists; our laws also provide for flexible, market-responsive means of transferring and exploiting these rights.

This system of copyright protection has contributed immeasurably to the richness of our culture. It has also provided a firm basis for the development of a dynamic copyright industry that has made the United States a world leader in supplying informational materials and entertainment products around the globe. Because our films, music, books, and software are attractive to consumers around the globe, our copyright industries consistently generate a trade surplus for the United States.

We must also recognize the importance of copyright industries to our economy. Our copyright-based industries employ thousands of workers in the United States and are employing new workers at almost three times the annual rate of the economy as a whole. These U.S. industries contribute over \$30 billion in foreign sales, more than any other U.S. industry except agriculture and aircraft, and are growing at twice the annual rate of the economy.

Recognizing the significance of the U.S. copyright industries in our international trade, the Office of the U.S. Trade Representative, in conjunction with other U.S. Government agencies and the Commerce and State Departments, has given high priority to raising the level of protection afforded to copyrighted works around the globe, and to securing market access for these works.

We negotiated the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPs Agreement) which established strong international disciplines in an area of great importance to the U.S. economy and was one of the most significant achievements of the Uruguay Round. At the same time, we continue to make effective use of the Special 301 process and other bilateral channels to advance our goals. This year, we concluded a far-reaching agreement with China on the enforcement

of intellectual property rights, and on market access for those who depend on the exploitation of those rights. Our copyright industry arguably is the primary beneficiary of this combination of enhanced protection and market access. Among other things, the agreement required China to:

- take immediate action against those well-known factories producing huge quantities of pirated and counterfeited products;
- make structural changes to ensure effective enforcement of intellectual property rights over the long term, with coordination of enforcement efforts at the national, regional and local levels;
- prohibit the use of infringing products -- particularly computer software -- in government ministries;
- create a customs enforcement system modeled after the U.S. system;
- create a title verification system to help prevent the unauthorized production, importation, exportation and retail sale of U.S. audio-visual works,
- allow U.S. intellectual-property related companies to enter into joint ventures for the production, reproduction and distribution of their products within China.

In some areas of the agreement, China has gotten off to a good start, with establishment of enforcement task forces, raids against computer software pirates, action against CD-ROM piracy, and issuance of new regulations. At the same time, we recognize that piracy remains a serious problem in China, and that we must keep up the pressure on China to implement the agreement effectively. USTR has established an Executive Secretariat, with private sector participation, to collect and analyze information on China's implementation of the agreement, and to coordinate training programs. A high-level USTR team plans to visit China for consultations under the agreement in late July.

In April 1995, to address the uncontrolled piracy of U.S. sound recordings in Bulgaria, we reached a detailed agreement with Bulgaria on the protection of U.S. copyrighted works. Under that agreement, Bulgaria signed on to the Geneva phonograms Convention, amended its laws to make copyright infringement a criminal offense, and committed itself to put into place a copyright verification system.

Also in April, to address the rampant piracy of U.S. copyrighted works, particularly computer software, in Indonesia, we secured a commitment from the Government of Indonesia to undertake significant efforts to fight copyright piracy.

In the coming years, we will use existing multilateral mechanisms, such as the TRIPS Agreement, and bilateral mechanisms, such as the Special 301 of our Trade Act, to combat the piracy of U.S. copyrighted works. We will also work on a regional basis -- in Asia and in the Americas -- to seek better IPR laws, and to ensure that these laws are enforced. Finally, we will work with other agencies in the U.S. government to negotiate with our trading partners the international rules that will be needed to ensure the protection of copyrighted works that will be transmitted over the Global Information Infrastructure.

It is against this backdrop that I will assess the impact of HR 989.

It is clear that there are numerous factors and interests to take into account in determining whether a copyright term extension of 20 years is in the overall interests of our country. Many of the domestic issues connected with this decision lie outside the competence of the Office of the United States Trade Representative. We are therefore reluctant to insert this Office into a discussion of the full range of questions that the Subcommittee has before it.

The focus of this statement, rather, will be on the implications for our trade balance of an extension of the copyright term.

It is impossible to talk about those effects without taking note of the fact that less than two weeks ago, the European Union implemented a decision, taken in 1993, to harmonize its copyright term at life plus 70 years. This means that all members of the European Union, with the exception of Germany (which already had a term of protection of life plus 70 years) had to extend the term of protection that they provide to their own copyright holders, and to copyright holders from the other member states.

Unfortunately, the members of the European Union are under no international obligation to extend this longer term of protection to U.S. right holders, or to right holders from any other country that does not provide a reciprocal term of protection to works of European authorship. The so-called "rule of the shorter term" in Article 7(8) of the Berne Convention permits member countries to limit the term granted foreign origin-works to the term of protection provided in the country of origin. In other words, Berne member countries are permitted to provide terms in excess of that required by Berne -- generally life plus fifty years -- to nationals of other Berne member countries on the basis of reciprocity rather than national treatment. The EU directive, taking advantage of this rare reciprocal provision in Berne, requires member states to apply the rule of the shorter term to non-EU nationals, except in certain narrowly defined circumstances.

As a result, U.S. right holders will not be able to take

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advantage of the longer term of protection in EU member states if they are subject to a shorter term in the United States. Because some works protected under U.S. law already receive a longer term of protection than in the EU system, the longer terms provided by this legislation will have no effect on the term of protection they receive in Europe. Other U.S. works, however, are currently provided a shorter term of protection than in Europe, so will receive a longer term if the U.S. term is extended.

In the U.S., works whose term is measured from the life of the author -- where the work is created outside an employment relationship and the author is known -- are currently granted a term of protection of the life of the author plus fifty years. If the U.S. term is modified to life of the author plus seventy years, these authors or their assigns will enjoy a longer term of protection in the EU member states. As a result, paintings, books, sculptures, plays, architectural drawings and other such works would enjoy twenty more years of protection in EU member states if H.R. 989 is passed.

On the other hand, works made for hire are protected under current U.S. law for a term of seventy-five years from their publication or 100 years from their creation, whichever expires first. Right holders in works subject to this rule, such as the producers of sound recordings and films, currently enjoy a term of protection twenty five years in excess of that provided by the EU system, which is fifty years from first publication or communication to the public. Because the maximum term of protection for producers of sound recordings and films in the EU system is fifty years, increasing the work for hire term in the U.S. to ninety five years will have no effect on the term they are granted in the EU system. As I will now explain, however, there is a means through which U.S. film producers would benefit in Europe from term extension in the United States.

If H.R. 989 or similar legislation is adopted, right holders in some U.S. works made for hire will be able to exploit these works in EU member states for up to twenty years longer than they can under the current system. The contracts under which these works are created typically permit the person for whom the work is created to exercise all economic rights granted to the actual creator of the work throughout the world. In the case of films, for example, directors are considered the authors under the EU system and are given a term of protection of life plus seventy years. These rights are in addition to, and more expansive than, those rights granted directly to the producer that I just mentioned. But pursuant to the contracts under which U.S. films are made, all rights granted to the directors of the films by EU member states are exploited by the producers of U.S. films.

The term of protection granted directors of U.S. films in the EU system, however, is capped by the term granted the film in the United States. Currently, then, the life plus seventy year term they are granted in the EU system is capped by the seventy

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five year term granted in the United States. If the U.S. work for hire term is extended to ninety five years, the term of life plus seventy years granted directors of U.S. films in the EU system would be capped at ninety five years rather than seventy five years. Directors of such films would therefore receive -- and the producers who hold their rights would therefore enjoy -- up to twenty years more protection in EU member states, depending on the life span of the director.

Consequently, if the U.S. extends its copyright term in accordance with this legislation, some U.S. right holders will be able to collect revenues from the exploitation of their works in Europe for up to an additional 20 years.

The countries of the European Union are a large and affluent market for U.S. copyrighted works. The population of the member states of the EU -- ever increasing in number -- is now nearly 370 million. Moreover, the reach of EU legislation will expand even further in the coming years. Turkey, for example, has just enacted legislation to raise its copyright term for newly-created works to life plus seventy years. It is unlikely that Turkey would have done so were it not for the need to meet the standards of EU protection of intellectual property rights as part of the obligations it took on in concluding a Customs Union agreement with the EU. The countries of east-central Europe are also moving in the direction of harmonizing their legislation with EU standards as they move toward eventual membership in the Community.

Given the preponderant balance in the U.S. favor in US-EU trade in copyrighted works, an additional 20 years of copyright protection on both sides of the Atlantic would add more to the revenue flows headed from the EU to the U.S. than it would to the monies we would be required to pay out to Europe. While the Administration has not undertaken the complex process of quantifying the precise extent of these benefits, the Motion Picture Association estimates that term extension would result in a modest increase of revenues from international sources of less than \$1 million per year by 2000, and \$3 million per year by 2010, rising more dramatically to \$160-200 million by 2020. One of our two major music collecting societies estimates additional international revenues of \$14 million per year if U.S. right holders are in a position to take advantage of a further 20 years protection in Europe.

In view of the international benefits to U.S. rights holders as a result of copyright term extension as proposed by HR 989, the Office of the United States Trade Representative supports the proposed legislation.