DRAFT

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

BEFORE THE EIGHTH
U.S. - KOREA/KOREA - U.S. BUSINESS CONFERENCE

JULY 24, 1995

Thank you. I would like to welcome the distinguished participants of the U.S.- Korea, Korea - U.S. Business Conference to Washington, D.C. This is an important week for both our governments. The meeting between our two Presidents reflects the special relationship we have shared for more than four decades now.

Today I would like to speak about the economic dimension to our relationship. That dimension has grown over the past decade and taken on equal importance to our mutual security interests.

It is no wonder. 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 also 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 U.S.

exports to Korea include semiconductors, aircraft, oil, leather and telecommunications equipment.]

During the past year, some in the Korean press have expressed alarm that the United States has embarked upon a "trade war" with Korea. I think this is somewhat of a myopic view.

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. Trade or commercial disagreements should not be treated as an affront to Korea's sovereignty.

The "trade war" theory also ignores 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 rules also makes it more likely that countries will use that body to resolve problems. The two WTO cases brought by the United States against Korea this spring are illustrative.

Another observation often made by Korean officials is that because trade with the United States is roughly in balance, the 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 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 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 investment climate and numerous 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 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 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.

I am happy to report that last week, the United States and Korea were able to reach an agreement under the consultation procedures of the WTO. Korea agreed in the WTO's Dispute Settlement Committee to phase-out these restrictions beginning in October of this year [see attachment for details]. This could mean an increase in U.S. meat exports alone of up to $1 billion dollars by the end of 1999.

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 kind of disputes are not helpful to Korea's economy either.

For the past five years, companies have been pulling out of Korea. Some of these firms have been operating in Korea for decades. 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 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 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 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, 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; among 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. Regrettably, the bureaucracy does not yet appear ready to embrace or effectively implement reform.

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 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. From our perspective, the results have been modest at best.

We have also tried a non-confrontational approach under the Dialogue for Economic Cooperation (DEC). A basic goal of the DEC 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. Promises were made, but the problems remain. The DEC no longer meets.

CONCLUSION

I suspect that Korea and the United States 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. Above all, the United States will continue to advance our national economic interests.

As our bilateral economic relationship matures, it is my hope that organizations such as the U.S.- Korea/Korea - U.S. Business Conference will lead the way in meeting the challenges that most certainly lie ahead for us all.

TESTIMONY OF AMBASSADOR CHARLENE BARSHEFSKY,
DEPUTY UNITED STATES TRADE REPRESENTATIVE,
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
BEFORE THE SENATE FINANCE COMMITTEE,
INTERNATIONAL TRADE SUBCOMMITTEE
AUGUST 1, 1995

Thank you, Mr. Chairman and Members of the committee. It is a pleasure to appear before you today on behalf of the Administration to testify on a range of issues, including Most Favored Nation status for Cambodia, graduation of Bulgaria from Title IV of the Trade Act of 1974, reauthorization of the Generalized System of Preferences, or "GSP", program and reauthorization of the Office of the United States Trade Representative.

Cambodia

In September 1993, after UN-supervised elections in May of that year, the United States established full diplomatic relations with Cambodia. Since then, the freely elected Cambodian government has been eager to establish ties with other nations and re-enter the world economy. After 20 years of strife and civil war, Cambodia has begun building a market economy.

In early 1994, negotiators from USTR went to Cambodia and concluded a bilateral trade agreement with Cambodia that established a framework for bilateral trade relations. It includes a model agreement providing for the protection of intellectual property and calls for a reciprocal granting of Most Favored Nation (MFN) status. However, before this agreement can enter into force, the Congress must pass legislation extending MFN status to Cambodia.

The Administration strongly supports legislation that would allow Cambodia to be granted MFN status and let our bilateral trade agreement come into force. Extension of MFN status, which would lower U.S. tariffs to imports from Cambodia significantly, will help spur the development of markets in Cambodia. The reciprocal market access and intellectual property rights protection provided for in the trade agreement would also work to promote U.S. exports and expand the U.S. commercial presence in Cambodia. Located in the midst of rapidly growing Southeast Asia, it is a market the United States should not ignore.

Closer trade ties with Cambodia should also encourage it to more rapidly adopt world trading rules and principles. As I stated earlier, the bilateral trade agreement in itself would dramatically improve Cambodia's commitments in accordance with international standards. Finally, it is our hope that expanded commercial ties, by promoting economic expansion in Cambodia, would contribute to political stability.

On July 11, the House of Representatives passed legislation that would grant permanent MFN status to Cambodia. The Administration supported that legislation. I would like to commend Senator McCain and Chairman Grassley for their leadership in moving this issue forward in the

Senate. We look forward to working with Senator McCain and the Committee to develop acceptable legislation that will allow us to grant MFN status to Cambodia as quickly as possible.

Bulgaria

The Administration strongly supports legislation that would allow the President to remove Bulgaria from Title IV of the Trade Act of 1974. U.S. policy since the end of the Cold War has been to normalize our trade relations with Central Europe. Most of the other countries in the region, such as Hungary, Poland, the Czech Republic, the Slovak Republic, Latvia, Lithuania and Estonia all already enjoy unconditional MFN treatment

The objective criteria for Bulgaria's removal from Title IV have long been satisfied. Since June 3, 1993, the Administration has certified on a semi-annual basis that Bulgaria fully complies with U.S. and international standards concerning emigration and human rights policy. The Administration is not aware of any opposition in the U.S. against removing Bulgaria from Title IV.

Bulgaria has benefitted from MFN trading status and access to USG credit and investment guarantee programs since 1991. Graduation would therefore not result in any decline in revenue for the United States. Current tariff levels on Bulgarian imports would remain the same after graduation. The United States and Bulgaria have had a bilateral Trade Agreement since 1991, which provides for not only reciprocal MFN, but also contains strong commitments with respect to Bulgaria's intellectual property rights regime.

Allowing the President to graduate Bulgaria now also sends a positive signal to U.S. and Bulgarian traders and investors at a time when our bilateral economic relations are expanding. Official statistics indicate U.S. exports to Bulgaria totaled $110 million in 1994, but the actual figure may be up to four times that amount, given that a large proportion of U.S. products in Bulgaria are produced by European subsidiaries of U.S. companies and do not appear in U.S. trade statistics. U.S. exports to Bulgaria in January-February this year increased 54% over the same period last year.

U.S. investment in Bulgaria has also increased. There are now some 90 U.S. companies operating in Bulgaria, with investments totaling $110 million. These U.S. companies run the gamut in terms of size and type, and include major companies such as Kodak, IBM and American Standard, as well as small manufacturers. With the implementation of the U.S.-Bulgaria Bilateral Investment Treaty in May 1994, U.S. investment in Bulgaria is expected to grow even more.

Graduation of Bulgaria from Title IV will also enhance our bilateral relations under the World Trade Organization (WTO). Bulgaria is currently well along in its accession negotiations for WTO membership. In order to have full WTO relations with Bulgaria, the U.S. must be able to extend unconditional MFN, which it can only do if Bulgaria is no longer subject to Title IV.

This in turn will enable the U.S. to avail itself of all WTO rights vis-a-vis Bulgaria.

In addition, Bulgaria's compliance with UN sanctions against Serbia and Montenegro has resulted in high losses for the Bulgarian economy. Bulgaria's direct trade routes to Western European markets have also been cut off. The Bulgarian government estimates that direct and indirect trade losses due to the sanctions now approach $6 billion. Graduating Bulgaria would signal to Sofia that the West recognizes Bulgaria's sacrifice and also wants to expand relations in a context other than Serbia sanctions enforcement.

Generalized System of Preferences

This hearing is particularly timely because the GSP program expired just yesterday. As of today, U.S. importers will have to begin paying duty on imported GSP products, many of which have been duty-free under the GSP program for 20 years. In fact, this is the third time in as many years that the GSP program has lapsed. In 1993 and again in 1994, a two-month lapse was followed by a short-term extension.

Clearly, this situation creates uncertainty and undermines the critical objectives of the GSP program. In particular, I would like to highlight the burden that is placed on small businesses in the United States that are, in many cases, unprepared to pay the import duty on their products for one or two months. Let me, therefore, urge this committee to consider renewing the program for a multi-year period. The Administration is prepared to work with you, Mr. Chairman, in an effort to see that this is achieved.

Now, let me briefly describe the GSP program and explain why the Administration strongly supports its longer-term reauthorization.

The GSP program grants duty-free treatment to various products that are imported from developing countries. In 1994, there were $18 billion in duty-free imports under the GSP program, accounting for 18 percent of total U.S. imports from GSP beneficiary countries and 3 percent of total U.S. imports from all countries. Some of the leading product categories are consumer electronics, computers and auto parts. In 1994, Malaysia was the single largest beneficiary country, accounting for $5 billion, or 28 percent, of the total. Other leading GSP beneficiaries include Thailand, Brazil, the Philippines, Indonesia, India, Argentina, Venezuela, Russia, Chile and Turkey.

The GSP program has three broad goals:

(1) to promote economic development through increased trade, rather than foreign aid;

(2) to help maintain U.S. competitiveness by lowering costs for U.S. business, and lowering prices for American consumers; and

(3) to promote our trade policy objectives by encouraging GSP beneficiaries to comply more fully with international rules, including on intellectual property rights protection and internationally recognized worker rights.

By granting favorable access to our market, the GSP program reflects the U.S. commitment to an open world trading system. However, the Administration believes that continued support for unilateral tariff concessions will depend, in part, on the extent to which GSP beneficiary countries are assuming responsibility for the world trading system by adhering fully and promptly to the Uruguay Round and other trade agreements.

This is particularly important for the most advanced GSP beneficiary countries. The Administration believes that such beneficiaries must participate more fully in the framework of rights and obligations of the multilateral trading system. In administering the GSP program, we will continue to consider the extent to which the benefits of the GSP program are accruing to these countries and will monitor their advancement in economic development and trade competitiveness.

In short, the Administration strongly supports the GSP program because it lowers costs for U.S. business and lowers prices for U.S. consumers. By eliminating import duties--that is, cutting "taxes"-- on raw materials, parts and components that are used to manufacture goods in the united states, the GSP program enhances the global competitiveness of many U.S. companies and their workers. By encouraging trade and development in beneficiary countries, including some of the fastest-growing economies in the world, the GSP program creates growing markets for American exports and American workers.

Let me now briefly describe our efforts to have the GSP program reauthorized. In 1994, the Administration sought to have the GSP program reauthorized as part of the Uruguay Round implementing bill. The Administration's proposal, which was modified and approved by the House Ways and Means Committee before being dropped in conference, would have made some modest reforms to the GSP program.

Earlier this year, the Chairman and Ranking Member of the Ways and Means Trade Subcommittee introduced a bill to renew the GSP program (H.R. 1654). That bill, which includes the principal reforms that were included in the Administration's proposal last year, would make a number of desirable changes in the GSP program. The Administration has carefully reviewed the three main provisions of the House bill: It will reduce the per capita GNP limit in the GSP statute from about $11,800 to about $8,600; reduce the so-called Competitive Need Limit (CNL) from about $114 million to $75 million, but will retain the authority to waive the CNLs under certain circumstances; and authorize additional GSP benefits fro the least-developed developing countries. We support it fully.

In conclusion, the Administration supports the GSP program and we are prepared to work with you, Mr. Chairman, and the Members of this committee to secure the longer-term renewal of the

GSP program.

USTR Authorization

As members of the Committee know, the Office of the United States Trade Representative has an enormous mission: to develop and coordinate U.S. international trade, commodity, and trade-related direct investment policy, to articulate trade policy for the Administration, and to lead negotiations with other countries on these matters.

This is a mission that USTR tackles with unquestioned expertise. The agency gets the job done with a small, but highly motivated, professional staff that is dedicated to promoting U.S. economic interests. The 166 FTEs proposed for FY 1996 is complemented by personnel support from other Federal agencies and by students and interns. Together, these staff have helped produce remarkable results, and will continue to be challenged in carrying out the tasks that lie ahead.

Two-Year Authorization

We are proposing a two-year extension of USTR's authorization of appropriations, for fiscal years 1996 and 1997. The Administration's request recommends an FY 1996 authorization level of $20,949,000, the same as the level originally appropriated for FY 1995 and the amount requested in the President's Budget for FY 1996. The authorization request for FY 1997 is such sums as may be necessary. For each fiscal year, the Representation fund authority would remain at $98,000, and the amount available to be carried over from one fiscal year to the next would remain at $2,500,000.

In short, Mr. Chairman, the Administration is recommending straightforward extensions of existing authorizations.

Recent Accomplishments

The Administration and the Congress can take pride in what has been accomplished on trade since President Clinton took office thirty months ago. The Clinton Administration, in tandem with a bipartisan coalition in Congress, has achieved the most important period in the history of trade initiatives. Through July, USTR has completed over 150 trade agreements, which is slightly more than one agreement a week, every week, since January 1993.

These agreements include the North American Free Trade Agreement, and the Uruguay Round -- the broadest trade agreement in history. We have set the stage for trade expansion in Asia through the Asia Pacific Economic Cooperation forum with the Bogor Declaration; and announced creation of a Free Trade Area of the Americas by 2005 at the historic Summit of the Americas.

We have concluded seventeen agreements with Japan to open that key market. In just the last month, we concluded a historic accord with Japan on autos and auto parts which an industry leader described as "the most significant trade agreement with Japan ever." Just last week we reached an agreement to open civil aviation routes to U.S. companies such as FedEx.

In addition, we concluded the largest procurement agreement in history with the European Union, an agreement covering 80 percent of global shipbuilding, and scores of other bilateral trade agreements such as thirteen agreements covering intellectual property rights and fourteen bilateral investment treaties. In March, we signed a ground breaking agreement to protect American intellectual property rights in China.

These agreements have already begun to promote growth and create jobs in this country. U.S. exports have grown by over 17 percent in the first five months of 1995 -- a rate over three times that of export growth when President Clinton was sworn into office.

Full Agenda for the Future

Our work to tap the potential of ever expanding world trade has just begun. Over the next decade, we confront -- quite literally -- a world of opportunities.

A major priority for this Administration is to continue to set the stage for future trade expansion with Asia and Latin America. Traditional markets like Japan and Europe are critical and will remain critical to America's export base. But the fastest growing economies in the world are in Asia and Latin America. In the next 15 years, we estimate annual U.S. exports to Europe will increase above current levels by $33 billion, and to Japan by $36 billion. In the same period, our annual exports to the rest of Asia will increase an incredible $154 billion, and to Latin America by $144 billion.

Asia. A major priority of this Administration is to build on the Bogor Declaration, the commitment by the Asia Pacific nations to eliminate barriers to trade by 2010 or 2020, depending on each country's level of development. The Asia Pacific region is critical to future U.S. prospects for trade expansion. It has the fastest growth in the world -- three times the rate of the established industrial countries. Over the past three decades, Asia's share of the world's GDP has grown from eight percent to more than 25 percent. By the year 2000, the East Asian economies will form the largest market in the world, surpassing Western Europe and North America.

This growth has led to an explosion of trade with the United States. East Asia is the number one export market for U.S. products. US merchandise exports to Asia have grown nearly 60 percent over the last five years. U.S. trans-Pacific trade was 50 percent more than our trans-Atlantic trade in 1992. Our exports to Asia account for over two million jobs in the United States. One projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to $248 billion.

We are now in the process of meeting with our APEC partners to identify the means by which we can achieve free and open trade in the Asia-Pacific region. This fall, the APEC Leaders will meet in Osaka to review progress made toward a blueprint and discuss future steps toward achieving open and free trade and investment throughout the region.

Latin America. An issue of great importance for this administration is to build on the commitments of the Summit of the Americas and expand trade in this hemisphere. The second fastest growing economic region in the world is Latin America. By 2010 we estimate that the United States will send more U.S. goods and provide more services to Latin America than to Europe and Japan combined.

Latin America and the Caribbean is now the second fastest growing region in the world. U.S. exports to this region exploded from nearly $31 billion in 1985 to nearly $93 billion in 1994, creating over 600,000 new U.S. jobs. Latin Americans spend 40 cents of every trade dollar on U.S. goods. We supply over 70 percent of some Latin countries' imports and often three to four times as much as a country's next largest trading partner.

We have an historic opportunity now to take major steps toward hemispheric prosperity -- and expand U.S. economic opportunities. Strengthening the economic ties among the nations of the Americas will cement recent economic reforms, foster growth, build the middle classes and strengthen democracy, while creating jobs in this country. This is not time to sit back and hope for the best, or lose sight of the need to act on our hemispheric objectives.

The Summit of the Americas was a watershed in hemispheric relations. It placed the United States squarely in the center of the hemisphere's economic integration and renewed our leadership position. Our economic fortunes, and our leadership in this hemisphere, however, will be determined in large part by the success we have in implementing the Summit trade and integration action plan. This Administration is determined to move forward to begin building the Free Trade Area of the Americas (FTAA). The June 1995 Denver Trade Ministerial adopted a declaration establishing seven Working Groups, with four more Working Groups to follow in March 1996. These Groups represent a real commitment to achieve the goal of the FTAA.

The negotiation of Chile's accession to the NAFTA is an important first step in this endeavor. It is important for the United States to forge a partnership with the leader of economic reform in Latin America and its most dynamic economy over the last 10 years. Chile is one of our fastest growing export markets in Latin America. U.S. exports have grown from $682 million in 1985 to $2.8 billion in 1994 -- quadrupling.

We are extremely pleased with the progress we are making in each of these initiatives, and APEC and FTAA will remain high USTR priorities into the future.

World Trade Organization. After eight years of negotiations, the Uruguay Round, creating the World Trade Organization, was completed last year and approved by a bipartisan vote in Congress last year. But our work is just beginning. We must implement the Uruguay Round, and ensure that WTO works as conceived, with all countries living up to their commitments.

The Uruguay Round is a single undertaking. Before the Uruguay Round, between 27 to 45 countries were signatories to the five codes in the General Agreement on Tariffs and Trade. Countries could pick and choose which agreements to sign. Non-signatories were allowed to enjoy he benefits of more open markets without corresponding responsibilities. Under the Uruguay Round, we insisted that all 123 countries that signed the agreement, signed all five codes. Now, everyone will, in a comparatively short time, play by the same rules. This includes the developing countries, where potential growth is so great, who are now all bound to international trade rules for the first time.

It is important that we make sure that these new nations, and all signatory nations under the Uruguay Round, adhere to the rules of international trade established by that agreement.

In addition, we must move forward to complete extended negotiations in areas in several areas of importance to the U.S. economy. We now have talks underway in the WTO to open markets around the world in basic telecommunications services. We also expect to negotiate a further lowering of trade barriers in the agriculture sector, where the United States leads the world; in investment; and to establish new, universally applicable rules of origin to streamline customs procedures world-wide.

At the same time we are moving forward to establish consensus on ways to address several new issues. These policies include, but are not limited to, a nation's actions -- or inactions -- regarding anticompetitive business practices; lack of regulatory transparency; corrupt practices such as bribery; environmental protection; and adherence to internationally recognized labor standards.

Other priorities. There are several other priorities USTR will face in the coming months. We continue to negotiate with China on market access. We will negotiate with Japan on deregulation of their economy and competition policy. We will continue to implement the NAFTA. We will continue to negotiate bilateral investment treaties and agreements ensuring protection of U.S. intellectual property rights. Most importantly, we will monitor and enforce the trade agreements we have reached, both in this Administration and those from previous Administrations.

Our trade agreements are mere pieces of paper unless we pursue their dictates in a vigorous manner. Enforcement of both international trade agreements and U.S. trade laws will also remain high on USTR's work agenda in the next two years. We will use every enforcement mechanism available to us to make sure that others live up to trade agreements. These enforcement mechanisms include: Section 301, our principal tool for addressing foreign unfair trade practices; Special 301 used for enforcing violations of intellectual property agreements; the Antidumping and Countervailing Duty laws, which we will use under both NAFTA and the Uruguay Round; Title VII for enforcement of procurement agreements; and Section 1377 of the Omnibus Trade and Competitiveness of 1988 for enforcement of telecommunications agreements.

Mr. Chairman, you can see that the work that lies ahead through fiscal year 1997 will be every bit as important as what has been accomplished in the last two- and-one-half years. We have a diverse array of challenges facing us, but our goal is straightforward: We will monitor and enforce the agreements we have reached; we will negotiate new multilateral, regional and bilateral agreements; and we will lay the groundwork for future opportunities to open markets, expand trade and create jobs here at home.

FY 1996 Budget Request

The FY 1996 budget request for USTR will support USTR's work agenda for that year. This request represents the right resource level to allow USTR to carry out the ambitious work agenda that lies ahead, and to ensure that we do our small part in the President's broader effort to reduce the size of Government and to make it work more efficiently.

Our request for FY 1996 provides the same funding level as FY 1995, and reduces employment by 2 FTEs. USTR will need to absorb nearly $500,000 during FY 1996 from the rising cost of doing business. We plan to achieve budgetary savings by phasing out the Canadian Free Trade Agreement Dispute Resolution Expenses, by saving on office space expenses, by using technology wisely and by reducing printing and another administrative costs. I am confident that we can sustain the current level of operations at the President's budget request level.

Thank you again, Mr. Chairman, for the opportunity to appear today. I will be happy to answer any questions you may have.

Speeches

Remarks of Ambassador Charlene Barshefsky
To the National Committee on U.S.-China Relations
Waldorf Astoria, September 18, 1995

[Thank you's] It's an honor to be here tonight.

I am a trade negotiator, so it won't surprise you that I want to focus my remarks on U.S.-China trade. U.S.-China relations are always complex, and often contentious. U.S.-China trade relations are always complex *and* always contentious. I want to focus tonight not the trade found in the financial pages and economic text books. Rather, I want to talk about trade as an emerging basis for the conduct of international affairs, as the primary currency through which nations will relate to each in the post-Cold War world.

Two and a half years ago, President Clinton gave one of the most important speeches of his presidency at the American University. It was a speech about trade. In it, he argued that the United States faced the "third great moment of decision of the 20th century." The decision: whether to open the nation to the challenges and opportunities of a global economy -- or close the nation behind walls of protectionist barriers.

Great Moment of Decision

After World War I, the United Stated turned inward. But hiding behind a wall of trade barriers didn't make our problems better -- it made them worse. After World War II, America pursued a different course. In the post-war era, the United States led the world in the creation of the institutions that are the foundation of the international economy to this day -- the GATT (known today as the WTO), the World Bank, the IMF. The decision to open ourselves to international competition has created sustained prosperity for three generations of Americans -- and for the world. American leadership in trade has contributed to democratic reform, increased world stability, and solidified a rules-based system under which American interests have flourished. We are moving in the right direction, but the final outcome of America's third great moment of decision remains unknown. The benefits of an open trading system remain murky to much of our own population, and isolationist sentiment has increased. One only need review the continuing NAFTA debate to appreciate this point.

Today, China faces its own great moment of decision. It's always dangerous analogize between systems as diverse as those of the United States and China. But China, too, faces a basic choice between openness and integration on the one hand, and protection and isolation on the other. And as in the United States, this is not a historically unique situation for China. For more than a hundred and fifty years, China has struggled with the inherent difficulties of adaptation to a broader, international world.

Why Trade Matters

It is in the context of this great moment of decision that I believe U.S.-China trade relations have become so important. For the Chinese government, and for our government, trade may well be the most stable and productive part of our bilateral relationship.

From China's point of view, the benefits of trade with the United States are enormous. More than $40 billion in exports to the United States and more than $10 billion in direct investment have produced huge revenues for the modernizing regions along China's coast, created countless jobs, brought the transfer of many technologies.

For the United States, the future of such vital industries as telecommunications, aviation, the service trades and professions, our manufacturing industries -- all depend on access to China -- a market that by 2010 may be the largest in the world. Already, over 150,000 American jobs depend on exports to China.

At its most basic level, trade is about the exchange of goods and services. But I reject absolutely the notion that trade is nothing more than crass mercantilism.

The common denominator of the United States' trade agenda -- like other aspects of our China policy -- is encouraging China to adhere to international norms. Each of our current trade agreements with China is rooted solidly in international principles: transparency of laws and procedures, access to the judicial system, limitation of government power. Each of our ongoing negotiations -- on services, market access for goods, and of course, on China's WTO accession

-- is grounded in specific, international norms and conventions.

When Americans trade with Chinese, we exchange far more than goods and dollars. Let me give you an example. Last March, the United States and China concluded a major agreement on the protection of intellectual property rights in China. Make no mistake, our economic stake in this agreement was clear. Some of our most competitive industries -- software, publishing, pharmaceuticals, entertainment -- were losing a billion dollars a year. But the agreement we reached with China did more than simply create a more advantageous environment for U.S. business. The intellectual property agreement with China was about access for and to America's *idea industries* -- books, films, music.

And the agreement had significance beyond the products it covered. Imbedded in the agreement are seeds of important American ideals. One part of the agreement requires China to publish its laws and even to provide guidebooks to the Chinese legal system -- in English and Chinese. Why? So that aggrieved parties can address their problems through the legal system. Our Justice Department, FBI and Customs Agency provide technical assistance to assist China in its anti-piracy enforcement. Enforcement activities are to be transparent, so that interested parties can better monitor the activities of the Chinese government.

Ideas like these all contribute toward the development of a broader concept in China -- the rule of law. The notion that everyone -- including the government -- is subject to rules and limitations; the notion that a nation must protect and enforce the rights of its citizens. This is a long, evolutionary process. You won't wake up to a newspaper headline proclaiming it's happened. But that doesn't mean it's not changing China.

Conclusion

This generation of Americans has an opportunity -- a responsibility -- to do something that the Cold War prevented earlier generations of Americans from accomplishing. For the forty years following World War II, our basic international alliances were based, by necessity -- on fear.

Today the Cold War is over, and we have an opportunity to create a new medium for our international relations. International trade affords us an the chance to base our relations on an ideal of mutual prosperity -- with implications far beyond mere dollars and cents.

Nowhere is there more potential for this ideal than in the relationship between the United States and China. As China reforms its economy, and contemplates a system of open markets, we have a historic opportunity to help China move in the right direction -- in the direction of greater openness, greater integration into the world economy. As China moves in this direction, we would expect that the interlocking elements of China's system will become more open, more pluralistic -- that the idea of the rule of law will become a living reality.

We're not there yet. As a negotiator, I can tell you first hand that my Chinese counterparts are tough, smart, and cautious. For our part, we have taken a hard-nosed, aggressive, targeted approach. 2 We know what we want and we go after it. So do they.

Competition is alive and well. As Americans, we know we will prosper in this environment. For two centuries, Yankee traders have succeeded in the contest of commerce. The Chinese have been successful traders for three thousand years. But the great miracle of trade -- the great potential of this new era -- is that we're not engaged in a zero-sum game. Like any nation, we will keep our 1 own interests paramount. But in doing so, we have a great opportunity to promote a larger good.

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Ambassador Barshefsky's Address

to the National Committee on U.S.-China Relations

With the end of the Cold War, trade issues have emerged as a vital strategic issue, the resolution of which has an enormously important, long-term impact on the health and strength of our country and our friends and allies throughout the world. Clearly, that is the case for our chief trading partners, and the Clinton Administration's emphasis on trade issues with Japan, China and other Asian countries is a clear indication of the priority that trade has received.

For the Chinese government, and for our government, trade is not only of vital strategic importance, it is the most stable and productive part of our bilateral relationship. From China's point of view, the benefits of trade with the United States are enormous. More than $40 billion in exports to the United States and more than $10 billion in direct investment has produced huge revenues for the modernizing regions along China's cost, created countless jobs, brought the transfer of many technologies, and bound China much closer to the United States than it has ever been in the past. For our part, the future of such vital U.S. industries as telecommunications, all of the services trades and professions, and many manufacturing industries will be deeply affected by our ability to invest and trade in China -- and by extension throughout the rest of Asia, as China develops into one of the region's foremost powers in the coming years.

add

Our approach with China on trade issues has been fundamental, clear, and consistent. In addition to the purely economic benefits of good trade relations, we want to see China join the international trading community, to follow the international norms and disciplines of trade, and, more important, to adhere to the rule of law. We seek from China adherence to a rules-based system of trade. As China proceeds through its current transformation from a rigid, socialist economic system to a form of market economy, we want China to pursue open markets, free and fair trade, and over time, provide reciprocal benefits to the United

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States and our trading partners.

As China reforms its economy, and contemplates a system of open markets, we have a unique, perhaps historic opportunity, to assist China to move in the right direction -- in the direction of greater openness, greater integration into the world's economy, and into a healthy and transparent trade regime. Of course, as China moves in this direction, and adopts the notion of the rule of law, we expect that all of the other interlocking parts of China's system will become more open, pluralistic in nature, and more efficient.

In each of our trade negotiations with China, we have based our discussions -- and the agreements that we have reached -- on international principles. The 1992 market access agreement, for example, committed China to a radical reform of its import regime across dozens of industrial sectors and hundreds of products. In that Agreement, we asked China simply to observe the principles of the GATT -- including transparency, the elimination of non-tariff import restrictions, and the use of standards as barriers to imports. And, in the 1992 intellectual property rights accord, China subscribed to the principles of several international conventions, including the Berne Convention on Copyrights and the Geneva Convention on Sound Recordings, enacted much improved laws and regulations on copyrights, patents and trade secrets, and turned its IPR legal regime into a modern entity.

Negotiating these agreements -- especially the 1995 IPR enforcement Agreement -- has been a challenge. Although past negotiations with the Chinese have been useful guides, our negotiations have really broken new ground. We have taken a straight forward, interest-based approach to our negotiations. We do not treat China as though it is "special" but we do treat our Chinese counterparts with the genuine respect that they deserve. We understand that our counterparts live in a world in which every day is a negotiation. All of them have survived the Cultural Revolution -- some much more than that. They are tough, smart, strong, and highly pragmatic. For our part, we have taken a very hard nosed, aggressive, targeted approach. We know what we want and we go after it. So do they.

In our negotiations, we are pursuing our national interest. So are the Chinese. It is only natural that negotiations become contentious. Without contention, that is, vigorous pursuit of each side's national interest, there is no negotiation. Yet, no matter how contentious each of our negotiations has seemed, they have all concluded successfully -- for both sides. Behind the contention, we have also learned to trust, and to work together, with our Chinese trading partners. Beneath the din of threats of retaliation and counter-retaliation in the recent IPR negotiation, for example, we spent months of hard work behind the scenes with Chinese officials to produce the agreement that resulted.

I began by stating that trade has become a strategic issue. If we want to fulfill our strategic goals with China, and see China emerge as a powerful, prosperous -- and productive and cooperative -- partner, we

Remarks of

The Honorable Charlene Barshefsky

Deputy United States Trade Representative

before the U.S.-Vietnam Forum

October 5, 1995

Introduction

Not so long ago, it hardly seemed possible that the U.S. Trade Representative's office would be focusing much attention on Vietnam. Not only did our relations with Vietnam prevent this, but Vietnam hardly seemed a place that held much promise from a trading and investment perspective. Needless to say, in a short period, much has changed.

Early last year President Clinton began a course which has opened a new chapter in the United States relationship with Vietnam. In February 1994, in light of progress and cooperation in accounting for American POW/MIAs, the President, with bipartisan support, lifted the trade embargo with Vietnam. In the not quite two years since that action, we have seen trade and economic relations grow from essentially zero to one where literally hundreds of large and small U.S. companies are exploring trade and investment in Vietnam. And this was even before the President's announcement in July to normalize diplomatic relations with Vietnam -- again in light of continuing cooperation on POW/MIA issues -- and to initiate the process of economic normalization.

Today, as we begin the process of economic normalization, I would like to put that process in the context of our broader trade policy, and begin to outline our objectives, particularly in the negotiation of a comprehensive bilateral trade agreement..

U.S. Policy in the Asia Pacific and Vietnam's Place

This Administration has given unprecedented emphasis on developing U.S. commercial ties with the Asia Pacific. The reasons are clear: not only is the majority of our trade already across the Pacific, but the region is the most dynamic area in the world economy. This is especially true of Southeast Asia. ASEAN, of which Vietnam just became a member, is our fourth largest trading partner, and that two way trade with ASEAN countries is growing by nearly 20% a year.

Not surprisingly, there is a large and growing interest by U.S. companies in doing business in Southeast Asia, and in penetrating these increasingly important markets. As a result, the Administration's policy has been to reorient U.S. trade policy on this dynamic region, and by doing so, expand and improve the opportunities for U.S. business in the region. We believe this is not only good for us, but good for the economic expansion of the entire Pacific Basin, and by extension the world economy.

We have pursued this policy in a number of ways: by concluding a strong agreement in the Uruguay Round, which went into force this year, by placing greater emphasis on our bilateral trade relations with countries in the region, and in APEC. [APEC sub point. President's emphasis, push to produce real results, etc.]

In short, Vietnam falls squarely in a region of the world which is at the heart of our overall trade policy. This alone makes the expansion and improvement of trade relations with Vietnam important to us.

But beyond that, there are a number of considerations unique to Vietnam itself which make it important. First, as a result of its economic reform process, Vietnam, like its neighbors, has begun to reap the benefits of dynamic economic growth. Since it accelerated reform in 1989, Vietnam's economy has grown at an average annual rate of 7 1/2 percent. This is one of the happy changes I referred to in the opening of my remarks. U.S. firms thus increasingly see Vietnam as a place of great opportunity. Second, Vietnam's joining of ASEAN, and its participation in the ASEAN free trade area can make it an important gateway to the region as a whole. We strongly support Vietnam's efforts to integrate into the ASEAN community, and encourage the process to move as quickly as possible.

Moreover, from Vietnam's perspective, I would expect that expansion of economic relations with the United States would be similarly important. First, of course, there is our $6 trillion market, the largest, most open and most affluent in the world. The record is clear: virtually no country in Asia has prospered without capitalizing on its access to the U.S. market. Moreover, the opportunity to sell to the U.S. market will be key for a country like Vietnam to have access to international capital markets. Access to those capital markets in turn is necessary not only for the expansion of trade and investment, but crucial for financing Vietnam's development plans -- in areas such as infrastructure and human resource development.

But the fact is, that while interest on both sides is growing, U.S. trade and investment in Vietnam is still quite small. The United States, the largest economy in the world, and a principal trading partner in Southeast Asia is only the eighth largest foreign investor in Vietnam, and accounts for only 5 percent of total foreign direct investment there. Our trade flows, which of course were zero two years ago, are relatively small as well. Last year, U.S. exports to Vietnam were $172 million, and imports a mere $50 million. In addition, that trade is still very narrow -- only few commodities are traded.

These facts highlight the need for a comprehensive trade agreement -- one that is not only legally necessary for us to grant MFN status and thus allow Vietnam full access to our markets -- but one that substantially lowers impediments to trade and investment in Vietnam. There is great interest in both countries to expand and deepen our trading relationship; this interest cannot live up to its full potential without a comprehensive trade agreement.

U.S. Objective for a Bilateral Trade Agreement

Our overall objective in negotiating a comprehensive trade agreement with Vietnam is to expand our trade and investment opportunities with Vietnam to the greatest extent possible, and in such a way that accelerates Vietnam's integration into the Asia-Pacific region and the multilateral trading system. These goals go hand-in-hand. The reality of the global marketplace is that we can not effectively expand our bilateral ties with Vietnam unless it is firmly tied to the larger world economy, and abides by World Trade Organization rules. It must be tied to the world economy because that economy is increasingly an integrated whole. It must abide by WTO rules because WTO principles such as openness, transparency, national treatment and non-discrimination are the basis upon which trade is conducted and has flourished in the world for almost half a century.

The trade agreement, by allowing us to grant MFN to Vietnam -- once it is approved by Congress -- will create huge new opportunities for Vietnam. It should also facilitate Vietnam's entry into the World Trade Organization. A comprehensive agreement that lowers impediments to trade in Vietnam and brings Vietnam closer to international norms will in turn create real new opportunites for U.S. firms in Vietnam. And the more clearly such an agreement creates new opportunities for American firms and citizens, the more persuasive will be the case for Congressional approval.

What does this mean for Vietnam? Clearly it means that Vietnam will need to continue boldly its path of economic reform and liberalization. Such a reform and liberalization is in Vietnam's own interest; it's economic success since the process has begun demonstrates this. The economic record of its immediate neighbors, from Singapore to Thailand to Indonesia, shows that bold and comprehensive reform will be further rewarded.

In addition of course, such reform will be necessary as a formal matter for Vietnam's entry into the World Trade Organization. The same WTO disciplines that are now being implemented by Vietnam's ASEAN colleagues, as well as the United States of course, will need to apply to Vietnam. Again, however, such steps are clearly in Vietnam's own interest, which Vietnam explicitly recognized earlier this year when it formally applied for WTO membership.

Finally, economic liberalization will be necessary if Vietnam is to participate in regional groupings such as ASEAN and APEC. In sum, for economic relations with Vietnam to be normalized Vietnam will need to move toward acceptance of international trading rules and standards.

We clearly have a lot of work to do in negotiating this bilateral trade agreement. But a successful comprehensive agreement -- one that expands market opportunities in both countries -- is so self-evidently in both countries interests, that I am sure that we can do the hard work and get the job done. We look forward to beginning a long and productive era of trade relations.

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V. Emerging U.S. Economic Strategy in Vietnam

After a twenty year pause, the United States and Vietnam clearly have a lot to offer each other. As we make a fresh start on our economic and political relations, how should we structure our efforts in order to take maximum advantage of our opportunities?

The Vietnamese Government has understandibly been very interested in U.S. economic policy toward Vietnam. We began exchanging ideas during Secretary Christopher's visit, and will have more discussions this week with Foreign Minister Cam and Trade Minister Triet. We expect to hold our first intensive, experts-level discussions on economic issues in Hanoi in November.

There are three basic elements to our emerging economic strategy with Vietnam.

First, as Secretary Christopher stated in Hanoi, we will shortly begin negotiations with Vietnam on a comprehensive bilateral trade agreement. Negotiating a trade agreement is critically important for several reasons.

In the broadest sense, a trade agreement will lay the basis for U.S.-Vietnam economic relations. Once approved by Congress, an agreement would pave the way for MFN access to our $6 trillion market. In exchange for this access, we will insist that Vietnam open its markets to trade and investment in accordance with WTO principles.

A comprehensive trade agreement will accelerate Vietnam's integration into the world market. As I mentioned before, Vietnam's ASEAN neighbors are among the most dynamic economies in the world, with annual economic growth averaging nearly [six percent over the past five years]. But Vietnam has so far been unable to keep pace with trade liberalization in ASEAN, largely because of its web of outmoded trade and investment restrictions. The changes that Vietnam makes during negotiations on a trade agreement will pave the way for its full participation in ASEAN's economic success.

Vietnam is also seeking to join the World Trade Organization, and a working party on Vietnam's accession was formed in April. As we have learned in the case of China, protracted negotiations over accession are to no one's liking--not the WTO's, not those of prospective traders and investors, and certainly not those of the acceeding country. All of the changes we will request from Vietnam during trade agreement negotiations will be consistent with WTO principles, and will accordingly speed its accession to the organization.

It's important from the outset to understand that an agreement will not come quickly or easily. The U.S. and Vietnam have a lot to learn about each other's trade regimes and economic systems. We will begin the education process in November in Hanoi. The negotiations that follow will surely be tough. But the overriding importance of normalizing trade relations dictate that we get started now.

The <u>second</u> element of our economic strategy with Vietnam is promotion of U.S. exports. From the outset of the Clinton Administration, expanding U.S. exports has been a key part of our international economic strategy. Vietnam's domestic market of 75 million consumers as well as its huge infrastructure development plans translate into exciting opportunities for U.S. exporters.

We've already taken a number of steps to promote U.S. exports in Vietnam. In August, the Department of Commerce designated Vietnam as part of its ASEAN "Big Emerging Market," and in September opened a commercial section in our Embassy in Hanoi. Commerce Under Secretary Garten will travel to Vietnam this later this fall to formally open the section and offer support for U.S. firms bidding on projects.

[Just last week, Agriculture Deputy Secretary Rominger made a successful visit to Vietnam to promote the sale of U.S. agricultural products and technology.] And we are beginning planning for a visit by Secretary of Transportation Pena to Vietnam in November to explore opportunities for U.S.

transportation-related companies. We believe all of these visits will help build commercial links between the U.S. and Vietnam.

The third element in our economic strategy is the steady expansion of programs to support U.S. business interested in Vietnam. U.S. financing and insurance programs such as OPIC, Ex-Im Bank, TDA, and CCC play key roles in helping U.S. firms compete with their foreign rivals, and expanding U.S. business opportunities and exports.

In his statement announcing the normalization of diplomatic relations, President Clinton specified that the U.S. would "implement the appropriate United States government programs to develop trade with Vietnam consistent with U.S. law."

Since Secretary Christopher returned from Vietnam, we have conducted an exhaustive review of all U.S. economic programs and the more than two dozen legal and policy issues that govern their operation. Some of these issues are difficult, such as Vietnam's emigration record under Jackson-Vanik, worker rights, and Vietnam's bilateral Paris Club arrears.

It's clear from our review that we will be able to implement some programs soon, but that others may require bilateral consultations, progress by Vietnam on specific issues, and perhaps policy changes. We will of course put a priority on those programs which most directly benefit U.S. business.

We will begin explaining the legal and policy provisions governing the various U.S. program to Foreign Minister Cam and Trade Minister Triet this week, and we will shortly begin consultations with Congress on how we intend to proceed. Our goal is to move steadily ahead with programs to support U.S. business, consistent with the President's guidance.

VI. The Challenge Ahead

The challenges facing Vietnam are great. Despite its recent strong economic performance, integration into the world economy and the dismantling of Vietnam's state enterprise sector will entail adjustment costs. These tasks will require political will, and will depend on the opening of Vietnam's political process and the steady development of the rule of law.
By all accounts, Vietnam's people are dedicated, hard-working, and driven by a desire to succeed. These qualities will be often needed in the years ahead.

Secretary Christopher said recently that Americans need to think of Vietnam as a country, not a war. The U.S. stands ready to begin the rebuilding of our economic and political relations. This process is the final chapter of an era that began in conflict, but is ending in peace, growth, and prosperity.

Thank you very much.

Trade in a New Era:
Opportunities and Obstacles
Statement of Ambassador Charlene Barshefsky
November 13, 1995
Hong Kong

It is difficult to keep pace with the history in which we live. In the span of less than a decade, we have watched the fall of the Soviet empire, the reunification of Germany, the end of apartheid in South Africa, and the hopeful emergence of peace -- however tenuous -- in the Middle East.

We take for granted the arrival of the much-vaunted "post-Cold War" era. And yet we struggle to articulate the thread that will weave this new era and nations together.

In an ironic way, the Cold War made things easy. Forty-four years ago, General Douglas MacArthur told the U.S. Congress that "The threat of communism is a global one . . . We cannot appease or otherwise surrender to communism in Asia without undermining our efforts to halt its advance in Europe." In Asia and elsewhere, during the Cold War viewed security concerns as overriding. So it was that the United States and its allies in 1954 established SEATO -- the Southeast Asia Treaty Organization -- to defend the South Pacific from the spread of communism.

Fear is a powerful motivator. And like most alliances after World War II -- SEATO was founded on the concept of mutual fear, animated by the threat of mutual destruction.

Traditional security concerns will continue to shape American foreign policy. We see constant reminders that the world remains a

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Traditional security concerns will continue to shape American foreign policy. We see constant reminders that the world remains a dangerous place, and no obligation is more important than the maintenance of international peace and security.

But the end of the Cold War has broadened the concept of national security. Trade and economic development have emerged as fundamental strategic issues. The strength and prosperity of the United States, and the nations of East Asia, depend on our joint ability to maintain mutually beneficial trade relationships.

With this broader concept of security comes a critical opportunity -- an opportunity to cast a new system of international relations, a system founded not on mutual fear -- but on mutual prospects; a system animated not by the threat of mutual destruction -- but by the potential for mutual prosperity. International trade is at the heart of this new system.

While the opportunity is clear, so too are the obstacles. Mutual prosperity can occur only in a system where all nations accept mutual obligations and reciprocal responsibilities.

I want to focus my remarks on the opportunities and obstacles for trade in the post Cold War era -- and their implication for American policy. Having just returned from China, I want to talk in particular about U.S. trade relations with China.

The Opportunities

I don't need to lecture this audience about the potential of the Asian market for Americans. The numbers are stunning. By the end of this century, economists predict that one half of world trade will take place in the Asia-Pacific region.

It is fashionable to talk about Asia's potential. But let us also keep in mind the ongoing opportunities that the United States has provided for Asia. First and foremost, America's security presence in Asia has fostered -- for half a century -- a stable environment for growth and development.

Economically, open access to the American market has buttressed this foundation for Asian development. Japan has risen from the ruin of World War II to the position of economic superpower. Hong Kong, South Korea, Taiwan and Singapore have grown explosively. Whether they are "tigers" or "dragons" -- the nickname suggests the power of these newly industrialized economies.

Other Asian countries are close behind -- Malaysia, Indonesia, Thailand, the Philippines -- all have benefitted from the American security presence and continuing access to the American market. In the past ten years alone, exports to the U.S. from Asian Pacific countries, not including Japan, have tripled. The American economy, larger than all of the Asian economies combined, imports more goods from Asia than from any other region of the world. Clearly, both Asia and the United States have a great deal to gain from the continued and careful cultivation of our relations.

The Obstacles

Despite the obvious potential of this relationship, our mutual ability to reap the benefits remains far from inevitable. From both ends of the U.S. political spectrum we hear calls for isolation and protectionism. We ignore this development at our peril. Calls for isolation and protectionism are like radar -- they only register when they strike something solid. We must ask ourselves why these calls find resonance.

The answer has important implications for American trade policy, and I want to speak frankly about it today. In many aspects of our trade relationship with Asia, Americans rightly perceive imbalance.

Building -- and maintaining -- an American constituency for an internationalist trade policy depends in no small part on demonstrating that the benefits of trade are mutual -- and that the obligations in our global trade relations are reciprocal.

When it works, trade is an obvious example of a system founded on mutual benefit. Unfortunately, while Asia is a region of enormous potential, it is also the region where Americans face the greatest obstacles to trade.

The Example of China

Nowhere are the opportunities and obstacles in this new era of trade relations more apparent than in the U.S. relationship with China. China is the world's fastest growing major economy, with real growth of almost 12 percent last year, and average growth rates of greater than 7% for each of the past fourteen years. Already possessing the world's largest population, by early in the next century -- China may have the world's largest economy.

It is an understatement to say that the U.S.-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, and are critical when basic international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection. And increasingly, trade is at the center stage of our relationship.

The opportunities in this relationship run in both directions -- and for China, the potential of the U.S. market is matched by a tangible reality. Last year, nearly 40% of China's exports went to the United States, including tens of billions of dollars worth of electronic machinery, textiles, footwear and an ever increasing volume of higher value added products. In addition, Chinese companies are allowed to establish freely throughout the United States; and they are now found everywhere. No one restricts their right to do business directly with American customers.

China also benefits from U.S. investment and technology. The United States is one of China's largest investors. U.S. companies have put more than $10 billion in joint ventures, wholly-owned companies and other investment vehicles. U.S. companies have also helped grow markets in China in virtually every sector in which they have been permitted to establish, benefitting the United States -- but most of all benefitting China. U.S. investment in

China has created jobs, passed on advanced management techniques, set quality standards, and improved the rights and privileges of Chinese workers.

For the United States, it is certainly true that China offers unmatched potential. With the largest population on earth, traders for 150 years have dreamed of tapping the China market. Businessmen in 19th century Britain dreamed of adding an inch to the shirt of every Chinese. Today, we dream of putting a cellular phone in the hands of every Chinese.

Unfortunately for the United States, the potential of the China market remains unfulfilled in many respects. China continues to maintain one of the most protectionist trade regimes in the world. While the United States accepts 40% of China's exports, China accounts for less than 2% of U.S. exports. China blocks access to its markets for many U.S. goods -- especially capital goods, limits investment opportunities, and discriminates against U.S. and other foreign business people in many other respects. In areas of increasing U.S. comparative advantage -- especially services -- China keeps its markets closed while Chinese companies scramble to monopolize it.

The growing U.S. trade deficit with China symbolizes for most Americans the inequity in our bilateral trade relationship. If current trends continue, the U.S. trade deficit with China-- growing at a 25% rate per annum -- will hit $38 billion. Within just a few years, our deficit with China is on pace to surpass our trade deficit with Japan. This is a situation that cannot be sustained.

China must open its markets. Its first step is to ensure compliance with commitments already made. China is falling short in this regard.

Implementation of the 1992 Market Access Agreement, for example, has been uneven. Transparency of its trade regime is fundamental. Without the transparency that comes from publishing laws in force, it is impossible for foreigners to know what barriers they face. While more regulations are available in China today than ever before, companies continue to face "neibu" (nayboo) regulations. Critical trade information -- such as information on China's import quotas -- remains unpublished. In too many cases, foreigners trading with China are flying blind.

In addition, while has China removed quotas and licenses as required on key exports such as electronics and heavy machinery, additional barriers to those exports are being erected. The 17% surcharge on imports and the recently released electronics import guidelines keep out the very products that should be enjoying greater market access in China under the 1992 Agreement.

And China continues to use unscientific standards to block the export of U.S. agricultural products -- especially citrus fruit and wheat from the Pacific Northwest.

Take another example -- the enforcement of intellectual property. Last February, the United States and China reached an important agreement to halt rampant Chinese piracy of American books, movies, software -- piracy costing American exporters more than $1 billion a year.

In the IPR Agreement, China promised to establish and enforce an effective system of intellectual property protection. China has taken significant steps to clean up retail markets, but it has done little about the manufacturers and distributors of pirated products. In particular, we are deeply concerned that China has not honored its promise to clean up production of pirated CDs in more than 29 factories throughout China. These factories are now focusing on production of high value added CD-ROMs -- exporting many of them into and through Hong Kong -- and, to the United States.

A disturbing side-effect of this lack of action is the significant increase of pirated products in the Hong Kong domestic market. Just as we have asked China to take increased action, we fully expect the Hong Kong Government to take swift steps to stamp out this piracy.

While in Beijing this past week, I held thorough discussions with China's trade minister, the Supreme People's Procuratorate and other IPR enforcement agencies. I received assurances that these agencies are preparing to take tough action -- action that is in China's own self-interest. We await results.

In the meantime, the U.S. Government has set up an extensive program of training and assistance to help Chinese Governments at various levels to enforce IPR laws. We have tapped the resources of the U.S. Department of Justice, including the FBI, the Department of Commerce, the Patent and Trademark Office, and others. The first group of Chinese Customs Officers arrived in Washington a week ago Friday for training by U.S. Customs. For their part, U.S. industries are also providing substantial technical assistance -- including training seminars, the provision of equipment and financial assistance.

In addition to implementation of previous commitments, we expect to see greater market access in China in sectors where the U.S. has a comparative advantage -- such as services. U.S. service providers -- in areas such as insurance and value-added telecommunications -- have much to offer China, yet China continues to limit access. We expect to see China's markets open to our services providers -- just as our markets are accessible to products in which China has a comparative advantage.

The WTO

Let me turn to another important issue in our trade relationship with China -- China's membership in the World Trade Organization -- the WTO. In the WTO issue we again see both the opportunities and the obstacles of this new era of trade relations.

During his recent discussions with President Jiang, President Clinton reiterated U.S. support for China's accession to the WTO on the basis of a commercially viable package. At the direction of the President, I discussed not only our overall trade relations -- but also the issue of the WTO.

The WTO is a rules-based system of rights and obligation encompassing everything from tariffs to agriculture to intellectual property protection to services. One of the major achievements of the Uruguay Round was the so-called "single undertaking." This means that all of the economic issues addressed in the WTO constitute a single package of rights and responsibilities that all of its members have accepted. The WTO is not a menu from which one can simply pick and choose.

To meet our common goal of WTO membership for China, the United States has worked hard to outline a roadmap for China. In lengthy meetings with the Chinese last week, we laid out this roadmap to a commercially viable accession package.

We believe we have crystallized for China the basic political decisions it must make in each substantive area covered by the WTO. On the basis of our discussions, we hope China can better determine whether it intends to move forward. If is prepared to do so, then we can turn to the next step of determining how best to achieve compliance with each WTO obligation.

Let me emphasize a key point about the process of moving forward. WTO membership requires that China conform its system to international norms. As part of this process, China must stop erecting new barriers to replace those previously removed, and stop establishing policies that move it away from WTO consistency.

Let me give you an example of what I'm talking about. China recently announced a new system to regulate electronics ventures. This system effectively cuts off the internal Chinese market from outside competition -- the antithesis of WTO rules.

China must come to terms with the legal and commercial commitments required of <u>all</u> WTO members. At the same time, the

United States will be practical and pragmatic, and where possible, flexible. Our substantive approach is consistent with that of China's other major trading partners. And our intent is to reinvigorate not only the bilateral talks, but the multilateral talks as well. China is a great nation and a great power. But with this status comes obligations and responsibilities. In his discussions on the WTO, the President made clear that the United States stands ready stands ready to negotiate a genuine commercial accession agreement. The ball now is in China's court.

APEC

I want to address briefly one other important topic -- the Asia Pacific Economic Cooperation forum, APEC. This week in Osaka the 18 members of APEC convene for the third annual ministerial and leaders meeting. In APEC we see yet another tangible example of trade's ability to form the foundation of a new era of international relations -- based on mutual prosperity.

In November 1993, the United States hosted the first ever APEC leaders meeting at Blake Island in Washington State. The President's goal at the time was to invigorate APEC with vision and purpose. At Blake Island, the APEC leaders spoke of creating a Pacific Community -- based on prosperity and trade.

Having set their course in 1993, APEC leaders met last year in Bogor Indonesia. The result was the Bogor Declaration. In it, APEC Members launched a remarkable economic initiative. Over the next 25 years, they set a goal of free and open trade in the Asia-

Pacific region.

This year in Osaka, APEC will lay out the initial steps to implementing the Bogor declaration. We will see the outcome of that effort later this week.

Conclusion

I began today with a 45 year old quote from General Douglas MacArther. I want to conclude with a year old quote from President Clinton.

In Jakarta last year, the President outlined his vision for America's involvement in Asia. He said: "We [want] to say to our trading partners and friends in Asia that the United States wants to remain engaged. We want the Pacific Ocean to unite us, not divide us. We want to see the world growing in an open trading system, not breaking up into various trading blocks opposed to one another. We sought to give this incredibly diverse Asian Pacific region a common identity rooted in a common purpose, committed to free trade and investment."

It is a vision of engagement and alliance founded on the prospect of mutual prosperity. It is a vision that is within our reach. But we're not there yet. There is no magic in trade negotiations. This is only frank discussion and hard work. The United States stands ready to do its share of the heavy lifting.

STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS

November 29, 1995

Mr. Chairman, I appreciate the opportunity to appear before you today to discuss the Administration's trade policy toward China. More specifically, I am pleased to have the opportunity to update you on China's implementation of the 1995 Agreement on the Enforcement of Intellectual Property Rights.

The Administration has clear goals that it wants to achieve in its trade policy with China. First and foremost, we continue to pursue actively market opening initiatives on a broad scale for U.S. goods and services. U.S. businesses should have access -- and the necessary protection for their properties -- in China's market equivalent to that which China receives in the United States. Especially in light of our trade deficit with China, we expect to see greater reciprocity in our trade relationship -- with high growth in our exports to China in areas where U.S. companies maintain a comparative advantage. Second, a fundamental principle of our policy has been working to ensure that China accepts the rule of law as it applies to trade -- that is, ensuring that China's trade and economic policies are consistent with international trade practices and norms.

China is the world's fastest growing major economy, with real growth approaching 12 percent in 1994 and close to that this year. China is now the eleventh largest trading nation in the world, and in just a few years, will be one of the world's largest economies.

The United States is China's largest export market and the only major market in the world that is truly open to China's exports. Last year, close to 40 percent of China's exports went to the United States, including $39 billion worth of electric machinery, textiles, footwear, toys, and other products. Less than 2% of US exports go to China.

Our side of the bilateral trade equation is not nearly so rosy. U.S. exports to China rose only six percent last year, despite the competitive strength of our industries. Total U.S. exports to China last year stood at only $9.3 billion, leaving us with a deficit of almost $30 billion -- and, we are facing close to a $38 billion deficit this year. While the huge trade deficit with China is the result of many factors, China's multiple, overlapping barriers to trade and investment are clearly of serious concern.

Despite China's movement away from a centrally planned economy toward a quasi-market economy in recent years, China maintains one of the most protectionist trade regimes in the world. China appears to be following in the footsteps of other major trading nations in East Asia -- maintaining export-led growth while protecting its domestic markets. The failure to meet fundamental international standards -- such as national treatment, transparency, or the right to trade freely -- holds back the U.S. side of the bilateral trade equation and hurts U.S. businesses and workers.

Trade Policy

During that past several years, as a result of our bilateral initiatives, China has substantially liberalized its markets for hundreds of U.S. products, eliminating thousands of non-tariff barriers to industrial and agricultural products, reducing tariffs substantially on major products of export interest to the United States, making its trade regime much more transparent, and creating a new legal regime for intellectual property rights protection, among others.

U.S. access to China's market falls far short of what it should be, but it is far greater now than it was. As we continue to press China on market access issues, we also intend to continue to work with the Chinese Government in support of its economic reform program -- and, hopefully, to guide it in the direction of adherence to the rule of law and basic international norms and trade disciplines.

The United States has pursued an aggressive, but balanced, trade policy toward China. To achieve our goals, we have put together a strong, complementary policy that combines bilateral and multilateral initiatives. Full implementation of these agreements is a top priority for the Administration.

Intellectual Property Rights

On February 26, the United States and China reached a landmark agreement to halt rampant Chinese piracy of U.S. books, movies, computer software -- piracy that had cost U.S. industries more than $1 billion a year. China also agreed to provide these leading edge industries -- industries in which we enjoy a comparative advantage and on which we are staking much of our future -- greater market access. This Agreement complemented the earlier 1992 IPR Memorandum of Understanding, in which China overhauled its IPR legal regime, and raised the standards of its copyright and patent regimes -- among other areas.

In the IPR Enforcement Agreement, China promised to establish an effective system of intellectual property rights enforcement. As we defined that system during the negotiations, China pledged to take effective measures to halt piracy, make structural changes in its IPR enforcement regime that will ensure effective enforcement over time, and provide market access for audiovisual companies and for those that produce computer software. In more specific terms, the Chinese Government agreed that it would: initiate a 9 month Special Enforcement Period, during which intense raids would be undertaken; set up intra ministerial task forces and strike forces that include the police; vigorously attack large-scale producers and distributors of pirated materials; clean-up the CD factories that continue to produce pirated products; set up monitoring systems to check pirated production of CDs, audiovisual works, books and periodicals, and computer software; punish administratively or through application of criminal penalties serious offenders; establish an effective border enforcement regime; allow establishment of joint ventures immediately in two major cities in China for audiovisual companies (with 13 cities to open by the year 2000); and permit the establishment, for example, of joint ventures for the production of computer software.

In the meantime, the U.S. government has set up an extensive program of training and assistance to help the Chinese government -- at the central and provincial levels -- to enforce IPR laws. We have tapped the resources of the Department of Justice, including the FBI, the Department of Commerce, including the Patent and Trademark Office, the Customs Service and others. For their part, as I am sure you will hear in detail from the industry witnesses today, U.S. industry has been providing substantial technical aid -- including training seminars, the provision of equipment and financial assistance.

Enforcement

Ten months after signing the Agreement, implementation is mixed. The Agreement is complex -- more than 30 pages of dense text -- and requires action at all levels of the Chinese Government. More important, the magnitude of the problem -- large-scale production of pirated products often with local government tolerance or, sometimes, with the participation of Chinese Government agencies -- requires a significant exertion of political will.

In that context, China has taken some significant steps to attack rampant piracy. Clearly, the environment within which anti-piracy efforts can be pursued is much improved now over even last year. The system is becoming more transparent -- recently, all of China's IPR laws, regulations, and administrative guidance were published, and public knowledge and understanding of IPR laws and regulations is much better than it was. If anything, consciousness of the need to protect IPR is higher in China, Hong Kong and Taiwan than it is in many countries and regions because of our and the Chinese government's intense efforts.

Piracy at the retail level has been markedly reduced in many major Chinese cities -- particularly along the booming southeast coast where U.S. losses have been the largest. According to Chinese Government statistics, since signature of the Agreement, Chinese enforcement officials have launched 3,200 raids, seized and destroyed as many as 2 million pirated CDs and LDs, 700,000 pirated videos, and 400,000 pirated books. China's procuratorate has separately launched investigations into more than 1,000 possible criminal copyright infringement cases, including 321 "serious cases" -- those in which illegal profits exceed 100,000 RMB (about $12,000). By contrast, last year enforcement was virtually non-existent. There have also been some criminal convictions to date.

In addition, China has made many of the structural changes mandated by the Agreement. China has set up intraministerial task forces in virtually all provincial capitals and many major cities, 30 in all. It has set up high-level, tough enforcement task forces in at least 18 provinces and major municipalities. In addition, China's courts have begun to render significant judgments against major IPR offenders. In a series of decisions rendered on cases brought by the Business Software Alliance, the Beijing Intermediate People's Court and other Chinese courts have ruled in favor of the BSA -- levying fines of up to $60,000, and damages as well. China has now established IPR courts in Beijing, Guangzhou, Shenzhen and other major centers of piracy, and has begun an active program to train Chinese judges in the enforcement of IPR laws.

Despite these steps, China's overall implementation of the Agreement falls far short of the requirements of the Agreement. Despite improved enforcement efforts, U.S. industries still estimate that they lost $866 million as a result of China's piracy in 1995. Resolution of these issues is one of the Administration's top trade priorities. Specific problems include the following:

<u>CD Factories.</u> Overall, while China has taken steps to clean up retail markets, it has done little effectively so far to attack the heart of the problem -- continuing, massive production, distribution, and export of pirated products. In particular, we remain deeply concerned that China has not honored its commitment to clean up production of pirated CDs in more than 29 factories throughout China. Under the Agreement, China was to have completed investigations

of all factories by July 1, 1995, and to have taken measures to discipline, fine, or punish criminally factories that violated Chinese laws and regulations. To our great dismay, China has instead reregistered -- that is, given a clean bill of health to -- all but one of the CD factories. Factories producing pirated products have shifted their focus from production primarily of music CDs to higher value-added CD ROMS. The seizure of exports of pirated CD-ROMS, in particular, have risen by one hundred percent. Exports of music CDs, video-CDs and other high-tech products have not demonstrably declined. These pirated exports are reaching Hong Kong, Taiwan, Latin America and even the United States.

The potential economic damage to the U.S. software industry is enormous, if Chinese CD factories continue to produce and export pirated CD-ROMs in volume. A single CD-ROM produced in China and acquired in Hong Kong by the BSA recently contained Lotus' Supersuite (retails for $3300), Autodesk's AutoCad release ($4250), and Novell's New Ware ($2485) along with 100 other computer programs. The disk sold in Hong Kong's notorious Golden Shopping Arcade for $6.75. This and other disks are also sold in all of China's major coastal cities.

In addition, the imprintation of SID codes on all CDs and CD-ROMS and implementation of a title verification system -- both bulwarks against CD piracy -- have also not been implemented effectively. To date, especially in the sound recording and computer software sectors, CD factories continue to violate the Agreement's requirement that all CDs and CD-ROMs will carry unique SID codes identifying the factory of production. China has also lagged in establishing a system to ensure that the legitimacy of the licenses for all foreign titles be verified by the National Copyright Administration and the relevant U.S. industry association.

Border Enforcement. Despite some initial seizures, China's Customs Service has not yet aggressively pursued infringers. Exports of pirated products continue to surge out of China's ports, especially in Guangdong Province, in the south. New regulations designed to provide Customs with enhanced enforcement powers fall short of the Agreement's requirements. The regulations contain significant loopholes and do not yet provide the basis for a sound border enforcement regime. As a result, the regulations place the burden for enforcement almost entirely on the shoulders of the right holder, while the Agreement requires Customs officials to act on their own initiative to investigate and seize pirated products. We are looking for effective enforcement against these exports.

We expect the Chinese Customs to fully implement the stipulations of the Agreement, including the establishment by year's end of a recordation system that permits rightholders to register their copyrights and trademarks with China's Customs Administration with the expectation of enforcement action. In addition, we expect Chinese Customs to take aggressive action to intercept and halt the massive outflow of pirated works from China. We have every confidence that the Chinese Customs Administration can take these measures; we simply await their doing so.

Market Access. The Chinese have given every indication that they intend to honor their commitments on market access, but to date, little has been achieved. The continued use of informal quotas, slow censorship approval rates, the use of censorship as a market access barrier, prohibitively high taxation and tariff rates for video products in particular, and a recent Chinese decision to incorporate a 50 percent "royalty tax" into the published tariff rate for sound recordings and video cassettes hinder market access. We expect these shortcomings to be remedied as China issues regulations that make the stipulations of the Agreement a reality.

Also disturbing, China's new investment regulations prohibit direct investment in the audiovisual sector, particularly in distribution, and in the construction of movie theaters and the like. These regulations harm the interests of U.S. companies that want to invest and trade with China.

Finally, China's trade ministry, MOFTEC, has interpreted the Agreement's provision permitting the formation of joint ventures in computer software as a ban on wholly-owned software companies. This interpretation is unsustainable. MOFTEC and the Ministry of Electronics Industry are attempting to use the Agreement to force U.S. software companies to form joint ventures and transfer their technology, and that is unacceptable.

Where the Chinese have accorded greater market access, U.S. companies have prospered. In motion pictures, for example, China has implemented the revenue-sharing arrangements stipulated in the Agreement, and five major U.S. motion pictures have been shown over the past year in Chinese theaters to huge, enthusiastic audiences. They include the Lion King and The Fugitive.

While in Beijing from 8-10 November, I held thorough discussions with China's trade minister Wu Yi, the Supreme People's Procuratorate, and other IPR enforcement agencies. I received assurances that these agencies are preparing to take tough action -- action that is in China's own self interest. We await results. In any event, we have informed the Chinese that we expect swift action against the offending CD factories and other major manufacturers and distributors of pirated works. We expect that China will be well on the way to sharply improved implementation of the Agreement by the February 26 anniversary date of its signing. If China does not satisfactorily implement the Agreement, the Administration will take decisive action.

Let me add one note. As a result of lax IPR enforcement by China, we now see a significant increase in pirated products in the Hong Kong domestic market. Intensified efforts to crack down on Hong Kong's retailers, distributors, and transhippers of these products are vital to our overall effort to protect copyrighted works in the region. We have requested that the Hong Kong Customs and Excise Department step up their raids of these pirates -- and focus beyond the hawkers at the retail level to the major organized distributors as well. In addition, the handing down of strict penalties and increasing the level of punishment works as a strong deterrent. We hope that the Hong Kong prosecutors will tackle major cases and put the major distributors out of business. Just as we have asked China to take increased action, we fully expect the Hong Kong government to take swift steps to stamp out this piracy.

Market Access

China has taken a number of steps to implement the 1992 Market Access Agreement. On transparency, for example, China has published numerous previously "confidential" trade laws, and regulations -- both at the central and provincial level. Clearly, without a transparent trade regime, it is impossible for foreign companies to know -- and therefore address -- the barriers that they face. Yet while more regulations are available in China today than ever before, companies continue to face "internal," unpublished regulations. Critical trade information -- such as information on China's import quotas -- remains unpublished. In too many instances, foreigners trading with China are flying blind.

In addition, as a direct result of the Agreement, China has removed over a thousand quotas and licenses on a wide-range of key U.S. exports such as telecommunications digital switching equipment, computers, many agricultural products, medical equipment and many others. In fact, as a direct of the Agreement, China lifted its infamous Document 56 -- which limited procurement of digital switching equipment to three non-U.S. suppliers -- and as a result, U.S. telecom companies are now selling over a billion dollars annually of digital switching equipment. Computers is another area were we have seen success. Today, U.S. computer companies dominate China's computer market; accounting for over 60 percent of the market.

Yet while China has removed these quotas and licenses, we are very disturbed by an increasing trend in China to erect new barriers to these exports. So-called "registration requirements," a 17 percent surcharge on imports and recently released guidelines on electronics joint ventures -- which mandate 70 -100 percent of production be exported -- keep out the very products that should be enjoying greater market access as a result of the Agreement.

In the Agreement, China agreed to base standards for the export of U.S. agricultural and livestock products on sound science. China has typically used unscientific standards as a means to block U.S. exports. Since 1992, we have signed a number of protocols with China that have opened the door to U.S. exports of such products as apples (from Washington and Idaho), cherries (from Washington), live cattle, bovine embryos, and bull semen. On some key agricultural products, however, China continues to use unscientific standards to block U.S. exports -- especially citrus fruit and wheat from the Pacific Northwest. This year we placed China on the Super 301 watch list for these practices and will continue to press China for results. Wu Yi, China's Trade Minister, has given me her assurance that she will become personally involved in the agricultural issues, and we expect to see genuine action.

Services

In addition to implementation of previous commitments, we are pressing forward bilaterally -- and multilaterally -- with services initiatives. In addition to goods, the United States is the largest exporter of services in the world, and the most efficient, highest quality producer of services that range from financial services to engineering and construction. We have been pursuing discussions with the Chinese on services issues for the past two years. Right now, we are focusing bilaterally on two key sectors -- value-added telecommunications and insurance. In each instance, U.S. companies and workers are the best in the world at providing the relevant service. And, in each instance, the Chinese -- with little or no domestic industry of consequence -- have severely restricted or prohibited access to their market. Finally, in each instance, the assistance of U.S. companies is vital to China's own modernization efforts.

During my recent meetings in Beijing, as well as Ambassador Kantor's meeting with Minister Wu at the APEC meeting in Osaka, we pressed the Chinese for action on the full range of our concerns. In addition, our negotiators are planning to hold consultations on all of the issues that I have mentioned during the month of December. We would be happy to share the results of those discussions with the Committee. We expect the Chinese to live up to their commitments and take steps to open their markets to U.S. goods and services and to protect our intellectual property. If not, we are prepared to make full use of the legislative and administrative tools available to us.

WTO

Let me turn to another important issue in our trade relationship with China -- China's accession to the World Trade Organization -- the WTO.

In his recent meeting with President Jiang, President Clinton reiterated U.S. support for China's accession to the WTO on the basis of a commercially viable package. Earlier this month, I visited China at the request of the President to present the Chinese with a "roadmap" on China's accession. This roadmap defines for China what we mean by a commercially viable agreement.

The WTO is a rules-based system of rights and obligations encompassing everything from tariffs to agriculture to intellectual property rights and services. One of the major achievements of the Uruguay Round was the so-called single undertaking. This means that all of the economic issues addressed in the WTO constitute a single package of rights and responsibilities that all of its members have accepted. The WTO is not a menu from which one can simply pick and choose.

In the roadmap, we have crystallized for China the basic political decisions that it must make in each substantive area covered by the WTO. On the basis of our discussions, I hope that China can now better determine if it intends to move forward. The timing of China's accession is up to China -- it depends on the obligations China is prepared to accept. A genuine negotiation on China's accession must begin first with a determination by the Chinese Government that it intends to abide by WTO disciplines.

In addition, China must come to terms with the legal and commercial commitments required of all WTO members. This includes a standstill obligation -- China must stop erecting new barriers to replace those previously removed. At the same time, the United States is willing to be pragmatic and practical -- while maintaining our high standards. Our substantive approach is fully consistent with that of China's other major trading partners.

China is an important trading power. But with this status comes obligations and responsibilities. In his discussions on the WTO, President Clinton made clear that the United States stands ready to negotiate a genuine commercial accession agreement. We await China's response.